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TURKEY

Technical report: Study on Strategies
for the Development of
Small-and Medium-Scale Industries in Turkey*

Prepared for the Government of Turkey
by the United Nations Industrial Development Organization,
acting as executing agency for the
United Nations Development Programme

Based on the work of
T. Cavusoglu, C. Cakmali, E. Sengezer,
D. Diehr, and D. Shooman, UNIDO consultants

Backstopping Officer: Seiichiro Hisakawa,
Institutional Infrastructure Branch

United Nations Industrial Development Organization
Vienna

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SUMMARY

This study aims to define a general strategy for the development of the small- and medium-scale industrial sector in Turkey. The approach formulated here identifies fundamental objectives and priorities, and proposes policies and instruments for systematic, coordinated development activities. This strategy is based on a review of the current SMI environment in Turkey, and of SMI development in other selected countries.

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ABBREVIATIONS

ACE	Active Corps of Executives (USA)
AFDC	Aid to Families with Dependent Children (USA)
ANVAR	Agence Nationale de Valorisation de la Recherche (France)
BC-Net	Business Cooperation Network (EC)
BCC	Business Cooperation Center (EC)
BMFT	Federal Ministry of Research and Technology (Germany)
BOSYÖD	Bursa Province Foundation for Medium-Scale Businesses, Professionals and Executives (Branch of Topsyöv, Turkey)
CIT	Centers for Industrial Technologies (USA)
COSIFORME	Commission for the Simplification of Administrative Procedures Relating to Enterprises (France)
CREATI	links SMIs to the R+D of large firms (France)
CUFT	Center for the Utilisation of Federal Technology (USA)
DATAR	Direction de l'Aménagement du Territoire et de l'Action Régionale (France)
DEIK	Foreign Economic Relations Board (Turkey)
DIE	State Institute of Statistics (Turkey)
DPT	State Planning Organization (Turkey)
EAS	Enterprise Allowance Scheme (U.K.)
EC	European Community
ECGP	an export guarantee plan in the U.K.
EDU	Enterprise and Deregulation Unit (U.K.)
EIB	European Investment Bank
EIC	European Information Centers
EMSU	European Middle Society Union
EOMMEH	a plan offering subsidies for product innovations and product design (Greece)
ERP	European Recovery Program
ESF	European Social Fund
EUROSTAT	Statistical Office of the EC
FAIJE	a financial support scheme for young entrepreneurs (Portugal)

FDIJ	Fonds Départemental d'Initiatives Jeunes
FINOR	a fund for new SMIs (Brazil)
FLC	Federal Laboratories Consortium (USA)
FRAC	Fonds Régional d'Aide au Conseil
GDP	Gross Domestic Product
GNP	Gross National Product
GTZ	German Technical Cooperation Organization
HERMES	an export guarantee plan in Germany
IDA	Irish Development Agency
IGEME	Export Promotion Center (Turkey)
ILOR	a property tax concession in Italy
INPACT	International Partnership for the Commercialization of Technology
INSVEIMER	a financial institution for the Mezzogiorno region (Italy)
IRP	Investment Premium Regulation for Regional Profits (Netherlands)
IRPEG	A profit tax concession (Italy)
IRS	Interest Rate Subsidy
ISFS	Small Firms Service (U.K.)
ITA	International Trade Administration (USA)
ITO	Istanbul Chamber of Trade
JETRO	Japan Export Promotion Organization
JSBC	Japan Small Business Corporation
KFW	Kreditanstalt für Wiederaufbau (Germany)
KGF	Credit Guarantee Fund (Turkey)
KOP	Public Participation Fund (Turkey)
KOSDER	Union of Small - and Medium-Scale Industries (Turkey)
KOSGEB	Republic of Korea Export Promotion Organization
KÖSYÖD	Kütahya Province Foundation for Medium-Scale Businesses, Professionals and Executives (branch of Tosyöv, Turkey)
KOTRA	Republic of Korea Export Promotion Organization
KÜSGEM	Small-Scale Industry Development Center
KÜSGET	Small-Scale Industry Development Organization (Turkey)

L'AFACE	L'Association pour Favoriser la Création d'Entreprises (France)
MIT	Association of Small - and Medium-Scale Industries. (Mittelstmdovereinigung - Germany)
MITI	Ministry of International Trade and Industry (Japan)
MKE	Machinery and Chemical Industries (Turkey)
MMD	a professional association in Turkey
MPM	National Productivity Center (Turkey)
NGE	Net Grant Equivalent (U.K.)
NIST	National Institute of Standards and Technology (USA)
NITA	National Individual Training Account (USA)
NTI	National Training Incentive (USA)
OECD	Organization for Economic Cooperation and Development
OIE	Organized Industrial Estates (Turkey)
OKIK	The Small - and Medium-Scale Enterprises Board - (Orta ve Küçük Isletmeler Kurulu, Turkey)
ORT	On Research Training Programme (Japan)
ORTA	Office of Research and Technology Application
OSTIM	Ankara Organized Industrial and Trade Center
PAT	Prime d'Aménagement du Territoire
PPM	private holding companies (Netherlands)
PRE	Prime Régionale a l'Emploi
R+D	Research and Development
REG	Regional Enterprise Grants (U.K.)
SBA	Small Business Administration (USA)
SBDC	Small Business Development Centers (USA)
SBIC	Small Business Investment Companies (USA)
SCORE	Service Corps of Retired Executives (USA)
SE	State Enterprises
SEGEM	Industrial Training and Development Center (Turkey)
SIS	Small-scale Industry Site (Turkey)
SMIs	Small and medium-scale industries
SOFINOVA	a venture capital company (France)

SPO	State Planning Organization
SUDENE	South East Brazil Economic Development Agency
SYKB	Industrial Investment and Credit Bank (Sanayi Yatirim ve Kredi Bankasi)
TAYSAD	Foundation for Ancillary Industries for Vehicles (Tasit Araclari Yan Sanyii Dernegi, Turkey)
TECHNOPOLE	Technology Development Pole (Japan)
TESK	Confederation of Small Entrepreneurs and Artisans (Turkey)
THB	People's Bank of Turkey (Türkiye Halk Bankasi)
TIC	Technology Information Center (Denmark)
TKB	Turkish Development Bank
TMMOB	Chamber of Mechanical Engineers (Turkey)
TOBB	Union of Chambers (Turkey)
TOSYÖV	Turkish Foundation for Medium-Scale Businesses, Professionals and Executives (Türkiye Orta Olcekli Isletmeler, Serbest Meslek Mensuplari ve Yöneticiler Vakfi)
TOU	provides support for technology oriented start-ups (Technologieorientierte Unternehmensgründung) (Germany)
TSE	Turkish Standards Institute
TSKB	Industrial Development Bank of Turkey (Sinai Yatirim ve Kredi Bankasi)
TUBITAK	National Scientific Research Institute (Turkey)
TÜSIAD	a confederation of large business owners in Turkey
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
VAT	Value Added Tax
WIN	Work Incentive Program (USA)

INTRODUCTION

1. Small- and medium-scale industries (SMIs) are the backbone of the manufacturing sector in many countries. SMIs also enjoy a similar position in Turkey, and in recognition of their importance, considerable efforts have been invested in the promotion of this sector. However, the SMI sector is still in the process of being defined at the official policy-making level. Therefore, the present endeavors toward SMI development have as yet to become comprehensive and coordinated.

2. The aim of this study is to define a general strategy for the development of Turkish SMIs, with a view to facilitating the integration of SMIs with larger-scale industries, thereby enhancing the structure of Turkish industry. In order to provide real impetus to the SMI sector, a substantial number of critical measures should be taken and the appropriate institutions established or strengthened for their implementation. The strategy formulated here identifies fundamental objectives and priorities, and proposes policies and instruments for systematic, coordinated development activities. This study provides a detailed account of the background for these recommendations; the specifics regarding these measures and institutions must be developed in ensuing detailed reports.

3. The long-term objectives and priorities of the Turkish Government for the development of the economy in general, and the policies implemented by developed countries for improving their SMI sectors, have been reviewed as the basis for this strategy study. Parts One - Four are reserved for an analysis of the economic framework, policies and implementation in Turkey, as well as detailed descriptions of policies and institutions for SMI development in other selected countries. In Parts Five and Six, recommendations for a developmental strategy are proposed.

4. The observations and recommendations set forth in this report are the personal conclusions of the authors and do not necessarily reflect the views of either UNIDO or any Turkish institution.

PART ONE**CHARACTERISTICS, STRUCTURE, SIGNIFICANCE AND COMPETITIVENESS OF SMALL- AND MEDIUM-SCALE INDUSTRIES: AN INTERNATIONAL COMPARISON****I. DEFINING THE SMI SECTOR**

5. This section is concerned with identifying criteria for defining SMIs specifically in the manufacturing sector. Though SMI definitions vary from country to country, there is enough common ground for comparison. Across the board, or borders, the single most important defining factor is the number of persons employed. While there is consensus as to the primary significance of that factor, there are differences in numbers allotted to specific subcategories such as handicrafts.

6. At the Community level, the EC uses the number of employees as the sole criterion for defining SMIs. The Statistical Office of the EC (EUROSTAT) excludes the size category of "1-19 persons employed" from statistics, classifying them as handicrafts, and provides data for the following size categories:

TABLE ONE/1: EUROSTAT SIZE CATEGORIES FOR MANUFACTURING INDUSTRIES

NUMBER OF EMPLOYEES	
20-99	Small Enterprises
100-499	Medium Enterprises
500+	Large Enterprises

7. Among EC countries the above size categories differ. While in larger countries of the community the upper limit of persons employed by a medium-scale enterprise is 500 persons, some smaller countries include smaller groups (e.g. 50 persons in Denmark, Belgium, Ireland). Some member countries, in conformity with EUROSTAT, differentiate between handicrafts (artisans) and small industrial enterprises, thus also establishing a lower limit for the SMI definition; others include single-person enterprises in the SMI category.

8. Countries outside the EC also utilize the size criterion as the main definition. Some have dispensed with categories and have simply defined lowest and highest limits for all SMIs.

9. Table One/3 provides the employment criteria used by select countries for defining the SMI group.

10. Additional criteria are also utilized by many countries or international agencies. In Germany, for example, the maximum annual turnover for an SMI is DM 25 million. In Japan the maximum turnover of ¥ 100 million sets the upper limit for SMIs. In Italy the amount of fixed capital is used as the additional criterion; the maximum amount has been fixed at LIT 3 billion. The criterion for benefits from special credit facilities in Korea is total net assets, which should not exceed US\$ 400,000.

11. For financing purposes, the European Investment Bank (EIB) applies a multi-criteria definition for identification of SMIs. In addition to the size criterion adopted by the Community, the EIB also considers the amount of net fixed assets and composition of ownership:

TABLE ONE/2: EIB DEFINITIONS OF SMIs

Persons employed	Should be fewer than 500
Net fixed assets	Should be less than 75 million ECU
Ownership	Not more than 1/3 owned by a large company

12. Other Community institutions apply different supplementary criteria according to the requirements of the relevant target groups of each EC program, such as restructuring, modernization, or annual turnover and balance sheet total (for enabling SMIs to use simplified accounting and non-life insurance).

**TABLE ONE/3: QUANTITATIVE DEFINITION OF SMIS
UTILIZED IN SELECTED COUNTRIES: EMPLOYMENT CRITERION**

COUNTRY	NO. OF PERSONS EMPLOYED	
	LOWER LIMIT	UPPER LIMIT
FRANCE	10 *	500
ITALY	1	500
PORTUGAL	5 *	500
USA	1	500
GERMANY	50 *	499
SPAIN	6 *	499
KOREA	1	300
JAPAN	1	299
SWEDEN	1	200
UNITED KINGDOM	1	200
MALAYSIA	5 **	199
THAILAND	10 **	199
MEXICO	1	175
THE NETHERLANDS	1	100
CANADA	1 *	99
AUSTRALIA	1	99
BRAZIL	1	99
DENMARK	6 *	50
IRELAND	1	50
BELGIUM	1	50

* Enterprises of a smaller size are either considered as handicrafts or not included in the statistics.

** Industrial enterprises employing fewer than 5 persons are considered cottage industries.

SOURCE: IKV, "Küçük ve Orta Boy İşletmeler-AT Örneği", 1991; South Korea Industrial Statistics (1982); Dr. Cemil ÇAKMAKLI, "Bir Ekonomik Yapı Unsuru Olarak Orta Ölçekli İşletmeler", Ph.D dissertation, 1989.

II. SMIs IN THE POST-WAR ERA

II.A. BACKGROUND

13. SMIs have traditionally played a key role in the industrial development process. In the period following the Second World War, the developed economies aimed toward full employment and mass production. As a result, integrated mass production companies proliferated and increased their domination of the consumers' market. During this period SMIs began to channel their efforts increasingly into ancillary industries catering on a subcontract basis to large industries.

14. When the energy crisis of the 1970s severely reduced the profitability of large, integrated establishments, SMIs fared much better. Large industries curtailed their integration policies, and undertook cutbacks in order to gain flexibility against changing conditions. As employees were laid off, large industries also transferred considerable portions of their production lines to ancillary industries. They aimed to restructure as flexible assembly plants, and procured the components for their products from small- and medium-scale industries through subcontracts. The United States, Japan and the EC recognized the significant employment creation potential, and initiated programs aimed at developing the SMI sector.

15. The 1980s witnessed the advancement of computer-linked technologies. Due to these technological advancements, relative advantages emerged for the smaller-scale enterprises, particularly in areas where industries are in the early stages of the product cycle and/or where there is rapid market expansion (such as electronics, bio-engineering, computer hard- and software etc.).

16. At present, in developed countries the basic industries (e.g. iron and steel, textiles, chemical process industries) and assembly plants (automotive and durable household goods) represent the bulk of large industry. SMIs encompass a wide variety of industries, ranging from established small firms catering to the local market, to subcontracting firms (ancillary industries), and high-tech operations in computer-integrated clean industries conducting a considerable amount of their business internationally.

17. The decline of traditionally dominant industries caused an economic recession in many regions in Germany, France, the United Kingdom, Japan and the USA. In the EC, intensive efforts are being made to revitalize regions lagging behind in development due to a variety of reasons. Hence, the concept of "regional development," selectively implemented in the 1950s and 1960s, gained in importance among the developed countries in the years following the energy crisis.

18. National regional development strategies were the basis for the EC concept of a "Europe of the Regions". At the Community

level, policies and programs were formulated to decrease the differences among regions throughout the Community. Experiences gained strongly indicate that the most effective way to facilitate regional development is to provide coordinated support for the restructuring and modernization of existing SMIs as well as helping to create new SMIs which will utilize up-to-date technologies, rather than creating new large industries, especially state-owned industries (Italy's Mezzogiorno experience clearly indicates the futility of such an approach).

19. The post-World War II era has seen the birth of new, independent states. These new states are looking to industrial development as the means of attaining to competitiveness in the world market. The key principle for this development is "appropriate technologies." In developing countries where the economic conditions are not yet favorable for the establishment of mass-producing capital intensive industries or high-tech industries, a middle way has been sought. Production technologies which neither require high capital costs nor labor-saving devices were chosen. These so-called appropriate or intermediate technologies are labor-intensive, and produce very competitively in countries where the bulk of the labor force has little skill, and works for relatively low wages.

20. Today, intermediate technologies are being employed extensively by the manufacturing industries of developing countries, and most of these enterprises, according to the definitions adopted by their countries, are considered SMIs.

21. The above-mentioned factors have steadily increased the contribution of small- and medium-scale industries to the world economy as well as to individual nations. As a group, they are major instruments in stabilizing economic fluctuations. They play an important role in the structural adjustment of their countries, especially in reducing unemployment through new job creation and increasing adaptability to rapidly changing global requirements.

II.B. SITUATING SMIs TODAY: AN OVERVIEW

22. In this historical retrospective four different types of SMIs are clearly identifiable:

- i. SMIs subcontracting to large industries;
- ii. SMIs utilizing technology intensive (hi-tech) production methods;
- iii. SMIs established, restructured or modernized in economically depressed regions;
- iv. SMIs established in developing countries utilizing appropriate or intermediate, labor-intensive technologies.

23. In the last 20 years SMIs have demonstrated certain advantages over larger enterprises or handicraft production:

- Large enterprises have advantages in highly concentrated and capital-intensive industries producing highly standardized goods. On the other hand, smaller firms enjoy advantages in innovation and creativity in industries involved in the early stages of the product cycle, or where the product cycle is very short;
- Flexibility, both in production processes and in operating and management methods, is considered to be the key to the SMIs' ability to withstand change in a competitive, dynamic business environment. Their capacity for effecting rapid modifications, and for undertaking several activities simultaneously, represent significant factors for competitiveness and success in meeting the needs of the market and its fluctuations. The flexibility and adaptability of SMIs have increased considerably in recent years through the introduction of computer-integrated production methods.

24. At the same time SMIs are confronted with serious impediments common to most countries:

- Few SMIs are linked to database networks, where they can effectively and rapidly obtain information enabling them to keep abreast of the latest developments in products, technologies and markets;
- SMIs suffer from serious shortages of skilled labor and of managers able to plan and direct their growth;
- Marketing is often poorly handled due to insufficient intangible investment, and lack of funds for undertaking costly market research, especially in foreign export markets;
- SMI owners are usually closely linked with their enterprise, which is advantageous; however, they frequently lack sufficient "enterprise culture" as compared to professional managers. Because of lack of experience and information, SMI owners tend to overemphasize short-term gains, thereby overlooking long-term growth possibilities;
- Small businesses often suffer chronic shortages of funds and severe cash flow problems, and their abilities to request and negotiate assistance with financial institutions are limited, compared to larger firms. They are largely ineligible for benefits from the financial instruments of the capital markets. Financial institutions apply more selective criteria for SMIs, because the risks involved are higher as compared to large enterprises;

- SMI development may be impeded by insufficient availability of equity capital. This is due mainly to two reasons: outside investors are rarely interested in minority share holding, and owners do not want to relinquish control over the company by offering the majority share to outside investors. SMIs find it difficult to enter the capital market because of size, and to attract capital through such markets, which are geared towards larger bids. SMIs have even greater difficulty financing their intangible investments such as research, employee training, and quality improvement;
- Large enterprises will eventually adopt a strategy aimed at protecting their market shares, which may entail acquiring SMIs into their groups, thus eliminating them as competitors.

III. THE STRUCTURE AND ROLE OF THE SMI SECTOR IN EC COUNTRIES, JAPAN AND THE USA

25. The following overview provides statistical information on the structure of the SMI sector in EC countries, Japan, and the USA.

26. The EC data is based on the recently published Eurostat¹. The following statistics for 1987 exclude small establishments, i.e. industrial and handicraft enterprises employing 1 to 19 persons, despite their large presence in EC countries, amounting to 350,000 in Germany and 170,000 in France. The remaining SMI sector of the manufacturing industry also plays a major role in the economies of EC countries:

- More than 90% of the manufacturing establishments of the 6 EC countries are small- and medium-scale (Table One/4, One/5);
- SMIs account for 40% to 71% of the total employment in the manufacturing sector of EC countries (Table One/6, One/7);
- SMIs contribute with 35% to 65% to total value added of the manufacturing sector of EC countries (Table One/8, One/9);
- In Italy and France value added in SMI turnover is significantly higher than in large industries. Globally, small enterprises have 10% more value added in turnover than medium-sized enterprises (Table One/10);
- The contribution of labor to value added is higher in SMIs than in large enterprises in the Netherlands and Spain (Table One/11).

¹ Dieter H. DIEHR, "SMI Promotion Policies in EC Countries", 1991. Certain statistical offices of EC countries have not yet adopted the size categories of EUROSTAT or refuse to communicate data by size categories for reasons of confidentiality. Therefore only certain data for Belgium, Germany, France, Italy, the Netherlands and Spain are available.

TABLE ONE/4: NUMBER OF MANUFACTURING ENTERPRISES BY SIZE CATEGORIES IN SELECTED EC COUNTRIES, 1987

**Distribution of Enterprises
Categorized by Number of Employees**

COUNTRY	20-99	100-499	20-499	500 +	(000) TOTAL
BELGIUM	3.1	0.8	3.9	0.3	4.2
GERMANY	21.8	8.1	29.9	1.9	31.8
FRANCE	20.7	4.6	25.4	1.0	26.4
ITALY	26.4	4.3	30.8	0.6	31.4
THE NETHERLANDS	4.1	0.9	5.0	0.1	5.1
SPAIN	12.5	2.6	15.1	0.3	15.4

TABLE ONE/5: DISTRIBUTION OF MANUFACTURING ENTERPRISES BY SIZE CATEGORIES IN SELECTED EC COUNTRIES, 1987

COUNTRY	SMALL	MEDIUM	SMI	LARGE	(%) TOTAL
BELGIUM	72.5	19.0	91.5	8.5	100
GERMANY	68.0	26.0	94.0	6.0	100
FRANCE	78.5	17.5	96.0	4.0	100
ITALY	84.0	14.0	98.0	2.0	100
THE NETHERLANDS	80.0	17.0	97.0	3.0	100
SPAIN	81.0	17.0	98.0	2.0	100

TABLE ONE/6: PERSONS EMPLOYED IN MANUFACTURING ENTERPRISES BY SIZE CATEGORIES IN SELECTED EC COUNTRIES, 1987

**Number of Persons in Enterprises
Categorized by Number of Employees ('000)**

COUNTRY	20-99	100-499	20-499	500 +	TOTAL
BELGIUM	136	172	308	300	608
GERMANY	999	1,691	2,690	4,100	6,790
FRANCE	857	956	1,813	1,816	3,629
ITALY	996	842	1,838	1,113	2,951
THE NETHERLANDS	198	177	375	194	569
SPAIN	n.a.	n.a.	1,020	421	1,441

TABLE ONE/7: DISTRIBUTION OF PERSONS EMPLOYED IN MANUFACTURING ENTERPRISES BY SIZE CATEGORIES IN SELECTED EC COUNTRIES, 1987

Country	SMALL	MEDIUM	SMI	LARGE	(%) TOTAL
BELGIUM	22	28	50	50	100
GERMANY	15	25	40	60	100
FRANCE	24	26	50	50	100
ITALY	34	28	62	38	100
THE NETHERLANDS	35	31	66	34	100
SPAIN	n.a.	n.a.	71	29	100

TABLE ONE/8: VALUE ADDED OF SELECT ENTERPRISES CATEGORIZED BY NUMBER OF EMPLOYEES IN SELECTED EC COUNTRIES, 1987

COUNTRY	20-99	100-499	20-499	500 +	(billion ECU) TOTAL
BELGIUM	3.8	5.6	9.5	11.7	21.2
GERMANY	28.5	53.2	81.7	152.7	234.4
FRANCE	23.9	29.9	53.8	71.7	125.5
ITALY	36.9	29.8	60.7	42.5	103.3
THE NETHERLANDS	6.2	6.7	13.0	9.1	22.1
SPAIN	n.a.	n.a.	28.1	15.4	43.5

TABLE ONE/9: DISTRIBUTION OF VALUE ADDED IN MANUFACTURING ENTERPRISES BY SIZE CATEGORIES IN SELECTED EC COUNTRIES, 1987

COUNTRY	SMALL	MEDIUM	SMI	LARGE	(%) TOTAL
BELGIUM	18	27	45	55	100
GERMANY	12	23	35	65	100
FRANCE	19	24	43	57	100
ITALY	30	29	59	41	100
THE NETHERLANDS	28	31	59	41	100
SPAIN	n.a.	n.a.	65	35	100

**TABLE ONE/10: SHARE OF VALUE ADDED IN TURNOVER OF
MANUFACTURING ENTERPRISES BY SIZE CATEGORIES
IN SELECTED EC COUNTRIES, 1987**

COUNTRY	20-99	100-499	SMI	500 +	(%) TOTAL
BELGIUM	28.3	27.0	27.6	27.5	27.3
GERMANY	37.2	34.0	35.1	36.0	35.5
FRANCE	32.6	30.6	31.3	24.6	26.8
ITALY	30.3	30.0	30.3	27.3	29.0
THE NETHERLANDS	29.0	26.0	27.4	28.5	27.8
SPAIN	n.a.	n.a.	36.5	35.6	35.8

**TABLE ONE/11: SHARE OF LABOR COST IN VALUE ADDED OF
MANUFACTURING ENTERPRISES BY SIZE CATEGORIES
IN SELECTED EC COUNTRIES, 1987**

COUNTRY	20-99	100-499	SMI	500 +	(%) TOTAL
BELGIUM	70	72	71	74	73
GERMANY	75	76	76	80	78
FRANCE	75	73	74	82	77
ITALY	61	62	61	65	63
THE NETHERLANDS	70	67	68	63	66
SPAIN	n.a.	n.a.	49	48	49

SOURCE: Dieter H. DIEHR, "SMI Promotion Policies in EC Countries", 1991.

**TABLE ONE/12: SMALL- AND MEDIUM-SCALE ENTERPRISES IN THE
MANUFACTURING INDUSTRY, JAPAN, 1983
A. NO. OF ENTERPRISES AND NO. OF EMPLOYEES**

	EMPLOYED PERSONS ('000)	
	1-299	20-299
Number of enterprises	731.0	94.0
Share in total manufacturing (%)	99.5	95.9
Number of employees	8.029.0	4.946.0
Share in total manufacturing (%)	74.3	62.5
Total enterprises in manufacturing	734.0	98.0
Total employment in manufacturing	10.931.0	7.904.0

B. TOTAL VALUE OF SMI PRODUCTION (PER BILLION YEN)

	EMPLOYED PERSONS ('000)	
	1-299	20-299
Value of SMI Production	132.9	94.5
Value of total production	256.0	208.0
Share of SMI production in total (%)	51.9	45.4

C. PRODUCTIVITY OF SMIs

	EMPLOYED PERSONS ('000)				
	4-9	10-19	20-99	100-299	300 +
Productivity as % of average productivity of large enterprises (300 +)	34.2	42.6	49.3	66.8	100

27. In Japan the SMI sector had played a critical role during the decades of rapid development following World War II. During these years there was a high demand for adaptability and flexibility. The enterprises improved their technical and managerial abilities and as a result, productivity and wage differences between the SMIs and large enterprises were greatly diminished. The Japanese government monitored these developments closely, and actively supported them by enacting legislation to regulate the relations between the main producer (contractor) and subcontracting enterprises, thereby providing certain guarantees and benefits to subcontractors. Furthermore, special industrial estates (technopoles), technocenters and financial institutions were established to assist in alleviating the problems confronting SMIs.

28. According to available statistics², in the mid-1980s the SMIs (as defined in Table One/12) amounted to 731,000 enterprises, constituting 99.5% of the total enterprises in the manufacturing industry. They provided employment for 8.0 million workers which constituted 73.6% of the total labor force in the manufacturing industry.

29. Extensive statistics are not available for the USA; however, according to an OECD report³, since the mid-1970s a similar trend has emerged there. The share of employment in small manufacturing enterprises rose from 33% in 1976 to 37.4% in 1986 across all industrial activities. SMIs played a dominant role, especially in new job creation. Employment in the manufacturing sector rose by 1.3 million jobs between 1976 and 1986; SMIs created 1.4 million jobs, whereas large enterprises cut 100,000 jobs.

IV. COMPETITIVENESS OF SMIs ON INTERNATIONAL MARKETS

30. SMIs are generally much less equipped than large firms for penetrating foreign markets. As discussed above, the bulk of the SMIs, working as subcontractors, produce components and intermediate goods rather than finished products. As a result, they work primarily on a commission basis, which means that production is contingent upon purchase orders from contracting firms. Whether SMIs utilize the most advanced technology or traditional methods, it is more difficult for them to penetrate foreign markets and secure production orders from foreign companies, as compared to mass producers or larger firms in basic industries (iron, steel, cement, chemical etc.).

² Dilara YÜCEL, "Japonya Küçük Sanayii Arastirma Raporu", KÜSGET; Industrial Statistics, Ministry of International Trade and Industry (MITI), Japan.

³ OECD, "Industrial Policy in OECD Countries", Annual Review, 1989.

31. In addition, commission based work requires constant close contact between the subcontractors and the contracting firms. Accordingly, most SMIs in developed countries prefer to cater to domestic contractors. SMIs in depressed regions often encounter difficulties reaching local contracting firms, as well as export markets.

32. Furthermore, SMIs must cope with a variety of other difficulties which impede exporting:

- commercial difficulties related to the existence of fierce competition in international trade and its impact on prices;
- insufficient knowledge of foreign markets;
- difficulties in recovering claims from abroad;
- exchange rate fluctuations;
- difficulties due to differing technical standards and regulatory provisions.

33. In promoting SMI exports the traditional systems of export incentives (guarantees and financial arrangements) do not appear to be sufficient. As noted previously, their local marketing is inadequate. They usually do not attach enough importance to, or cannot afford to prioritize, the marketing aspects of management, and consequently the funds they allocate for the purposes of employee development, market research etc. are insufficient for the local market, let alone the international market.

34. Governments are increasingly aware of impediments confronting SMIs, and their unfavorable impact on economic growth. For this reason, especially during the 1980s, numerous programs were devised by governments or National Exporters' Unions to provide special assistance to SMIs.

35. The EC Commission expects that the Single Market⁴ will offer new opportunities to member countries' SMIs. It is probable that new market possibilities, in the short run, will be seized upon by large enterprises already familiar with operations on international markets. EC experts estimate that positive effects of the Single Market on SMIs can be expected as a consequence of the measures to be taken by the Member Countries before December 31, 1992. These measures are:

⁴ See Part Three/V.

- i. The reciprocal acceptance of technical standards;
- ii. The harmonization of consumer taxes, which will effect price levels and consumer habits; prices will decrease in countries with presently high VAT rates;
- iii. The deregulation of European economies will reinvigorate market forces and reduce monopoly and oligopolistic price structures;
- iv. The removal of border controls, which will facilitate market access in all member countries especially for SMIs less acquainted with export formalities.

36. Among other factors, lack of integration in the past has resulted in a lack of competitiveness in many sectors of European industry. Harmonizing economic policies will also mean significantly improving the development conditions for SMIs in the member countries. This is an important step in the integration process. On the other hand this unification will eventually diminish the penetration potential of SMIs of other countries into the EC's Single Market.

37. Furthermore, to promote international cooperation among the SMIs of European regions, the European Commission has created a programme called "Europarteneriat" through the initiative of the Directorates-General for Regional Policies and Enterprise Policy, to foster intercompany cooperation, notably between small- and medium-scale enterprises.

38. The Europarteneriat program was launched in 1988 with a view to promoting the economic development of a region through transnational cooperation, by providing linkages for enterprises to their commercial, industrial and financial counterparts in other member states. To date four successful operations have been completed in Ireland, Andalusia, Wales and Portugal. Cooperation between the local and visiting firms, be it of a technological, financial or commercial nature, can be undertaken through transfer of know-how, production arrangements, technical assistance, joint ventures, or commercial arrangements etc. This program may provide considerable assistance to the SMIs of EC countries in overcoming some of the difficulties they face in export markets:

- exchange of technical know-how;
- acquiring in-depth knowledge of other regions of the member countries;
- cost reduction in international market research;
- rapid achievement of commercial agreements.

PART TWO**NATIONAL AND INTERNATIONAL ECONOMIC DEVELOPMENTS INFLUENCING THE TURKISH SMI SECTOR****I. MACROECONOMIC AND POLICY FRAMEWORK IN TURKEY**

39. During the 1960s and 1970s Turkey's development strategy was based on rapid industrialization with an emphasis on self-sufficiency and import substitution. Most often, priority was given to capital-intensive investments manufacturing basic products and utilizing up-to-date technology. During these years large public investments were realized through State Enterprises (SE), and generous incentives combined with high levels of protection were granted to private investors. Between 1963-73 Turkey accomplished high economic and industrial growth rates of approximately 7% per annum while value added in industry grew at approximately 10% a year.

40. During this relatively unimpeded phase of import substitution, Turkey was able to meet most of its import requirements through the revenues of agricultural exports and remittance from Turkish workers abroad. The current account of the balance of payments improved steadily, and surplus was recorded in 1973. Reserves in the capital account reached US\$ 2 billion, while the foreign debt remained fairly low. During the early 1970s Turkey, taking advantage of its foreign reserves, entered the second phase of import substitution, which involved the replacement of imports of intermediate goods and capital goods in addition to consumer goods. Due to the fact that these industries are highly capital intensive and require economies of scale, the foreign exchange requirements of the country increased considerably.

41. In 1974, sudden increases in the price of oil and the consequent acceleration of the rate of inflation in industrial countries resulted in a sharp deterioration of terms of trade for Turkey. While the Turkish imports increased due to industrialization policy, the onset of recession for Turkey's trade partners coupled with the lack of reorientation policies, led to a stagnation of Turkish exports.

42. Various domestic factors also contributed to the worsening of the economic climate in the latter part of 1970s, such as:

- heavy state intervention in the product markets through direct price controls, inefficient SEs and incorrect agricultural price support policy;

- excessive controls over foreign trade in the form of quantitative import restrictions and an overvalued exchange rate; consequent bias against exports and incentives in favor of inefficient, larger and uncompetitive manufacturing industries;
- repressing of financial institutions through mandatory ceilings on deposit and borrowing rates;
- increased government budget deficit due to inefficient tax collection and ambitious public investment program.

43. Regardless of the adverse effects of the above-mentioned factors, Turkey attempted to preserve its growth momentum through relying initially on its foreign exchange reserves, and subsequently on heavy short-term borrowing.

44. Because it could not sustain heavy external borrowing as the main supporting factor, the Turkish economy finally faced a severe foreign exchange crisis accompanied by recession, high inflation and political instability between 1978 and 1980.

45. At the beginning of 1980 it became evident that the strategy of economic growth based on import substitution was no longer sustainable. As a response to this situation the Turkish Government adopted a new comprehensive economic stabilization and structural adjustment program. It aimed to restore price stability, and to increase the efficiency of resource allocation through greater reliance on market forces and the introduction of "Outward Orientation" in economic policy.

I.A. STRUCTURAL REFORMS

46. The structural reforms introduced by the government in 1980 may be grouped under five headings.

I.A.1. COMMODITY AND FACTOR PRICES

47. Beginning in 1980, most goods restrictions were removed through the abolition of the Price Control Commission. The government also reduced the price controls over goods produced by SEs. SEs were instructed to set their prices on commercial principles. On the other hand, abandonment of policies concerning agricultural support prices and policies aimed at reducing the subsidies for agricultural production were not strongly pursued.

48. The government also took steps to liberalize interest rates on time deposits which permitted development of high real interest rates. However, eruption of a financial crisis forced the government in 1984 to impose ceilings on deposit rates.

I.A.2. FOREIGN TRADE REFORM

49. The aim of the reform was liberalization of the import regime and rationalization of the system of export promotion measures. The government gradually eliminated the import quotas system. In 1985 the import prohibition list was phased out, reducing the number of prohibited goods from 500 to 3 items (weapons, ammunition, and narcotics). Reduction in quantitative restrictions was also accompanied by cuts in the rates of customs duties. In 1989, a new "anti dumping law" was introduced within the context of the liberalized import regime, to prevent domestic production from unfair competition. In 1990 the import deposit scheme and import licensing systems were completely abolished.

50. Rapid export growth has been one of the major objectives of the trade strategy of the 1980s. To improve the balance of payments situation, and also to sustain the trade liberalization program, substantial growth in exports was considered essential. Export promotion was accomplished through a threefold policy measure:

- i. Setting a realistic exchange rate;
- ii. Provision of direct subsidies;
- iii. Simplification of the bureaucratic procedures.

51. In January 1980 the Turkish Lira was devaluated by 50%, and beginning in May 1981 the exchange rate was adjusted daily against major currencies to maintain the competitiveness of Turkish exports. In 1988 a system was introduced whereby the exchange rate was set by the market.

52. As exports increased toward the end of the 1980s, export incentives were gradually reduced.

53. In response to these policies, the volume of foreign trade increased rapidly: exports increased from US\$ 2.9 billion in 1980 to over US\$ 14 billion in 1991, and imports increased from US\$ 7.9 billion to US\$ 21 billion during the same period. Thus the export/import ratio improved from 36% in 1980 to 67% in 1991.

I A.3. FOREIGN INVESTMENTS POLICY

54. During the 1980s a strong emphasis was placed on increasing foreign investments. Formalities for foreign investors were simplified and in 1989 the Government signed a decree allowing foreign investors and foreign investment funds to enter into the Turkish capital market. Turkish nationals were also permitted to purchase foreign securities. The new regime attracted a foreign capital inflow. By the end of 1990 the cumulative foreign capital permits reached US\$ 6.4 billion, a considerable increase from US\$ 228 million at the end of 1979. Manufacturing sector investments constituted 61% of the total permits.

I.A.4. FINANCIAL SECTOR POLICIES

55. In the 1980s major reforms were instituted in the financial sector. Banking laws were modernized in 1985; uniform accounting standards, compulsory external auditing, and deposit insurance contingency provisions against non-performing loans were introduced. The Interbank Market was established in 1986. In 1981 the Capital Market law was enacted, establishing the Capital Market Board and an institutional framework. The Istanbul Stock Exchange reopened at the beginning of 1986 on the basis of new legislation. The new policy measures concerning the financial sector lead to the growth of the real size of the financial sector. The total financial assets/GNP ratio increased from approximately 30% in 1980 to nearly 50% in 1988.

I.A.5. PUBLIC SECTOR REFORMS

56. Value-added tax was introduced in 1985, replacing a set of duties and production taxes. During the late 1970s, SEs placed excessive burdens on the budget and added to inflationary pressures because of their growing operating losses and growing investment demands. A series of new measures were adopted in order to reform the SEs and reshape them for suitability to an open market economy. The Public Participation Agency was created and SEs ownership was transferred to this agency for their eventual privatization. Although in the following years some minor SEs were privatized, the privatization endeavor could not be implemented successfully. Nevertheless, in this context the SEs were encouraged to subcontract portions of their production to SMIs whenever possible. The MKE (Machinery and Chemical Industries) and Sümerbank (textile conglomerate), among others, actively pursued this policy.

57. Another significant feature of the public sector policy of the 1980s was the curtailing of public industrial investments. Prior to the 1980s SEs acted as locomotives in manufacturing investments. The structural adjustment program brought an end to this approach, and the public investment pattern shifted toward infrastructural investment, which then became one of the major causes of the high inflation of the late 1980s. The increases in public revenues were not sufficient to finance large infrastructure investments, which resulted in sharp increases in public sector borrowing at very high interest rates. Thus the Public Sector Borrowing Requirement/GNP ratio rose to over 9% in 1990. Financing growing fiscal deficits through domestic borrowing, coupled with an increased money supply, have contributed heavily to the high level of inflation in the late 1980s.

I.B. SUMMARY

58. In summary, during the 1980s many improvements had been introduced in the general framework of Turkish economy; however the interaction between macroeconomic policy and structural reforms have also produced mixed results. It should also be acknowledged that Turkey has encountered problems arising from

a lack of coordination, and especially from the absence of a more stable monetary and fiscal policy.

I.C. THE 1992 ANNUAL PROGRAM

59. In the 1992 Annual Program, the new Turkish government announced their new policy, which is primarily a stabilization program. Their central aims are to reduce the inflation rate, internal borrowing and foreign debt, to reform fiscal and administrative systems, revitalize private investments which were not profitable in the 1980s, and rationalize the SEs.

60. In this general framework, the position of SMIs and the policies for promoting their development are discussed in the remaining four parts of this report.

TABLE TWO/1 : TURKEY: MACROECONOMIC PERFORMANCE

INDICATORS	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
GMP Growth Rate (1987 Prices, %)*	-2.3	5.3	3.7	4.6	7.8	4.5	7.5	9.3	1.5	0.9	9.2	1.5**
Inflation Rate (Average Annual Change in Wholesale Price Index)	107.2	36.8	27.0	30.5	50.3	43.2	29.6	32.0	68.3	69.6	53.1	54.5
Current Account Deficit (Billion \$)	-3.4	-1.9	-0.9	-1.9	-1.4	-1.0	-1.4	- 0.8	1.6	0.9	-2.6	1.0***
Total Investment/GMP (%)	21.9	21.9	17.7	19.8	19.3	20.8	24.4	25.3	24.1	22.4	22.8	27.0***
Current Account Deficit/GMP (%)	-5.8	-3.3	-1.8	-3.8	-2.9	-1.9	-2.5	-1.2	2.3	1.2	-2.4	0.05***
Public Sector Borrowing Requirements/GMP (%)	10.5	4.9	4.3	6.0	6.5	4.5	4.7	7.8	6.2	7.1	9.4	n.a.

* New series based on quarterly estimates.

** Estimate by State Planning Organization (DPT) at 1988 prices.

*** Estimate, calculated from provisional SPO figures.

SOURCE: State Institute of Statistics (DIE), "Aralik 1991'de Türkiye Ekonomisi İstatistik ve Yorumları"; Prime Ministry, Undersecretariat of Treasury and Foreign Trade, "Main Economic Indicators", Feb. 1992; Central Bank; DPT, "Main Economic Indicators 1991".

TABLE TWO/2: COMPOSITION OF GDP***(Percentage)**

Sectors	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Agriculture	22.6	22.0	20.8	19.6	19.6	18.8	18.5	18.0	17.5	15.6	16.8	15.6
Industry	25.0	26.1	27.1	28.6	29.4	31.6	31.9	31.8	32.4	31.3	32.8	33.8
Services	52.4	51.9	52.1	51.8	51.0	49.6	49.7	50.2	50.1	52.1	50.4	50.6
GDP at Factor Cost	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* New series based on quarterly estimates, at 1987 fixed prices

** Estimates based on 3 quarters of 1991

SOURCE: DIE

TABLE TWO/3: GROSS FIXED INVESTMENT**(Percentage)**

Investment	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Private/Total	47.0	41.8	44.6	44.1	45.9	41.8	42.4	46.6	52.5	54.7	54.3
Public/total	53.0	58.2	55.4	55.9	54.1	58.2	57.6	53.4	47.5	45.3	45.7
Infrastructure/Public	63.7	65.9	71.1	73.5	74.3	74.9	81.4	87.9	87.9	90.4	87.4

SOURCE: State Planning Organization (DPT)

TABLE TWO/4: PUBLIC SECTOR BALANCE

(Percentage)

Investment	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
I. Total Revenues	22.6	24.3	20.1	23.1	22.5	24.8	29.5	28.8	28.6	28.3	28.2
1. Tax Revenues	17.3	18.5	15.2	16.8	13.7	15.4	18.7	19.0	18.5	20.0	21.4
2. Social Funds*	0.2	0.4	0.1	0.2	0.0	-0.1	-0.3	0.4	-0.3	-0.2	-0.1
3. Non-tax Regular Revenues	3.0	3.0	1.6	3.0	3.1	2.8	3.9	2.3	2.2	1.4	2.1
4. Factor Incomes	2.2	2.4	3.1	3.2	5.7	6.7	7.2	7.2	8.2	6.6	1.9
II. Total Expenditures	33.1	29.2	24.4	29.1	29.0	29.3	34.3	36.6	34.8	35.5	37.9
1. Current	12.3	10.6	9.0	10.2	9.0	8.5	8.9	9.0	8.7	11.4	14.1
2. Gross Fixed Investment	11.1	12.8	9.5	10.1	9.7	11.4	13.4	13.2	10.9	9.9	10.8
3. Transfers	5.8	4.2	3.4	6.5	7.3	7.2	10.6	12.5	12.3	11.6	10.9
4. Stock Exchange Fund	3.9	1.6	2.4	2.3	3.0	2.2	1.4	1.9	2.9	2.6	2.1
III. Borrowing Requirement (II-I)	10.5	4.9	4.3	6.0	6.5	4.6	4.7	7.8	6.2	7.1	9.4

* Total Revenues Net of Social Security Payments

SOURCE: Ministry of Finance and Customs; DPT

TABLE TWO/5: FOREIGN TRADE AND EXTERNAL BORROWING INDICATORS

(Percentage)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991*
I. Export/Import Ratio	36.8	52.7	65.0	62.0	66.3	70.3	67.1	72.0	81.4	73.6	58.1	67.0
II. Import/GNP	13.6	15.0	16.3	17.9	21.4	21.1	18.9	20.1	20.2	19.6	20.5	17.0
1. Capital Goods/Imports	20.0	24.7	26.3	25.1	24.7	25.5	31.3	27.0	27.8	24.3	25.9	28.0
2. Intermediate Goods/Imports	77.9	73.3	71.7	72.3	70.9	68.8	60.1	64.8	64.5	66.9	60.5	58.0
3. Consumer Goods/Imports	2.2	2.0	2.1	2.6	4.4	5.7	8.6	8.2	7.7	8.8	13.6	14.0
III. Exports/GNP	5.0	7.9	10.6	11.1	14.2	14.8	12.7	14.0	16.5	14.4	11.9	12.0
1. Agricultural Goods/Exports	57.4	47.2	37.3	32.8	24.5	21.6	25.3	18.2	20.1	18.3	18.1	18.0
2. Mining/Exports	6.6	4.1	3.1	3.3	3.4	3.1	3.3	2.7	3.2	3.6	2.5	2.0
3. Industrial Products/Exports	36.0	48.7	59.7	63.9	72.1	75.3	71.4	79.1	76.7	78.1	79.3	80.0
IV. Total External Debt/GNP	23.5	24.7	32.3	35.7	41.0	47.5	54.7	59.0	57.8	51.0	43.3	38.0

* Provisional; based on 10 months' actual and 2 months' estimated figures

SOURCE: DIE; DPT

II. THE POTENTIAL EFFECTS OF A SINGLE MARKET IN EUROPE ON TURKEY'S EXPORT POSITION

II.A. SMIs IN A EUROPEAN SINGLE MARKET

61. The Turkish SMIs' most important competitors are doubtless the SMIs of the EC countries. Over 60% of Turkish foreign trade (imports and exports) is transacted with EC countries. Because of their proximity, it is easier for Turkish SMIs to identify the export opportunities in these countries. It is also easier for EC SMIs than for American and Japanese SMIs to identify export possibilities in Turkey. Therefore, recent developments and future prospects concerning the SMIs of EC countries are discussed in this chapter.

62. As of January 1993, the EC industries will face altered market conditions. In 1986 the twelve member countries⁵ of the European Community signed the "Single Act" by which they agreed to take measures necessary for the creation of a Single Market by December 31, 1992. Article 13 of the Act specifies that the market will be a space without interior frontiers where persons, goods and financial resources may circulate without restrictions. Customs duties will be eliminated between the member countries. Borders will remain in the form of autonomous tax systems and tax rates, administrative controls, and various protection measures such as national standards and sanitary regulations for imported goods. However, they will be progressively standardized to facilitate trade.

63. The industries of the member countries may still encounter difficulties gaining access to each others' markets. For many products, the industry currently cannot produce large volumes for the entire European market, since national standards have to be met. For this and other reasons, the benefits for industries and consumers that the Single Market seems to promise, may be limited for some time to come.

64. The Single Market⁶ will comprise approximately 340 million consumers, with a total estimated annual purchasing power of US\$ 3,000 billion. This will be the premier market in the world with respect to the number of consumers, exceeding the USA (approximately 250 million) and Japan (approximately 125 million), and will be the second strongest market with respect to purchasing power (with the USA at approximately US\$ 3,300 billion, and Japan at approximately US\$ 1,600 billion). Some basic statistical data on the twelve member countries are presented in Table Two/6.

⁵ Belgium, Denmark, France, Germany, Greece, Italy, Ireland, Luxembourg, The Netherlands, Portugal, Spain, and the United Kingdom.

⁶ The Single Market will come into effect only if the measures proposed by the EC Commission are adopted by all member countries.

TABLE TWO/6: BASIC DATA ON EC COUNTRIES, 1988

COUNTRIES	GDP (BILLION US \$)	GDP PER CAPITA* (EC = 100)	POPULATION (IN MILLIONS)	EMPLOYMENT (IN MILLIONS)	EMPLOYMENT IN INDUSTRY (%)	GDP GROWTH RATE (%)**
Belgium	150	102	9.88	3.66	28	2.2
Denmark	107	108	5.13	2.66	27	2.3
France	949	108	55.87	21.28	30	2.2
Germany***	1202	113	61.45	26.83	40	2.5
Greece	52	54	10.02	3.60	27	2.1
Italy	828	105	57.44	20.94	32	3.0
Ireland	32	66	3.54	1.08	28	3.0
Luxembourg	7	128	0.38	0.17	31	4.1
The Netherlands	228	103	14.76	5.93	26	2.3
Portugal	42	54	10.31	4.28	35	2.7
Spain	340	76	39.00	11.78	32	3.6
United Kingdom	823	104	57.07	25.55	30	3.6
EC (TOTAL)	4762	100	324.85	127.66	32	N.A.

* Current prices and purchasing power standards

** Average annual volume growth rate over previous 5 years

*** Not including East Germany

SOURCE: OECD, EUROSTAT

65. The data illustrates the broad diversity of economic and social conditions prevailing in these countries; for example the GDP per capita in Portugal, Greece and Ireland is only about 50% of the level in Luxembourg and Germany. Different socio-economic conditions and historical factors influence the "policy culture" of the member states. Therefore it cannot be expected that identical SMI policies apply throughout the EC. However, certain common objectives can be identified.

66. SMI policies in EC countries tend to:

- attempt to facilitate adaptation to the Single Market;
- reduce impediments for SMI development;
- reduce inconveniences for small newcomers in comparison to older and large enterprises;
- create opportunities without directing individual decisions.

67. European SMIs have been facing the following problems:

- Industrial policies of the traditionally highly industrialized member states have been concentrated primarily on "trouble shooting" for structurally weak or declining sectors (such as basic metal, ship building, textile industries);
- R+D activities have afforded Japan and the USA superior adaptability to changing markets;
- The integration process in Europe has been very slow; enterprises have not been able to develop strategy and competitive advantage in relatively small member countries pursuing protective policies in favor of "national industrial champions;"
- Public sector contracts are often awarded to "national champions;"
- Taxation and state intervention are higher in Europe than in Japan and the USA.

68. It is expected that the integrated European Market project will offset some of these factors and that it will increase the market chances of SMIs. To this end, the European Commission has focused for some years on SMI development. In contrast to the national governments, the Commission has concentrated on the development of Community-level financial aid (especially through the European Investment Bank) and is preparing special programs (e.g. Europarteneriat). Parallel to these efforts, local authorities of many regions in EC countries are active in developing SMIs at the local level.

69. There are over one thousand regional and local economic development organizations in the EC countries, with approximately four hundred in West Germany alone. Most of them offer assistance by supplying information directly to prospective investors; some are involved in technology transfer, while many

provide a full range of services including industrial estates, science parks, and social infrastructure: lodgings, schools, hospitals, training etc. A large number provide equity and loans.

70. The regional agencies usually focus on the development of new clean industries with special emphasis on high technology utilization. In EC countries development of industrially depressed areas - areas with concentrations of old large industries which became less profitable after the mid-1970s were often left to the care of national governments. Accordingly, with the help of the Community, the "Regions of Europe" are developing a large body of diversified SMIs which are expected in the near future to overcome the above-mentioned shortcomings and emerge as one of the most competitive groups of small- and medium-scale industries⁷.

71. The integration of the European market is expected to increase the market opportunities for - at least - the following product groups:

- Motor vehicles, parts and accessories for motor vehicles⁸;
- Pollution control equipment;
- Telecommunication material and office automation;
- Pharmaceutical products;
- Computer technology, especially software production;
- Bio-engineering and related fields;
- New energy and energy saving systems.

⁷ Lyndon Arnold, "Development Agencies and European Regional Financial Incentives: An Assessment", Welsh Development Agency, Special Report, 1991.

⁸ The EC countries combined are the biggest vehicle producers in the world (30% of the world production). The sector (assembly plants) is highly concentrated, however the parts and accessories for vehicles are produced by SMIs. The effects of the Single Market on this sector are estimated to be significant since:

- important administrative regulations still operative in all member countries will be removed;
- major VAT differences will be eradicated;
- fuel taxes will be regulated;
- individual import restrictions on Japanese vehicles will be homogenized by the year 2000.

72. On the other hand, the Single Market will have almost no impact on other branches such as:

- Textile clothing, leather products and shoes;
- Mechanical industries;
- Food and beverages.

73. No significant changes are expected to result from the Single Market in the textile and clothing/leather sector, as an internationalization of fashion trends and consumers habits have already created an international market. The sector already faces intensive international competition. On the other hand, the import quota system for textiles and garments will either have to be unified for all EC countries or be abandoned. Therefore significant changes must be expected on import policies.

74. At present, intra-EC food and beverage trade is impeded by numerous regulations imposed by individual member countries. The European Court of Justice has already abolished a number of these restrictions. The Single Market may provide some benefits to large enterprises while SMIs will continue to serve local market niches. Presumably, the new Single Market will not exercise an immediate effect on local habits and tastes; therefore SMIs intending to export to other member countries will still have to engage in special marketing campaigns.

75. Labor-intensive production will be shifted to Southern Europe and eventually, to non-EC countries (e.g. Turkey, Central and Eastern Europe) with relatively lower labor costs. The European industries will not only be capital-intensive but also R+D- and skill-intensive in nearly all size categories.

76. The SMIs situated in the EC will only be able to seize new market possibilities offered by the Single Market if they succeed in keeping abreast of the increased requirements of the Community. Those unable to adapt will probably be forced to close down or be absorbed by other enterprises. The climate will be increasingly competitive. Therefore European SMIs will have to gear their market strategies in order to face new competition⁹. Though the main objective of the Single Market is to be an "open market," some common measures would nevertheless be taken to protect the EC SMIs against outsiders.

77. SMIs surviving in the new Single Market will have to:

- keep up with changing market requirements (e.g. consumer tastes, new product development etc.);
- modernize production equipment in line with technologies applied by market leaders;

⁹ Competitiveness is defined here as the capacity of an enterprise to produce and to sell goods or services which are accepted by customers on international open and free markets, and to maintain and increase market shares with no reduction of profit margins, i.e. to survive and/or grow without financial assistance from the public sector.

- continuously increase the technological and managerial skills of their personnel;
- utilize sophisticated information, research and communication systems;
- seek cooperation in home and in export markets.

78. If SMIs are to become innovative and gain a competitive edge, then they have to actively seek out technical and research partners, conduct or gain access to R+D, and adopt long-term development strategies. These requirements can be met only if significant financial resources are made available to the enterprises and if highly competent management and technical personnel are employed.

II.B. CHANGES IN TURKEY'S COMPETITIVE POSITION

79. It is clear that SMI managers in the EC and SMI policy makers will have to come to terms with these new requirements, and consequently many European SMIs will face difficult times. The SMIs of the other countries, however, due to the increase in intercommunity competition and adoption of a common policy towards outsiders, will face even more severe conditions.

80. From the point of view of Turkish SMIs, exporting to the EC may become more difficult when the Single Market comes into effect. For example, it is anticipated that the Single Market import quotas imposed on Turkish textile products will be greater than the sum total of the presently existing quotas.

81. Furthermore, the antidumping tax on Turkish yarn exports to EC countries has been altered from a temporary imposition to a permanent tax. This may be an indication of a possible increase in protectiveness in the Single Market against Turkey, and presently there is no concrete evidence in sight that the Single Market will be more lenient towards Turkish exporters in future.

82. On the other hand, the eventual harmonization of standards and specifications of components and other industrial products and unification of import regulations may facilitate the export possibilities of Turkish SMIs in the Single Market. A product which is saleable in one EC country may also become saleable in all other member countries. This will considerably reduce the burden of market research.

83. At present, there are no institutions in place to assist Turkish SMIs to keep abreast of developments in the EC. Turkey should strengthen its representation at the European Commission. A system should be devised through which the Turkish industries and trading companies would be kept up to date (for specific recommendations, see Part Five). Other countries such as Singapore, Taiwan, and Korea have already established such organizations.

III. NEW POTENTIAL MARKETS FOR TURKISH SMIs IN NEIGHBORING REGIONS

84. The republics of the former Soviet Union and the former Eastern Block nations are in the throes of restructuring industry, and a transition to free market economies. The effects of these processes remain to be seen.

85. Previously, most types of production suitable to small-scale industries were manufactured - usually at higher costs - by large industries. Therefore it is reasonable to anticipate that the new states will establish more efficient SMIs. Unless foreign investors seize this opportunity, the ambitions of new entrepreneurs will founder for want of necessary financial and technological resources. It is possible that these states, while restructuring their industry, may increase the import of manufactured goods from foreign SMIs, although in the near future, a substantial increase would be prevented by lack of funds.

86. At present, general expectations in Turkey vis-a-vis Eastern Europe and the new Commonwealth States are positive. Turkish entrepreneurs are attempting to export industrial products to these countries; however, as this is a limited market, they are also seeking ways to establish manufacturing plants through joint venture arrangements. The majority of these projects are SMIs.

87. It is generally recognized that there is good potential for closer trade relations, especially with those new republics with which Turkey has an ethnic affinity. However, at this stage it is too early to predict where these possibilities might lead, and how much Turkish SMIs will be able to benefit from these opportunities.

88. The early indications are that export relations will be complicated unless payment problems are regulated. There are, on the other hand, opportunities for conducting successful barter trade. In order to take advantage of this potential, systematic research should be conducted (for specific recommendations, see Part Five).

PART THREE**THE SMI ENVIRONMENT IN TURKEY****I. SMIs: DEFINITIONS CURRENTLY IN USE**

89. In the past thirty years a variety of definitions have been adopted for Turkey's SMI sector.

90. As in other countries, the main criterion is the number of persons employed; supplementary criteria have been engaged according to circumstances.

91. The following is a summary of the most important definitions in use to date:

- The law for the establishment of Chambers of Commerce, Industry and Stock Markets (Law No. 5590) defines small-scale enterprises as: units employing fewer than 10 persons with no power utilized for production, and fewer than 5 persons if power is utilized.
- The Türkiye Halk Bankasi (THB, People's Bank of Turkey), whose main mandate is to assist small businesses, defines small-scale enterprises as: enterprises employing 1-49 persons, with a total value of owned machinery and equipment of less than TL 250 million. The bank regards those enterprises as medium-scale if they employ between 50 to 250 persons, and the total value of owned machinery and equipment is less than TL 2.5 billion (the monetary values have been revised several times since 1982 due to the high level of inflation. These are the current figures).
- The State Statistics Institute (DIE) which conducts regular censuses and surveys on enterprises, adopted the criteria of the number of employees and utilization of power for production in 1983. Units employing fewer than 25 persons and utilizing less than 50 HP for production purposes are small-scale enterprises. There is no official definition for medium-scale enterprises.
- The World Bank, in its report¹⁰ on the prospects of small- and medium-scale industries in Turkey, defines small-scale industries as enterprises employing fewer than 50 persons, and medium-scale industries as enterprises employing between 51 and 200 persons.
- The State Planning Organization (DPT) and the Industrial Investment and Credit Bank (Sanayi Yatirim ve Kredi Bankasi or SYKB) base their definitions solely on the value of owned machinery and equipment. The amounts are expressed in TL and are subject to periodic revision.

¹⁰ World Bank, "Turkey: Prospects for Small Industry Development and Employment Generation", 1980.

- In the 1987 agreement between the German Technical Cooperation Organization (GTZ) and the THB, small-scale industry was defined as units employing fewer than 50 persons, with owned machinery and equipment valued at less than DM 1.5 million.
- Chambers of Industry in different cities have tailored their definitions according to their needs. All have adopted size criteria, occasionally supplemented by criteria such as the value of owned machinery and equipment, the value of annual production, or the amount of working capital, equity or fixed assets. For example, the Aegean Chamber of Industry defines small-scale industry as units employing between 5 and 50 persons, and medium-scale industry as units employing between 51 and 199 persons. The Gaziantep Chamber of Industry defines units employing 1-9 persons as small-scale and units employing 10-50 persons as medium-scale, and supplements this criterion with the value of owned machinery and equipment, and the amount of working capital.
- The most recent and influential size definition for SMIs was introduced in Law No. 3624 for the Foundation of the Small- and Medium-Scale Industry Development Organization (KOSGEB), April 1990. According to this definition, industrial enterprises employing 1 to 50 workers are considered small-scale enterprises, and those employing 51-150 workers are medium-scale enterprises.

II. IDENTIFYING APPROPRIATE CRITERIA FOR DEFINING TURKISH SMIs

II.A. THE MAJOR CRITERION: SIZE

92. The available statistical data on the size distribution of industrial enterprises have been analyzed in order to recommend suitable size criteria for defining Turkish SMIs.

93. The last census for industrial enterprises was conducted in 1985. The next census was due in 1990; however it was postponed to 1993. The findings of the 1985 census are summarized and analyzed below. The results of this census have been partially updated and revised according to the findings of the annual industrial surveys carried out by DIE¹¹.

94. The tables below are designed to illustrate the structure, development and economic significance of the SMI sector of the Turkish manufacturing industry, and in other countries or international organizations.

¹¹ DIE industrial surveys are based on sampling; the data are not published.

TABLE THREE/1: THE SIZE DISTRIBUTION OF MANUFACTURING ENTERPRISES

No. of Enterprises by Size Groups	1983	1984	1985	1986	1987	1988	1989	difference 1989-1983	% share in total as of 1985
1 - 9*	n.a.	n.a.	183,106	n.a.	n.a.	n.a.	n.a.	6,072**	94.2
10 - 24	4,680	4,205	5,780	4,701	4,186	3,903	3,914	-766	3.0
25 - 49	2,075	2,042	2,256	2,287	2,320	2,336	2,438	363	1.2
50 - 99	1,115	1,109	1,128	1,205	1,207	1,308	1,252	137	0.7
100 - 199	589	574	622	669	754	754	807	218	0.4
200 +	807	849	861	902	947	1,020	910	103	0.5
TOTAL	n.a.	n.a.	194,219	n.a.	n.a.	n.a.	n.a.	6,127**	100.0

* Industrial enterprises employing between 1-9 persons are covered only in industrial censuses. The comparable figures for this group in 1970 and 1980 were 170,123 and 177,034 respectively.

** Difference between 1980 and 1985

SOURCE: DIE

TABLE THREE/2: DISTRIBUTION OF EMPLOYMENT IN MANUFACTURING ENTERPRISES

No. of Employees by Size Groups	1983	1984	1985	1986	1987	1988	1989	% share in total as of:	
								1985	1989
1 - 9*	n.a.	n.a.	526,436	n.a.	n.a.	n.a.	1,033,053	36.2	50.0
10 - 24	67,406	62,253	83,751	69,085	61,616	55,976	56,417	6.0	3.0
25 - 49	70,381	69,963	77,335	78,271	80,330	81,584	85,447	5.5	4.1
50 - 99	76,301	76,059	78,138	82,761	83,070	90,070	87,991	5.6	4.2
100 - 199	81,373	80,056	87,113	93,576	105,370	10,426	113,741	6.4	5.5
200 +	566,791	602,697	609,259	620,304	643,149	676,308	681,487	41.3	33.2
TOTAL	n.a.	n.a.	1,454,032	n.a.	n.a.	n.a.	2,058,142	100.0	100.0
SUBTOTAL 10 - 200	295,461	288,331	326,337	323,693	330,386	333,056	343,402	23.4	16.8

SOURCE: DIE

TABLE THREE/3: DISTRIBUTION OF ENTERPRISES EMPLOYING 1 TO 9 PERSONS

Size of Enterprises (Persons)	1985			1989			Share of Enterprises in Total (%) by Size Groups		Share of Employed in Total (%) by Size Groups	
	No. of Enterprises	No. of Employment	Average Size (Persons)	No. of Enterprises	No. of Employment	Average Size (Persons)	1985	1989	1985	1989
1	44,867	44,867	1	148,276	148,276	1	24.5	n.a.	8.5	14.3
2	54,534	109,068	2	117,158	234,316	2	29.7	n.a.	20.8	22.7
3 - 4	54,272	182,208	3.3	100,349	337,277	3.3	29.6	n.a.	34.6	32.6
5 - 9	29,397	190,293	6.4	n.a.	313,277	n.a.	16.2	n.a.	36.1	31.4
TOTAL	183,106	526,436	2.87	n.a.	1,033,053	n.a.	100.0	n.a.	100.0	100.0

NOTE: If the average number of persons employed in the 5-9 category has not changed between 1985 and 1989, then in 1989 the number of enterprises employing 5-9 persons should be approximately 48,000, and thus the total enterprises for the same year amount to 413,000. Accordingly the % share of enterprises by size groups may be estimated as 1 person: 35.9, 2 persons: 27.9, 3-4 persons: 24.6, and 5-9 persons: 11.6. The average employment size of the whole group thus declines to 2.5 in 1989.

SOURCE: DIE

II.A.1. CONCLUSIONS

95. Tables Three/1 and Three/2 suggest a substantially different distribution in Turkey as compared with developed countries. The findings of the surveys indicate that during the 1980s the group of very small industrial enterprises/handicrafts employing fewer than 10 persons was dominant.

96. In the 1-9 employment size category, the owner/owners usually participate full time in business operations. The 1985 census revealed that out of 526,436 persons employed in this group, 258,070 (45 %) of them were self-employed. Accordingly, it is an index of initiative and entrepreneurial spirit in Turkish society. A substantial number of persons are establishing new, but very small enterprises. Transformation of these very small enterprises/handicraft workshops into sizeable industrial enterprises has not been apparent.

97. Table Three/3 provides a view of the distribution figures for this sector.

98. Although Table Three/3 is not complete, it helps corroborate the findings presented in Tables Three/1 and Three/2. It appears from Table Three/3 that there was a considerable increase in the number of new self-employed persons entering the market between 1985 and 1989. The enterprises consisting of 1-2 persons increased their share in the market from 55% in 1985 to an estimated 64% in 1989. And consequently, entrepreneurs working in the 1-2 persons category increased their share in the total from 29% in 1985 to 37% in 1989. The relatively larger segment of small-scale enterprises (the 5-9 person category) experienced a decline in the share from 16% in 1985 to an estimated 11% in 1989.

99. Though the observation is based in part on the assumption that the subcategories of the 5-9 persons group has not radically changed between 1985 and 1989, the emerging picture indicates that:

- There is an increase in the number of new self-employed persons who have the initiative to create new enterprises in manufacturing industries/handicrafts;
- The entrepreneurs most probably have the initiative and courage, but do not have the adequate skills, resources, and environmental support to develop their very small enterprises - which should be considered as handicrafts - into real industrial operations. It seems that the enterprises peak at 5-6 employed persons per unit. Then, a substantial number reach the upper boundary of the 5-9 employed person category. It is estimated that the enterprises in the size category of 5-9 employees increased by 63% between 1985 and 1989, which indicates a remarkable rate of growth;
- Further in this regard, when the development of larger enterprises is compared, it appears that there was a virtual decrease among the number of enterprises employing between 10 and 25 persons during the 1985-89 period, and a notable increase in the number of enterprises employing between 25-199 persons.

TABLE THREE/4: DISTRIBUTION SHIFT IN NUMBER OF ENTERPRISES

NO. OF ENTERPRISES (EMPLOYING)	NO. OF ENTERPRISES		CHANGE
	1985	1989	
10-24 PERSONS	83.751	56.416	- 33
25-199 PERSONS	242.584	343.596	+ 41
TOTAL (10-199)	326.335	400.013	+22,5

TABLE THREE/5: PERCENTAGE DISTRIBUTION/EMPLOYMENT CATEGORIES, 1985

SIZE ENTERPRISE	WORKER	TECHNICAL/FOREIGN	OTHERS
10-24	66.8	16.2	17.0
25-200	68.0	11.5	21.5
TOTAL	67.8	12.5	19.7

100. The reasons for this phenomenon may be explained as follows:

- The pattern of industrial production indicates that the smallest complete unit is a group consisting of 6 workers, one foreman/technical staff and two administrative persons. Accordingly, an industrial enterprise employing 9 persons is a whole unit. The next stage would probably require doubling this number. For that reason, there are obstacles for entrepreneurs who succeed in forming a basic industrial production unit, but due either to lack of know-how, skills, or financial resources cannot move ahead;
- Inquiries concerning this threshold reveal that the decline in the number of enterprises employing 10 - 25 persons began after the adoption by the Government of the Compulsory Savings Scheme. This scheme has imposed an additional 10% payment on the total wage bill (4% on the employees' wages, 6% employer's contribution) on enterprises employing 10 or more persons. These payments are invested in a compulsory savings fund which bears very low interest. According to interviewed entrepreneurs, this imposition either dampened the desire for growth, or obliged them to split their enterprises into small units of 9 or fewer employed persons for official records.

II.A.2. RECOMMENDATIONS

101. Accordingly, due to the artificial fragmentation of the enterprises in the statistics, it is considered reasonable to define the lower limit of the size criterion for industrial enterprises as units employing a minimum of 5 persons. Units employing fewer than 5 persons are therefore considered handicrafts or artisan enterprises.

102. In the 200 and above size category there are 910 enterprises in Turkey according to the 1989 industrial survey. They employ nearly 700,000 persons, which constitutes 0.5% of the total number of industrial enterprises and provides 33% of the total employment. To classify them as large industries is clearly justifiable. As mentioned above, the KOSGEB law determines the upper limit of medium-scale industries as employing a maximum of 149 persons. According to the 1989 DIE survey, there were 289 industries in the 150-200 employee size bracket. In other countries (as discussed in Part One/3) the upper limit of medium-scale industries has been adjusted in proportion to the country's population and the stage of development of its manufacturing industry. In the EC the lowest upper limit of any member country is 200 persons. Given Turkey's population size, development aims, and prospects for integration into the EC, it would be appropriate to raise the upper limit for medium-scale industries from 149 employees to 199 employees.

II.A.3. SUMMARY OF RECOMMENDATIONS FOR SMI SIZE CRITERIA

103. In summary:

- Enterprises employing fewer than 5 persons are considered as very small industries/handicrafts;

- The lower limit of the SMI sector is defined as employing a minimum of 5 persons;
- The benchmark for the upper limit should be put at 199 employees.

104. These definitions are in line with the practices of the majority of the countries reviewed for this study.

II.B. DEFINING SMIs: ADDITIONAL CRITERIA

105. For purposes such as general policy formulation, developed countries usually engage the number of persons employed by an enterprise as the sole criterion. For specific policies or for financial assistance, other factors are taken into consideration. In conformity with this general trend, Turkish financial institutions also utilize additional criteria, based on monetary measures, e.g. value of equipment.

106. Furthermore, DIE's pairing of the employment criterion with utilization of power for production has merits and should be given due consideration.

TABLE THREE/6: DISTRIBUTION OF POWER UTILIZATION

Size of the Enterprise (Persons)	No. of Enterprises	No. of Employees	Power for Production (HP)	Power for Production per Enterprise (HP)	Power for Production per Employee (HP)
1985					
0 - 9	183,106	526,436	2,769,003	15.1	5.2
10 - 24	5,780	83,751	641,580	111.0	7.6
25 - 49	2,256	77,331	691,360	306.0	8.9
50 - 99	1,128	78,138	751,691	666.3	9.0
100 - 199	622	87,113	758,296	1,219.0	8.7
200 +	849	602,679	5,838,109	6,876.4	9.6
TOTAL	194,219	1,454,032	11,295,353	58.1	7.77
1989					
0 - 9	n.a.	1,033,053	4,134,000*	n.a.	4.0
10 - 24	3,914	56,417	434,280	110.9	7.7
25 - 49	2,438	85,447	755,454	309.0	8.8
50 - 99	1,252	87,991	766,610	612.3	8.7
100 - 199	807	111,741	829,568	1,027.0	7.4
200 +	910	681,487	6,583,997	7,235.1	9.6
TOTAL	n.a.	2,058,142	13,503,909	n.a.	6.6

* Estimate

SOURCE: DIE

**TABLE THREE/7: CHANGES IN CAPITAL INTENSITY IN ENTERPRISES
EMPLOYING 10-199 PERSONS**

	POWER FOR PRODUCTION (TOTAL HP)	NO. OF EMPLOYEES (TOTAL NUMBER)	POWER FOR PRODUCTION PER EMPLOYEE
1980	3,354,606	270,197	12.4
1985	2,836,322	326,333	8.7
1989	2,785,912	341,596	8.1

SOURCE: DIE

**TABLE THREE/8: POWER FOR PRODUCTION BY ENTERPRISES
EMPLOYING 1 - 9 PERSONS (1988)**

Usable Power at the Enterprise (HP)	Total Power for Production (HP)	No. of Enterprises	No. of Employees	Power for Production per Enterprise (HP)	Power for Production per Enterprise (HP)	No. of Employees per Enterprise
0	0	57,553	140,542	0	0	2.4
1 - 4	112,561	48,407	122,734	2.3	0.9	2.5
5 - 9	192,910	28,731	90,442	6.7	2.1	3.1
10 - 19	351,002	26,737	89,008	13.1	3.9	3.3
20 - 49	365,867	92,833	48,724	28.5	7.5	3.7
50 +	1,746,663	8,845	34,986	197.4	49.9	3.9
TOTAL	2,769,003	183,106	526,436	15.1	5.2	2.9

SOURCE: DIE

107. As demonstrated in Table Three/6, the power for production/number of employees ratio is almost constant for enterprises employing 10-199 persons, which amounts to approximately 8 HP per employee. For smaller enterprises employing fewer than 10 persons, this ratio falls slightly, and for the larger enterprises (200 +) there is a slight increase. The differences however, even at the extreme ends, are not very large. Therefore "utilization of power for production" seems to be a consistent, reliable criterion.

108. The chronological developments reflected in Table Three/6 indicate that between 1980 and 1989 the capital intensity of the enterprises employing between 10-199 persons decreased, and that enterprises probably substituted their machinery requirement by expanding the work force or increasing work shifts or overtime in the plants (see Table Three/5). Table Three/5 also indicates that between 1980-1989 the capacity utilization rate among the 10-199 group of enterprises increased through additional manpower, while machinery and equipment investments among SMIs slowed down. This table also reflects (in the third column) the distorting effects of the measure introduced in 1985 which imposed the obligatory savings fund payments for enterprises employing more than 10 persons.

109. The appropriateness of including enterprises employing between 5-9 persons in the SMI sector and excluding smaller enterprises is reconfirmed in an analysis of the utilization of power by enterprises employing 1-9 persons.

110. The abnormally high figure of 49.9 HP per employee in the 50+ line indicates the presence of a hidden factor. As Table Three/6 demonstrates, the average HP/employee ratio should be approximately 7-8 HP. These small industries cannot be mechanized to that extent, and cannot have replaced most of their manpower requirements with machinery. It is assumed that this high figure reflects the effects of the compulsory savings fund on enterprises employing more than 9 persons. In order to avoid paying the extra 10%, these enterprises do not officially reveal their real employment figures.

II.B.1. CONCLUSIONS REGARDING ADDITIONAL CRITERIA

111. The 0-19 HP categories clearly show inadequate mechanization for manufacturing industry purposes, and should be considered as handicrafts. Therefore as a supplementary criterion:

- Enterprises employing fewer than 5 persons but using machine power of 50 and more HP for production should also be included in the SMI sector.

II.C. RECOMMENDATIONS FOR DEFINING SMIs

112. The following criteria for defining SMIs are suggested:

i. In general:

- Manufacturing enterprises employing 5 to 199 persons;
- Manufacturing enterprises employing fewer than 5 persons but using machine power in excess of 50 HP.

ii. Specifically:

- Special supplementary criteria may be utilized by institutions for the purpose of selecting eligible enterprises for financial assistance;
- Special supplementary criteria may be utilized by institutions whenever a specific policy measure is aimed toward a certain segment of the SMI sector.

III. QUANTITATIVE FEATURES OF TURKISH SMIs

113. The quantitative features of the SMI sector of the Turkish manufacturing industry are summarized in Tables Three/9-11. According to Table Three/9, the SMI sector, defined as enterprises employing between 5-199 persons, amounted to 39,178 enterprises in 1985, or about 98% of the total enterprises in the manufacturing industry (enterprises employing fewer than 5 persons are excluded from the table). The SMI sector provided nearly half of the employment in the manufacturing industry and utilized 27% of the power. Their turnover amounted to 27% of the total, and they provided almost 25% of the total value added in the manufacturing industry.¹²

114. Table Three/10 summarizes the distribution of SMIs among subsectors of the manufacturing industry. The table indicates that in 1985, about 25% of the SMIs in the manufacturing industry (metal working and production of machinery and components) constituted the subcontracting SMI group. They were located mainly at the larger centers near the plants employing 200 and more. This group also provided jobs for 25% of the persons employed by SMIs. The other large groups are textile/leather and food processing industries. Their distribution throughout Turkey is relatively even.

115. As seen from Table Three/11, the distribution of SMIs among the provinces of Turkey is quite uneven. As is expected, there is a concentration in the urban centers, with over 70% of the SMI enterprises located in the 10 largest cities.

116. Concentration in large urban areas becomes more dense among certain subsectors. Nearly 86% of the metal working (37) and machine and components producing (38) sub-sectors are located in the three largest cities, i.e. Istanbul, Izmir and Ankara. These sub-sectors cover the bulk of the sub-contracting SMIs, and they are situated near the larger enterprises.

¹² If the size distribution of 1-4, 5-199 and 200 + is used, then the comparable shares of the 5-199 size group in the manufacturing industry become: Number of Enterprises: 20.2%; Employment: 35.0; Utilization of power: 21.5%; Turnover: 27.6%; Value Added: 24.7%; Wage bill: 27%. It appears that inclusion of the 0-4 group does not change the picture very much except for the share of the number of enterprises in total.

**TABLE THREE/9: THE QUANTITATIVE FEATURES AND SIGNIFICANCE OF
THE SMI SECTOR OF THE TURKISH MANUFACTURING INDUSTRY, 1985**

Aspects/Size	Enterprises	Employment (Persons)	Power for Production	Turnover Billion TL	Value Added Billion TL	Average Productivity Per Employee (000) TL	(Wage Bill Billion TL)
5 - 199	39,178	516,628	2,165,393	4,991	1,451	2,812	355
200+	849	602,679	5,838,109	13,036	4,414	7,341	914
Total	40,027	1,119,307	8,003,502	18,027	5,865	5,610	1,269
% Share of 5-199 Group in Total	97.8	46.2	27.0	27.2	24.7	0.50	28.0

SOURCE: DIE

**TABLE THREE/10: DISTRIBUTION OF SMIs AMONG SUBSECTORS
OF THE MANUFACTURING INDUSTRY: 1985**

Size/ Subsector	Food (31)	Textile/ Leather (32)	Wood Products (33)	Paper/ Printing (34)	Chemicals (35)	Earthen Products (36)	Metal Working (37)	Machinery (38)	Others (39)	Total Number (= 100)
by no. of enterprises										
5 - 9	18	28	16	3	7	4	2	21	1	29,433
10 - 24	27	24	6	5	9	4	4	24	1	5,780
25 - 49	19	23	4	4	10	9	6	24	1	2,256
50 - 99	16	24	3	4	11	9	6	25	1	1,128
100 - 199	20	24	5	4	9	9	5	23	1	622
TOTAL	19	25	13	4	8	5	3	22	1	39,219
by no. of employees										
5 - 9	19	26	15	3	7	5	2	21	1	190,293
10 - 24	23	25	6	4	9	4	3	24	1	90,598
25 - 49	19	23	4	4	10	9	6	24	1	79,044
50 - 99	16	24	5	4	12	9	6	24	1	78,531
100 - 199	20	24	5	4	8	8	5	25	1	87,228
TOTAL	19	25	9	4	9	6	4	23	1	525,694

SOURCE: DIE

TABLE THREE/11: DISTRIBUTION OF SMIs BY PROVINCE, 1985
(Enterprises employing between 5 and 199 persons)

Province	No. of Enterprises	No. of Employees	Percentage Share in Total		Cumulative % Share	
Istanbul	15,911	233,934	42.1	44.0	42.1	44.0
Izmir	2,468	45,981	6.5	8.6	48.6	52.6
Bursa	1,716	25,831	4.5	4.9	53.1	57.5
Ankara	2,644	27,931	7.0	5.3	60.1	62.8
Kocaeli	498	12,430	1.3	2.3	61.4	65.1
Manisa	1,011	12,689	2.7	2.4	64.1	67.5
Konya	929	10,305	2.5	1.9	66.6	69.4
Adana	1,471	15,250	3.9	2.9	70.5	72.3
Tekirdag	240	6,388	0.6	1.2	71.1	73.5
Çorum	164	2,834	0.4	0.5	71.5	74.0
Others (57 Provinces)	12,126	123,055	28.5	26.0	100.0	100.0
TOTAL	38,178	516,628	100.0	100.0		

IV. QUALITATIVE FEATURES OF TURKISH SMIs

117. The legal status of enterprises is a major factor determining the extent to which they are eligible for financial incentives. In most cases it is a prerequisite for an enterprise to incorporate, as a limited company or joint stock company. Partnership enterprises, regardless of their other qualifications, may not benefit from the financial incentives offered by the DPT and/or financial institutions.

118. Table Three/12 reveals that only 64% of the manufacturing enterprises employing between 10-199 persons¹³ have corporate status; the remaining 35% are either under single ownership or one of various forms of partnerships.

119. Table Three/12 also implies that cooperatives in the 25-199 size group are not suitable for the manufacturing industry. The only available study which provides information on the distribution of capacity utilization by legal status for this group shows that there is no significant difference between companies and partnerships from the point of view of capacity utilization, while the cooperatives operate under capacity.

120. The distribution of the work force in the 10-199 size group shows a higher concentration of qualified personnel as compared to the 200 and more size group. According to the industry survey of 1989, the foremen and technical personnel in the 10-199 group constituted 12.5% of the work force, while the unskilled or semi-skilled workers made up 68%, and the administrative staff 19.5%. This distribution implies that the 10-199 SMI group is technology-intensive.

¹³ Comparable data is not available for enterprises employing between 5-9 persons. Indirect observations indicate that the number of companies in the 5-9 size group is almost negligible. This can probably be attributed to the obligatory savings fee imposed on the 10 + size group. In order to maintain their flexibility, the artificially divided companies avoid assuming a more complicated legal status than a partnership.

TABLE THREE/12: DISTRIBUTION OF SMIs BY LEGAL STATUS, 1989
Enterprises between 10-199 persons)

LEGAL STATUS	NO. OF ESTABLISHMENTS	% SHARE IN TOTAL	CAPACITY UTILIZATION RATIO (25-199 size groups)
Single Owner/Partnership	2,947	35	0.83
Company	5,396	64	0.78
Cooperatives	77	1	0.48
TOTAL	8,420	100	0.77

V. SMI POLICY IN TURKEY

V.A. POLICY APPROACH AND CURRENT INCENTIVES APPLICABLE TO SMIs

121. Since 1963, Turkey's industrial development policies as well as general policies have been formulated in the context of Five-Year Development Plans. The sixth 5-Year Development Plan is presently under implementation. Development policies specifically concerning SMIs had rarely been featured in any previous Plan. Until recently, there has been no movement toward a comprehensive approach to SMI development. In Turkey, as in most newly industrialized developing countries, general industrial development has commanded the nearly undivided attention of policy makers.

122. The only other important issue on the agenda of industrial development since 1963, has been the more equal distribution of industry throughout Turkey, in an attempt to eradicate the inequalities in development among the regions. The SMI concept in Turkey is quite new and therefore neither the policies nor the implementing institutions are yet adequately in place. More importantly, the ambiguities in the definitions and concepts prevent policy makers from mapping out clear-cut, comprehensive policies.

123. As discussed in Part One, many countries have separated other small enterprises from enterprises engaged in the manufacturing industry, and furthermore have made distinctions between very small industries/handicrafts (defined in this study as enterprises employing fewer than 5 persons) and small manufacturing industries, with an eye to creating a focused, supportive policy environment. Distinguishing between the smallest enterprises - which are numerous and have specific features and needs - and small manufacturing enterprises has had a positive impact on clarifying and focusing policy formation and implementation.

124. Turkish policy also has yet to distinguish between medium-scale and large industries. Incentive and development policies have been hitherto determined by business location and production; size has not been taken into account. On the contrary, *ceteris paribus*, the existing incentives favor larger enterprises.

125. SMIs have been hitherto subsumed into 2 general categories of small and large industries¹⁴. It is anticipated that defining SMIs with specific parameters will facilitate the creation of a policy environment conducive to their development.

V.A.1. DEVELOPMENT PLANS

126. The following is a summary of development policies set forth in the first 6 development plans (1963-1994), and a description of current general incentives applicable to the SMI sector.

¹⁴ On the other hand DIE for statistical reasons do not include enterprises employing less than 10 persons in its industrial surveys, thus establishing a *de facto* lower limit.

V.A.1.1. FIRST PLAN (1963-67) :

127. The establishment of a central organization to alleviate the problems of small industries and handicrafts was recommended. This organization was expected to act as a coordinator for the whole sector as well as to function as a technical consultancy and problem solving agency. This could be considered the seed idea which lead to the establishment of KOSGEB.

V.A.1.2. SECOND PLAN (1968-1972):

128. First steps were taken toward implementing the First Plan. During this period the Small Industry Development Center (KÜSGEM) was created. KÜSGEM was a pilot project¹⁵ with activities limited to the Gaziantep province. Though as such it was quite different in nature to the central coordination organization envisaged in the First Plan, the KÜSGEM project included an industrial park accommodating small- to medium-scale industries, and KÜSGEM's administration was geared to providing a range of technical assistance to these industries. KÜSGEM was therefore the first implementation of the SMI concept.

V.A.1.3. THIRD PLAN (1973-1978) :

129. No new policies concerning SMIs were adopted. The only important directive was the establishment of a organization as counterpart of KÜSGEM, to cater to very small and handicrafts enterprises. The importance of this directive was the official recognition and introduction of a clear-cut distinction between the very small and small-scale industries.

V.A.1.4. FOURTH PLAN (1978-1983):

130. In the Fourth Plan, a conceptual distinction was made between the handicrafts and small-scale industry. "Small-Scale Industry" was defined as "manufacturing enterprises which are mechanized to a certain degree with modern machinery and equipment." The handicrafts were limited to "business owners whose non-mechanized production depends largely on manual labor". Another important development, this time with regard to implementation, also took place during this period: the establishment of the Small-Scale Industry Development Organization (KÜSGET).

131. The experiences gleaned from the Gaziantep pilot project (KUSGEM) provided the basis for KÜSGET. The main aim of KÜSGET was to provide technical, financial and managerial consultancy services and vocational training opportunities for SMIs throughout Turkey.

V.A.1.5. FIFTH PLAN (1984-1989):

132. Handicrafts, small-scale business and small-scale industries were consolidated. However, some directives were indicative of a trend toward considering them separately. Medium- and large-scale industries were considered on nearly the same terms, with

¹⁵ KÜSGEM was a Ministry of Industry/UNIDO joint project. It was established to study and demonstrate the effects of such a center before the creation of a central agency.

the result that large enterprises were favored by financial incentives and support schemes.

133. Several directives concerning small industry were formulated in this plan¹⁶:

- Priority subsectors of the small-scale industries were to be identified;
- Small-scale industries, together with handicrafts and small entrepreneurs, would constitute a stabilizing factor in the social fabric of the country; therefore social policy measures would be formulated to improve their positions;
- The share of employment provided by small-scale industries should increase;
- In order to strengthen the structure of small-scale industries, measures would be taken to facilitate their production power, and to provide technical assistance and information on local and foreign markets (KÜSGET is a partial realization of this directive);
- Technical assistance programs would be implemented in order to improve the subcontracting capabilities of small-scale industries;
- Organizations would be established to improve quality control among small-scale industries;
- Small-scale industry sites would play an important role in channelling family savings into business investments; therefore construction of small-scale industry sites will be encouraged and assisted;
- Organizations for providing technical training and on-the-job training would be created in conjunction with the construction of new small-scale industry sites;
- Measures would be taken to help small enterprises to form associations in order to strengthen their production power;
- Priority would be given to educating and training technical personnel for small-scale industries;
- DIE would conduct industrial surveys annually to update the statistical data base;
- The opportunities for small-scale industries for obtaining government-supported concessionary credit facilities for investment and working capital requirements would be increased.

¹⁶ Most of these directives, especially those concerning small industry sites, are aimed both handicrafts and small industry.

134. Further directives primarily concerning the small manufacturing industries located in underdeveloped areas were also formulated in the Fifth Plan:

- Credit for meeting working capital requirements and exemptions from various taxes, duties, and other levies would be provided for the small-scale manufacturing industries located in underdeveloped areas;
- To support the integration of medium-scale and larger industries with small-scale manufacturing industries and thus promote subcontracting, small-scale industry sites would be constructed in the vicinity of Organized Industrial Estates;
- Creation of manufacturing industries which would provide a substantial amount of business for smaller ancillary industries located in the cities of the underdeveloped regions, would be supported.

V.A.1.6. SIXTH PLAN (1990-1994) AND 1992 ANNUAL PROGRAM

135. Until the Sixth Plan, enterprises had to obtain "Investment Certificates" in order to be eligible for the advantages offered in the incentive system. These certificates were only applicable to new investments or extensions at or above the annually announced minimums. Thus, application of the encouragement measures were clearly biased against the small- or medium-scale enterprises whose planned investments fell short of the cut-off point.

136. In order to mitigate this bias against the SMIs, the incentive system was modified:

- The Investment Certificate requirement for the exemption of custom duties on imported investment goods was abolished¹⁷;
- The Resource Utilization Support Fund Premium became automatic for fixed investments between TL 200-500 million located in priority areas (this premium, which was a type of grant, was later transformed into a very soft loan);
- Investments in small enterprises below the cut-off point become eligible for the Investment Allowance;
- The cut-off point for eligibility for incentives through financial leasing was lowered from a TL 750 million lease package to TL 100 million;
- The Investment Certificate requirement for obtaining credit from the Turkish Development Bank (TKB) or Public Participation Fund (KOF) was abolished;

¹⁷ See Annex No. 1 for current incentives and financial assistance.

- SMIs may also benefit from medium- and long-term concessionary credit for up to 50% of their fixed investment without an Investment Certificate.

137. Apart from relaxing the Investment Certificate requirement, the Sixth Plan offers few new directives in favor of small-scale industries and provides none specifically for medium-scale industries:

- Cooperation among small industries, universities and research centers will be encouraged and supported. Small industries utilizing high technology will be supported in the framework of technoparks;
- Ancillary industry potential and capability determination studies should be conducted.

138. According to the 1992 Annual Program the principal aims of the industrial encouragement policy once again focus on mitigating existing interregional differences, and increasing private investment in accordance with the Plan's targets. There were a few important attempts in the annual program to support SMIs:

- Studies concerning the establishment of a Venture Capital Fund will be completed. This Fund will assist suitable SMIs in meeting their equity capital requirements. The conditions and degree of participation and the resources of the Fund have yet to be determined;
- The first Innovation Center has begun operations. The center is a product of university and industry cooperation and aims to follow up new developments in high technology in order to keep industry abreast of innovations;
- In the Undersecretariat of the Treasury and Foreign Trade, a new section has been created for the purpose of studying the ways and means of applying incentives to SMIs;
- A special bank is to be established to take over the function of financing SMIs from the present principally responsible THB;
- A Credit Guarantee Fund (KGF) aimed at alleviating the collateral problems of small businesspersons, handicrafts and SMIs has been established. Germany has earmarked DM 8 million for the fund. The fund will provide counter-guarantees to the banks upon approval of the prospective borrower's feasibility report.

139. Though the Sixth Plan and the 1992 Annual Program provided few new directives for the development of the SMI sector, they were nevertheless indicative of an increasingly focused approach to small industry.

V.B. PROMOTION INSTITUTIONS

140. Research reveals that most developed and newly industrialized countries are utilizing two distinct types of institutions for SMI promotion:

- i. Institutions which support the establishment and progress of SMIs by providing technical and managerial know-how, information on internal or external markets, research facilities, industrial or science parks, consultancy or education/training services etc.;
- ii. Institutions providing various forms of financial assistance.

141. In Turkey there are only two institutions dedicated exclusively to the development of SMIs: KOSGEB, which is a technical assistance agency, and the General Directorate of Industrial Estates. Both organizations are attached to the Ministry of Industry and Trade.

142. There is no financial institution established solely for the purpose of financial support to SMIs; the THB currently bears this task alone. The THB had originally been established to support handicraftspeople and artisans by providing soft loans. In the years following its establishment, however, the activities of the THB were expanded to include the SMI sector. In the 1992 Annual Program the government announced that preparations are to be undertaken for the establishment of two financial institutions, one to replace the THB as SMI financier, and other to provide venture capital to SMIs. Furthermore, a special unit has been formed in the Undersecretariat of the Treasury and Foreign Trade to examine possibilities for expanding the scope of the government's investment incentives applicable to SMI projects.

143. The existing institutions merit close examination in order to assess their situations, measure their achievements and glean from their experience.

V.B.1. KOSGEB

144. The Small- and Medium-Scale Industry Development Organization, or KOSGEB, was created by a special law (No. 3624) in April 1990. The organization is linked to the Ministry of Industry and Trade; it is a legal entity and administrated according to the provisions of its establishment law (see Annex No. 2).

145. The organization was established to support SMIs by providing solutions to their technical and economic problems, and promoting their capabilities by offering a diversity of services from the production stage up to the marketing of products. To this end, the organization is establishing development centers and institutes within organized and small-scale industry estates. These centers are being furnished with necessary equipment and staffed with qualified personnel.

146. Article 4 of the law defines the main responsibilities of KOSGEB:

- To establish and manage technology centers, technoparks, consultancy centers and institutes in order to support R+D activities of SMEs;
- To assist SMEs to benefit from the scientific and technological infrastructure of universities and public and private research institutes and to reinforce the cooperation between universities and industry;
- To provide access to information sources and to disseminate such information;
- To use the R+D facilities of universities and research institutes to establish technology centers and technoparks which will serve as technological innovation centers for acquiring knowledge on advanced technology and initiating application to industry;
- To establish "Development Centers" which will apply project profiles for orientation of investments in various subsectors, to help SMIs vitalize idle industrial capacities, to contribute to increased efficiency in industry and to implement technical assistance and support programs with projects on matters such as modernization, production, management, marketing, information gathering and technology adaptation, in order to equip the enterprises with the principles of modern management;
- To assist SMEs so that they can remain competitive in world markets; to assist in their rehabilitation, to establish centers for the provision of on-the-job consultancies and materials, design, manufacturing prototypes, selection of manufacturing processes, handling of tools and instruments, maintenance planning etc. so that enterprises can maintain a diversity of manufactured goods; to establish central laboratories for testing, analysis and control;
- To establish Technical Training Centers to render services to SMIs such as assessment of training needs, implementation of extensive training programs, training of experts;
- To upgrade the capabilities of SMEs in areas such as investment, production, management and planning;
- To seek solutions to the marketing problems of SMEs and to provide consultancies so that they can remain competitive in domestic and world markets.

147. KOSGEB is organized according to Articles 5 - 13 of its establishment law, and consists of three executive bodies:

- i. The General Assembly;
- ii. The Executive Committee;
- iii. The Administration.

148. Articles 14 - 17 of the establishment law provide KOSGEB with special sources of income. The Administration is financed through the Small- and Medium-Scale Industry Development Fund, established in the Central Bank of Turkey. The sources of the Fund are detailed in Article 15. The Fund also accepts donations and/or financial aid from individuals or corporations. The Fund and the Administration are exempt from all kind of levies.

149. As demonstrated here and in Annex No. 2, KOSGEB is the key instrument for the development of SMIs in Turkey. The institution is only in its infancy, and if developed as aimed, will cover most of the technical and educational assistance needs of SMIs. Since its establishment in 1990, KOSGEB has established consultancy services, a quality improvement center, a foundry development center, and a small- and medium-scale industry training center in Ankara, consultancy and quality improvement centers in Gaziantep, Konya and Istanbul, and a plastics and rubber industry development center in Bursa.

150. In addition, there are numerous similar institutions in the preparatory stages.

V.B.2. THE GENERAL DIRECTORATE OF INDUSTRIAL ESTATES

151. The General Directorate is responsible for the coordination of the establishment of Small-Scale Industrial Sites (SIS) and Organized Industrial Estates (OIE). The General Directorate is attached to the Ministry of Industry and Trade and unlike KOSGEB, is not a legal entity.

152. An OIE is established in the following manner: Initiating entrepreneurs and businessmen form a group, of which the Governor of the province and the mayor of the municipality also become members. The group adopts an article of association, which is a prototype OIE construction project. A suitable site for the estate is then selected. The land is purchased or expropriated by the Ministry of Industry and Trade. The Ministry also puts the construction of the OIE in to tender by utilizing the project/articles of association as the tender document. The tender covers the construction of the infrastructure and the OIE's common social facilities. 99% of the construction costs are met through a long-term concessionary credit (ten-year pay back period, 22% interest rate) extended by the THB. After the completion of the project, the entrepreneurs purchase the serviced land and build their plants.

153. The establishment of Small-Scale Industrial Sites (SIS) involves a different procedure. A cooperative is established in accordance with the Cooperatives Law No. 1160. A proposal is submitted to the Ministry for approval. The cooperative locates a suitable plot of land (away from the city center, with access to existing roads, high voltage lines, and a water supply). The

Ministry approves the site. The cooperative prepares the construction projects, also subject to Ministry approval (KOSGEB has prepared prototype projects as models). The cooperative may also subcontract it to private consultant firms. The construction consists of infrastructure, social facilities and workshops. The cooperative purchases the land; if expropriation is necessary, then the State Land Office expropriates the land. The cooperative puts the establishment project up to tender. The Ministry approves the result of the tender.

154. The cost of both the land and construction is borne by the cooperative; however, through general budget allocations the government subsidizes between 30-35% of the total cost of the SIS in Western Turkey, and 90-95% of the total cost in Eastern Turkey. The assistance funds are released upon evaluation of the progress reports.

155. At present 13 Organized Industrial Estates are operating and an additional 30 are under construction. Though they cater predominantly to medium-scale industries, they have not been designed exclusively for SMIs and are open to large industries as well.

156. 174 Small-Scale Industrial Sites are in operation and an additional 302 are under construction. There are 60,300 workshops in active SISs which provide 361,800 jobs, with an average of 6 persons per enterprise. Though every SIS includes a number of SMIs, they cater predominantly to very small industry and handicrafts.

V.B.3. CREDIT GUARANTEE FUND (KGF)

157. Very recently a Credit Guarantee Fund for small- and medium-scale enterprises has been established by the Union of Chambers, the Turkish Artisan and Small Businessman Confederation, and the Vocational Training and Small-Scale Industry Support Foundation. They have also obtained support from the German Government (DM 8 million to be paid over a period of time). The fund provides a guarantee for small-scale industries, handicrafts or service enterprises, contingent upon a feasibility report and a business plan. Priority is given to large job creation projects. There is no established credit limit; however, the Fund executives maintain that at least a percentage of the collateral requirements should be met by entrepreneurs.

158. These development schemes reflect a general industrial policy which has hitherto grouped small-scale industries with handicrafts enterprises, and subjected medium-scale industries to terms applying to large industry.

PART FOUR**INTERNATIONAL SMI POLICIES: A COMPARATIVE VIEW****I. SMI POLICIES IN EC COUNTRIES**

159. This chapter provides an overview of the wide range of programs and policy measures adapted by EC member governments. Each member country pursues its own industrial policies. In 1986, the Single Act stressed the necessity of pursuing a common policy on R+D. The EC Commission intended to liberalize the industrial policies of each country by subsidizing financial assistance at the national level and channeling it to regional, even subregional promotion. Facing the increasing competition of the newly industrialized countries and Japan, the EC have adopted measures with only limited effects on the competitiveness of SMIs:

- Restructuring policies for declining sectors (e.g. iron and steel, textiles);
- Advising on the formulation of specific policies in each country, especially for high-tech sectors;
- Control of national subsidies.

160. At the national level, a variety of programs and policy measures were adopted and executed during the 1980s. For some member countries the development of SMIs are still primarily the concern of the central government; for others the problems are now being addressed largely at regional and local authority levels.

161. All of these policies and programs, whether they be comprehensive integrated schemes or selective measures in the framework of general industrial policies, pursue highly diversified aims; however it is possible to group them in three categories:

- i. Growth and employment: These enterprises largely set the pace for industrial growth and regulate sectoral and regional development;
- ii. Structural adjustment: SMIs play a dynamic role in industrial production by virtue of their adaptability. Their flexibility and the particular functions they are able to perform (e.g. subcontracting), facilitate smooth structural transitions in small increments;
- iii. Innovation and dissemination of technological progress throughout industry: The programs in this category aim to help gear toward establishing and maintaining a competitive edge in the Single Market.

162. Each member country anticipates that their SMIs will contribute substantially to job creation and foreign currency earnings¹⁸.

163. The programs and policy measures currently employed by the member countries are summarized under the following headings:

- I.A. Encouragement for the creation of new SMIs and assistance in their start-up phase;
- I.B. Promoting development by creating a nurturing technological and economic environment, and assisting SMIs in acquiring requisite skills and capacities;
- I.C. Reduction of the obstacles, particularly financial and administrative, which these firms may encounter at any stage of operation.

I.A. ASSISTANCE IN THE ESTABLISHMENT OF SMIs

164. In recognition that the creation of new firms is indispensable to the revitalization of the industrial fabric and new job creation at both local and national levels, all member countries have adopted measures for mitigating equity capital needs (under capitalization) for new SMIs as well as providing technical and administrative training and assistance. Assisted start-ups have a significantly better survival rate than other entrepreneurial ventures. Nevertheless, access to finance for pre-start-up research and project development is still constrained by a number of factors including perceived risk, viability of the amount of funds required and the traditional orientation of financial institutions. This means that a potentially sound business venture can fail to get off the ground due to lack of necessary funds. This is particularly the case if the entrepreneur lacks resources to put up as security.

I.A.1. GERMANY

165. GERMANY has always attached great importance to the "Mittelstand"¹⁹ and to the creation of independent firms in this sector. The Federal Government has markedly improved the conditions for the creation of enterprises, especially through the Equity Capital Aid Program, instituted in 1983. Between 1983 and 1988 over 5,500 new businesses received assistance totaling approximately DM 2.8 billion.

166. In 1988 this program was extended for three more years. The Investment Grant (Investitionszuschuss) is the heart of the program, and is used in combination with special loans available for hiring and consulting services.

167. The grant covers between 10% to 23% of the eligible fixed investment according to location, and is meant to augment the

¹⁸ Some of the development schemes are elaborated in Annex 3.

¹⁹ The middle class.

entrepreneur's own start-up capital. This investment grant is not applicable to takeovers and active participation ventures.

168. The Federal Ministry of Research and Technology (BMFT) facilitates enterprise creation by providing subsidies, venture capital and assistance during the pre-start-up phase and start-up phase of production under the program called Technologieorientierte Unternehmensgründung (TOU). One of the objectives of the program is to stimulate use of specific private consulting services for technology oriented start-ups. The initial results of this scheme seem encouraging.

169. The Federal Government also sponsors the European Recovery Program (ERP), which offers assistance for enterprise creation through the Marshall Aid Counterpart Fund. Soft loans are largely awarded automatically to small firms not eligible for the investment grant. A total of 11,500 such firms started up in 1988.

170. In 1989 Germany abolished the Investment Exemption, an automatic project related incentive which provided firms with a tax exemption. The exemption was applicable at a rate of 10% on eligible investment expenditures for enterprises located in the areas near the Czechoslovakian and former East German borders, and 8.75% on eligible investment expenditures in relatively underdeveloped and/or depressed areas.

I.A.2. FRANCE

171. FRANCE also relies on a capital grant - PAT or Prime d'Aménagement du Territoire - as its basic form of financial incentive. The PAT is a project related grant applicable mainly to manufacturing schemes and to some service and research activities. It is awarded according to the number of employees: FF 50,000 per job in maximum award zones, and FF 35,000 in standard award zones. The grant has ceilings, namely 25% and 17% respectively of eligible investment expenditures. The scheme is administered by a centralized system under local advisement.

172. France has also taken measures to lighten the tax burden for new enterprises. The measures set out in the Budget Act for 1989 replace the previous provisions which had applied to SMIs established since 1982. Under the new legislation, firms established as of October 1988 are exempted from company income taxes on profits made during the first 24 months of existence. Beyond that point, they are granted a deduction of 75% for the third year, 50% the fourth year, and 25% the fifth year. They also benefit from other direct tax deductions.

173. A local business concession (Exonération de la Taxe Professionnelle) supplements this measure. It offers a maximum 100% exemption from local business liabilities for five years. A further fiscal scheme reducing property transfer and land taxes (Réduction du Droit de Mutation ou de la Taxe de Publicité Foncière) is applicable for sales of land for the purpose of establishing new SMIs. These concessions are limited to relatively underdeveloped or depressed zones and areas covered by the DATAR administration (Direction de l'Aménagement du Territoire et de l'Action Régionale). There is also a regional employment grant, PRE (Prime Régional à l'Emploi), offering aid to SMIs for the first 30 jobs created or safeguarded. The decision to offer PRE lies with the regions, and half the 22

French regional councils have accepted the opportunity to offer it.

174. The FDIJ scheme (Fonds Départemental d'Initiatives Jeunes) provides financial assistance and complementary services (information, training and advice) for young unemployed people between 18 and 26 years to create business. Financial support is given in the form of a grant for up to FF 100,000 and for up to 50% of the project costs. Projects vary widely and preference is given to young underprivileged people from crowded urban areas with the least access to other sources of finance. Young people assisted under this scheme must provide a report on the progress of the projects within six months and a financial report two years after receipt of aid. No data are available on the subsequent performance of supported projects.

175. Start-ups which do not correspond to the innovation criteria of the FDIJ may be eligible for support from other funds and institutions such as:

- SOFINOVA, a venture capital company which can finance up to 30% of the equity for new projects;
- FRAC (Fonds Régional d'Aide au Conseil) financing up to 50% of consulting costs (maximum FF 100,000);
- L'AFACE (L'Association pour Favoriser la Création d'Entreprises) which offers medium-term loans for up to FF 100,000 at favourable interest rates (about 8% in 1990) without a collateral requirement.

I.A.3. THE UNITED KINGDOM

176. The measures concerning start-ups generally reflect the magnitude of risks attached to investment in new enterprises, and often endeavor to improve the risk/profitability ratio for potential investors. In order to reduce risks, the UNITED KINGDOM have taken measures to deduct losses related to investment in SMIs from taxable income, such as the Venture Capital Scheme initiated in 1980 and the Business Expansion Scheme, established in 1983. The latter offers special tax incentives for investment in SMIs to people in high tax brackets. The scheme applies to investment in both new and previously established enterprises.

177. Entrepreneurship is also regarded as critical to the creation of enterprises. In the United Kingdom, the Training Agency, in collaboration with the Industrial Information Administration, is primarily responsible for administering training programs, advice and support for small firms. Furthermore the Training Agency has a Small Firms Service (ISFS), modelled on the USA's American Service (SCORE). The Enterprise Allowance Scheme (EAS), the start-up scheme of the Training Agency, is aimed particularly at the unemployed, providing financial assistance as well as counselling to encourage enterprises and compensate for loss of benefits.

178. The UK has somewhat different systems on the mainland and in Northern Ireland, both of which were revised and simplified after 1988. Start-up assistance is essentially comprised of Regional Selective Assistance, Regional Enterprise Grants, and Enterprise Initiative.

179. Regional Selective Assistance was introduced by the 1972 Industry Act. It is a project related grant which provides funds up to the ceilings set by the European Commission. The grant supports the minimum capital necessary for launching the project. There are three components of the award: the EC ceiling, an internal Net Grant Equivalent (NGE) and a cost per job payment. The last two are confidential, and are not disclosed to applicants.

180. Regional Enterprise Grants (REG) are project related capital grants to assist investment and innovation in firms with fewer than 25 employees. They award up to 15% of the costs of fixed assets at a maximum of £ 15,000, and the innovation grants provide up to 50% of the cost of product and process development at a maximum £ 25,000.

181. The Enterprise Initiative subsidizes the costs of a wide range of consultancy services.

182. In Northern Ireland, start-up aid consists of a package of selective assistance that includes industrial development grants (which provide up to 50% of eligible expenditure), employment grants, interest relief grants or soft loans marketing grants, and research and development grants individually tailored to the businesses' needs. It is similar to the system used by the Irish Development Agency (IDA) in the Irish Republic.

183. In theory the UK's financial assistance system for start-up business is simple and effective. In practice, the confidential nature of some of the awards criteria causes problems for applicants, who often resort to shouldering the additional burden of consultancy costs in order to make their way through the application process.

I.A.4. THE NETHERLANDS

184. The system in The NETHERLANDS consists basically of one incentive, the Investment Premium (Investeringspremie Regeling), which was established under the Investment Premium Regulation for Regional Profits (IRP) in 1986. The investment premium distinguishes between new projects and expansions, although both are for the most part automatically eligible.

185. New projects have explicit fixed rates: 25% or 90% of eligible investments up to FL 30 million, with additional awards available.

186. In addition to financial aid, The Netherlands' Private Holding Companies (Particuliere Participatie Maatschappijen or PPM) share the risk of their equity participation in SMIs through a government financial guarantee scheme.

I.A.5. ITALY

187. ITALY has a national automatic soft loans fund which covers most of the country except for prosperous areas in the north and center. It is a project related scheme; the low interest rate applied varies according to region, e.g. in the Mezzogiorno (underdeveloped southern Italy) the rate applied to new investments and/or expansion projects for SMIs is 64% below the average market rate. The eligible loan principal covers 40% of global investment, and the loan is for 10-15 years with a grace

period of up to five years. This is probably the softest loan scheme among the EC countries.

188. There is also a national loan/interest subsidy (The National Fund for Subsidized Credit) and there is a social security concession which is 100% for 10 years, a property tax concession (ILOR) for new SMI establishments and a profit tax concession (IRPEG), a 10-year exemption for SMIs undertaking new production activities. In the Mezzogiorno there is a project related capital grant awarded by INSVEIMER²⁰ introduced under the new Mezzogiorno legislation of 1986. This law also created a grant scheme for young entrepreneurs.

189. Autonomous regions of Italy may provide special incentives including a Mediocredito soft loan scheme for SMIs.

190. The Italian system is, therefore, in contrast to the Netherlands, complex and comprehensive. It overcomes the disadvantages of its complexity by being automatic - a major difference to systems elsewhere in the EC.

I.A.6. GREECE

191. In GREECE under Law 122 of 1982, four main incentives are offered to SMIs: an investment grant, an interest rate subsidy and accelerated depreciation rate, and a tax allowance.

192. The investment grant is a project related capital grant. It awards a maximum 50% of eligible investment expenditure with a cap at DR 200 million (aimed at small- and medium-scale new investments).

193. The interest rate subsidy can only be awarded to projects which receive the capital grant. The subsidy applies to loans 6 years or over, at rates specified at the time of decision.

194. The accelerated depreciation allowance on fixed assets has an unusual form. Firstly, it is automatic and, secondly, the rate - depending on location and number of daily shift workers - varies between an additional 20% and 150%.

195. The tax allowance is a project related concession awarded automatically to eligible projects at a rate of 40% to 70% in different zones, and only for new investments.

I.A.7. PORTUGAL

196. The system in PORTUGAL was substantially revised in 1988. The incentives for SMIs consist of three elements:

- i. An industrial policy component worth 20% to 50% of eligible expenditure depending on the "strategic value" of the project;
- ii. A location component of a further 15% to 25% of eligible expenditure depending on location;

²⁰ The special financial institution for the Mezzogiorno region.

- iii. an employment component of 300,000 or 600,000 Escudes per job depending on skill levels, up to a ceiling of 10% of eligible expenditure. In total, the ceiling is 7,5% of eligible expenditure.

197. A smaller scheme, FAIJE, offers young entrepreneurs financial support.

I.A.8. SPAIN

198. In SPAIN, according to new legislation in 1988, there is a simple scheme based on a single incentive: the regional investment grant for SMIs. The award is determined according to location and varies between 20% and 25% of the eligible expenditure.

I.A.9. DENMARK

199. In DENMARK financial incentives for assisting the start-up of SMIs are comprised mainly of a capital grant supplemented by a municipality soft loans scheme. The other important aspect of assistance for new investment is the coordinated program for entrepreneurs. It involves the delivery - on a flexible basis - of a number of centrally administrated programs, to assist in technologically oriented start-ups. Advisory services are less important as supplements to financial support for the start-up of the projects based on advanced technology. The majority of these projects need specific information services (e.g. comprehensive databank services), contact to advanced R+D institutions, and institutions offering financing at favorable rates.

I.A.10. SUMMARY OF INCENTIVE SCHEMES

200. All EC countries and other Western European countries provide significant financial incentives to assist the start-up of SMIs²¹. The incentives may be grouped in five categories (see Table Four/1):

- i. Capital grants;
- ii. Interest rate subsidies;
- iii. Tax concessions;
- iv. Depreciation allowances;
- v. Labor subsidies.

201. It is important to note that nearly all of these schemes are funded by national or regional taxation. Most countries offer a range of incentives, but Great Britain, Spain and the Netherlands limit their assistance to capital grants, which are the most common incentives in Western Europe.

²¹ See Annex 3.

202. Incentive schemes, established after the Second World War, have recently undergone substantial revision in response to EC regional policy. The following trends have been identified (see Table Four/2):

- Assistance schemes are more selective;
- Schemes have been simplified, expediting the application and decision process;
- Terms regarding assistance are explicit;
- Larger grants are awarded;
- Though most programs remain the province of government departments, decision-making tends to be carried out at a local level;
- Project related capital grants are the dominant form of assistance;
- Soft loans/interest rate subsidies and depreciation allowances are the next most common forms of financial assistance;
- Other forms of financial assistance are rarely available;
- Financial assistance is usually available for new, relocating or expanding businesses, often with more generous provisions for small or medium start-up operations;
- The assistance is usually applicable to the purchase of land, infrastructure, buildings, machinery and equipment, and, increasingly, to training. It is rarely available for funding working capital.

203. The following tables summarize the main characteristics of financial incentives in EC countries for SMI start-ups.

**TABLE FOUR/1: DISTRIBUTION OF FINANCIAL INCENTIVES
FOR START-UPS**

COUNTRY	INCENTIVE	IRS	CG	TC	DA	LS
Belgium	Capital Grant		*			
	Interest Subsidy	*				
Denmark	Local Soft Loan	*				
	Capital Grant		*			
France	Local Tax Concession			*		
	Capital Grant		*			*
Germany	ERP (Soft Loan)	*				
	Investment Grant		*			*
	Depreciation Allowance				*	
Greece	Investment Grant		*			
	Depreciation Allowance				*	
	Tax Allowance				*	
Ireland	Interest Subsidy	*				
	Grant Package (1)	*	*			*
Italy	Tax Concession			*		
	Capital Grant		*			
	Social Security Concession					*
Luxembourg	Tax Concession			*		
	Capital Grant +	*	*			
	Interest Subsidy					
Netherlands	Investment Premium		*		*	
Portugal	Grant Package (2)		*		*	
Spain	Reg. Investment Grant		*			
Sweden	Location Grant		*			
	Location Loan	*				

	Employment Grant					*
UK/Great Britain	Regional Selective Assistance		*			
	Regional Enterprise Grants		*			
Northern Ireland	Selective Assistance		*			

IRS - Interest Rate Subsidy

CG - Capital Grant

TC - Tax Concession

DA - Depreciation Allowance

LS - Labor Subsidy

(1) A combination of capital, training and employment grants, interest relief, loan guarantees and rent subsidies.

(2) A capital grant which is a combination of location, job creation and policy.

SOURCE: DIE

TABLE FOUR/2: RECENT ADMINISTRATIVE CHANGES

COUNTRY	CHANGES
Belgium	Regional government now responsible for industrial policy, plus exports and training
Denmark	Unchanged
France	No major changes, but regional industrial policy transferred to Minister of Industry
Germany	Automatic Investment Allowance abolished
Greece	Role of local award decisions increased
Ireland	Unchanged
Italy	Decrees to expedite decision-making process
Luxembourg	Unchanged
Netherlands	Role of local award decisions increased
Portugal	Simpler system introduced prior to EC entry
Spain	Increased decentralization of decision making New Regional Investment Grant basically discretionary, but automatic in certain areas
U.K.	Automatic base of package abolished Enterprise Grants limited to small firms (fewer than 5 employees)

SOURCE: L. Arnold, *ibid*

TABLE FOUR/3: DISTRIBUTION OF FINANCIAL INCENTIVES FOR START-UPS

COUNTRY	AFF	EXT	UT	MAN	CON	SERVICES
Belgium		*		*	*	Flanders only: producer services, R&D, tourism, & consulting
Denmark				*		Hotels in some areas and some transport activities
France				*		Research and other non-local services
Germany	*P	*P	*P	*	*P	High-grade jobs, regional exporting services, some shipping
Greece		*	*	*		Tourism, technically advanced services, some shipping
Ireland				*		Data processing, software, R&D, consultancy, publishing, training, health care services, international financial services
Italy		*		*		Consultancy, R&D, repair & maintenance, tourism
Luxembourg				*		New technology and "significant" projects
Netherlands				*		Large tourism projects (not accommodation), regional exporting services
Portugal		*		*		Tourism & leisure, software
Spain		*		*		Tourism, some trade & industrial services
Sweden				*		Some tourist projects, consultancy, some services to industry, especially important projects
U.K.				*		All services eligible but local services would not qualify

AFF - Agriculture, Forestry & Fishing
EXT - Extractive Industries
UT - Utilities
CON - Construction
P - Only some schemes
MAN - Manufacturing

SOURCE: L. Arnold, ibid

TABLE FOUR/4: TYPE OF PROJECTS COVERED

COUNTRY	S/E	R/M	R	T
Belgium	*	*	*	
Denmark	*		*	
France	*		*	*
Germany	*		*	
Greece	*	*	*	
Ireland	*			
Italy	*	*	*	*
Luxembourg	*	*		
Netherlands	*	*		
Portugal	*	*	*	
Spain	*	*	*	
Sweden	*	*	*	
U.K.	*	*	*	

S/E - Start-up or Extension
R/M - Rationalization or Modernization
R - Relocation
T - Takeover

SOURCE: L. Arnold, ibid

**TABLE FOUR/5: CAPITAL GRANTS FOR
THE MANUFACTURING INDUSTRY**

COUNTRY		LAND	INFRA- STRUC- TURE	BUILD- INGS	PLANT	WORKING CAPITAL	MAX. RATE (%)
Belgium		*	*	*	*		29
Denmark		*	*	*	*		35
France		*	*	*	*		25
W. Germany		*	*	*	*		23
Greece			*	*	*		50
Ireland		*	*	*	*		60
Italy			*	*	*		56
Luxembourg		*	*	*	*		25
Netherlands			*	*	*		25
Portugal			*	*	*		75
Spain		*	*	*	*		75
Sweden			*	*	*		50
U.K.	Great Britain	*	*	*	*	*	30
	N. Ireland		*	*	*		50

SOURCE: L. Arnold, *ibid*

I.B. CREATING A FACILITATIVE TECHNOLOGICAL AND ECONOMIC ENVIRONMENT²²

204. The factors influencing the success of a business are many and varied, and differ in every situation. Therefore governments need to apply comprehensive, adaptable approaches to SMI development. In addition to financial support, entrepreneurs often require technological, marketing, commercial and managerial know-how. Governments can create a facilitating/supportive climate in the following ways:

- a. encouragement of R+D and technology dissemination;
- b. export promotion measures;
- c. government purchasing schemes for SMI products etc.
- d. government contracts to purchase SMI products etc.

I.B.1. MEASURES TO PROMOTE R+D AND TECHNOLOGY DISSEMINATION IN INDUSTRY

205. In many subsectors of the manufacturing industry, technology and efficient application of research and development results are increasingly seen as the key factors in determining the competitiveness of SMIs.

206. The effective use of advanced manufacturing technology) and the rapid diffusion of the use of new and advanced material have become priority concerns. Many firms have increased the share of internal resources in research and development. At the same time firms have adapted their organizational structures and their inter-firm relations to the requirements of the new flexible production systems (i.e. the ability to operate in adjacent technological areas).

207. There are still considerable differences among the EC countries in their R+D efforts and diffusion of new technologies. Governments are aiming to minimize these disparities through introduction of following policy measures:

- Reducing the cost of R+D for individual firms;
- Sharing risk in co-operative R+D projects;
- Support mechanisms such as awareness campaigns and demonstration projects;
- On-going commitment to support R+D through the taxation system;
- Increased attention to the technological status of SMIs.

208. In highly competitive markets SMIs cannot afford to lag behind large enterprises as far as design and manufacturing technology are concerned. On the other hand, most SMIs do not

²² See Annex 3.

have adequate technical and managerial staff and related know-how for rapid assimilation of new technologies.

209. EC countries have developed programs to help SMIs in this regard, and they have established intermediary bodies partly or entirely financed by central or local government revenues.

210. FRANCE has for several years been following a policy of rationalization of support for the technical development of the SMIs. The main thrusts of this policy are as follows:

- Assistance for consulting and training. The costs of the services are generally financed by the state or the regions. It should be noted that assistance to intangible investment enabled over 10,000 firms to benefit from outside consulting during 1983-88;
- Programs for the wider application of microelectronic technologies at the product level. (e.g. use of computer-controlled and automated production equipment and of software);
- Activities designed to ensure useful application of the results of public and private research. For this purpose ANVAR (Agence Nationale de Valorisation de la Recherche) units are set up in the universities, technical centers and contract research companies;
- Improvements in the tax burden of the SMIs (e.g. through the introduction of tax credits for expenditure on research). The establishment CREATI, which links SMIs to the R+D potential of large firms, cooperates with various regional public and private bodies.

211. In GREECE, an organization for SMIs (EOMMEH) supplies subsidies for product innovations and product design. It also help innovators to market new inventions.

212. In ITALY, a new act was adopted in 1987 to promote transfer of advanced technologies to SMIs, and to provide financial aid in order to purchase or lease high-tech equipment systems including the software. Part of the funds reserved for SMIs have been earmarked for technological innovations.

213. In the U.K., government action to promote technology dissemination and transfer of skills and capabilities is concentrated on support for consulting, which represents about 90% of assistance given in this field. The programs of support for consulting may be divided into two categories: those involving the establishment of information offices for SMI, and those providing for the financing of all or part of the consultants' fees.

214. The first category consists of agencies which perform a wide range of short-term counselling activities with regard to management, marketing and exporting. The most important are the regional development agencies (Wales, Scotland, Northern Ireland etc.).

215. The second category comprises schemes such as the Better Business Service and Better Technical Service (operating in Scotland) and the Enterprise Initiative. The Management Initiative was launched in 1988 to improve the management skills of SMIs. Their target was to assist 1,000 consulting projects per months during 1988/89, which was met.

216. In the NETHERLANDS the managerial support scheme provided SMIs with grants to help firms seek advice from external consultants in order to improve their technology and management.

217. In DENMARK the authorities consider that inter-firm co-operation networks are valuable in the start-up and development phases of SMIs.

218. At the Community level, the EC Commission Directorate responsible for SMEs has introduced a number of initiatives. These include the Business Cooperation Network (BC-Net) which became operational in 1987, the European Information Centers (EICs) with nearly 200 founded in 1991, and the above-mentioned Europarteneriat.

I.B.2. EXPORT PROMOTION

219. In GREECE, EOMMEH participates in international fairs to support SMI exports from Greece.

220. In the NETHERLANDS, the "Export Promotion Scheme" of 1988 offers a subsidy to entrepreneurs for setting up a joint Dutch exhibition involving at least five Dutch participants at an international fair.

221. FRANCE, IRELAND, PORTUGAL and the U.K. provide assistance for consultation on export promotion. They also provide assistance to SMIs in obtaining information on foreign standardization and certification systems, so that SMIs can adopt their products to meet the requirements of the various foreign markets.

**TABLE FOUR/6: INTERMEDIARY BODIES AND
INFRASTRUCTURE FOR TECHNOLOGY PROMOTION**

COUNTRIES	TYPE OF AGENCY
All countries	Private consultancy services
Germany	Service companies attached to universities
Germany, France, Portugal, Spain, U.K., Denmark	Industry associations, technical centers
Germany, France	Contract research firms
Denmark, France, Italy, Netherlands, U.K., Belgium	International institutions (e.g. EC, ILO, UNIDO), national agencies and regional centers for SMI development
All countries	Chambers of commerce and industry
All countries	Universities, higher science education institutions
All countries	Research centers
France	Technopoles
Belgium, France, Italy, Netherlands, U.K.	Enterprise creation "Incubators"
France/Germany/U.K.	Partnerships: State/Region/Universities Industries with structures propitious to research/industry linkage (science parks)
France, Italy, U.K.	Partnerships between large firms (public or private) and SMIs

SOURCE: "Industrial Policy in OECD Countries", Annual Review, 1989

I.B.3. GOVERNMENT PURCHASING SCHEMES

222. GERMANY and FRANCE have legislative provisions for a "second chance" tender favoring SMIs. But as a general rule, unlike the USA and Japan, EC countries have not laid down conditions governing purchasing specially designed for SMIs.

I.C. REDUCTION OF FINANCIAL AND ADMINISTRATIVE OBSTACLES

223. In GERMANY, in order to mitigate the handicaps arising from the difficulties encountered by SMIs in gaining access to the financial markets compared with larger firms, the fixed capital formation of SMIs can be facilitated through public funds. The programs of the Kreditanstalt für Wiederaufbau (KfW) provides a wide scheme. The KfW raises the funds in the capital markets and extends long-term loans to SMEs at favorable rates of interest. Firms with an annual turnover of less than DM 500,000 per annum are eligible, and the maximum amount of a loan is DM 10 million. The KfW scheme is accepted as an important contribution to structural change and technological progress within the economy. About 20% of the enterprises use the loans for product and process development.

224. In the NETHERLANDS, the government is giving particular attention to the improvement of the financial structure of SMEs and to the conditions of access to sources of finance. These enterprises benefit from a state guaranteed loan scheme which also aims to help new entrepreneurs to set up business.

225. In the U.K., the Loans Guarantee Scheme was introduced in 1981 to facilitate the supply of finance to viable SMIs where conventional loans are not available. The scheme was due to expire in 1989, but has now been extended. The government guarantees 85% of each loan to the lenders in return for a premium of 2,5% per annum on the outstanding amount. The premium is paid by the borrower. The other important programs are the Venture Capital Scheme, the Enterprise Scheme and other similar programs utilized by Regional Development Agencies.

226. In GERMANY, special depreciation provisions in relation to R+D equipment were abolished in 1990. A new income tax change was introduced to support self-financing capacities.

227. In FRANCE, a payroll tax (taxe professionnelle) increases state subsidies for SMEs.

228. At the Community level, the nature of the administrative constraints on SMEs and cost of compliance with administrative formalities incurred by the firms have received particular attention from the governments of the member countries. The 1985 study of the OECD Technical Cooperation Committee has reached the following conclusions:

- Administrative burdens amount to a "tax" with distribution problems that need to be taken into account in government decision making. This problem cannot be solved at the technical level;

- SMEs' interests are best served by administrative and policy simplification, as opposed to special exceptions, which tend to increase complexity and confusion.

229. In response to the conclusions of the OECD report, many OECD members have undertaken a review and reform of the regulatory environment of business (large and small). In Belgium the Commission des formalités, in France, the interministerial Commission for the Simplification of Administrative Procedures Relating to Enterprises (COSIFORME), in Ireland the Industrial Cost Monitoring Group, and in the U.K. the Enterprise and Deregulation Unit (EDU) were formed for this purpose.

II. SMI POLICIES IN THE USA

230. The USA was the first country in the world to recognize the importance of the role of SMIs in the continuous development and revitalization of industry in keeping industrial competition alive. The Small Business Administration (SBA) was established as a Federal Agency before the Second World War. The Administration has organized advisory services - the Service Corps of Retired Executives (SCORE) and the Active Corps of Executives (ACE) aimed at SME promotion and development. Both programs are voluntary in nature and have a network of some 12,000 executives (some still working, and others retired or semi-retired) covering the entire country. They also offer their services to firms in developing countries, charging only enough to cover their expenses. Network members liaise with the SBA loan and guarantee program applications for SMIs as well as providing management and technical counselling to firms or to potential entrepreneurs. The counselling offered is confidential and personalized; moreover, an entrepreneur may have access to it without having to be an SBA loan recipient.

**TABLE FOUR/7: PRINCIPAL FUNCTIONS PERFORMED
FOR SMIs BY INTERMEDIARY AGENCIES**

Counselling Geared to Enterprise Strategy

- Management
- Market studies/export
- Total quality

Technological counselling

- Documentation
- Technological audits
- Advice in selecting equipment

Training adopted to SMIs' needs

- General
- Specific

Industrial Research

- Development of new products
- Development of new processes
- Applied research

Facilitating SMI contact with

- Research laboratories
- Other enterprises (large firm/SMI partnerships, enterprise incubators)
- Institutions or agencies providing diverse services

Financing

- Facilitating SMI contact with financial partners (national or regional administrations, agencies, banks, venture capital companies, etc.)

SOURCE: LEMAIGNAN; "L'avenir des structures intermédiaires" 1983; "Industrial Policy in OECD Countries", Annual Review, 1989

231. Another function of the SBA has been to provide loans directly to small firms, most of which belonged to members of minority groups or to economically disadvantaged communities. In recent years, however, SBA activities have been reduced to providing guarantees for up to US\$ 750,000 to private banks for loans to small enterprises.

232. In recent years, there has been a solid trend in US policy to accelerate technological dissemination among SMIs and to facilitate their access to research findings. Under the Stevens-Wydler Technology Innovation Act (1980) aimed at encouraging US industry to make greater use of the enormous information and technological skill resources, three programs were established: Centers for Industrial Technologies (CIT), which in 1986 were renamed Cooperative Research Centers; agencies of the Office of Research and Technology Application (ORTA), and the Center for the Utilization of Federal Technology (CUFT). The role of the Cooperative Research Centers is to stimulate technological innovations through research, aid and technical assistance to SMIs, and to train innovators and entrepreneurs. ORTA and CUFT are more specifically concerned with transferring advanced technologies from federal laboratories, of which there are about 350.

233. In 1986 the Stevens-Wydler Act was amended by the Federal Technology Transfer Act, one of the main innovations being the official recognition and funding of the Federal Laboratories Consortium (FLC). The consortium acts as a center for enterprises or individuals who have specific needs which federal laboratories may be in a position to study. The FLC also hold seminars and fosters cooperation between the government and industry.

234. The programs of the National Institute of Standards and Technology (NIST) for transferring technology to SMIs should also be mentioned. The pilot program, now being launched in conjunction with Small Business Development Centers (SBDC) is more specifically concerned with training in technologies as well as transfer of such technologies to SMIs. NIST also organizes Innovation Workshops for this category of enterprise, including information sessions on the various forms of public aid available to SMIs available for research projects.

235. In conjunction with the measures concerning labor and training the USA adopted the Work Incentive Program Credit (WIN) in 1971 which offers tax incentives for training purposes. Employers recruiting recipients of Aid to Families with Dependent Children (AFDC) through WIN are entitled to tax relief. Furthermore under the programs of the National Individual Training Account (NITA) and the National Training Incentive (NTI) retraining of displaced workers is financed through tax deductible employer and employee contributions.

236. The USA pursues a policy in which American and foreign companies alike can profit from cooperation, promoting activities which expand markets, and which bring together technologically innovative people, products and processes. The International Partnership for Commercialization of Technology (INPACT) program encourages internationalization for SMIs as well as entrepreneurship throughout the world. Launched in 1977 between the USA and Israel, the success of the program has prompted the

signing of similar agreements with India, France and Ireland. The assistance of the federal government to INPACT is limited to:

- the development and execution of bilateral agreements;
- providing training in project screening methods;
- participation on the advisory boards;
- providing aid in identifying networks of potential partners and resources in the USA. The program does not receive any public funds.

237. A wide range of programs for promoting SMI exports are being implemented in the USA. Through the International Trade Administration (ITA), the Department of Commerce provides extensive assistance for marketing American goods. The ITA also provides information about export possibilities for particular regions or countries. The Small Business Administration also maintains several export related lending programs. Numerous state and local economic development agencies also offer assistance to SMIs for export promotion purposes.

238. American SMIs which do not have access to the capital markets are aided by the Small Business Investment Companies (SBIC). They are private bodies which receive financial support from the SBA and also from the Venture Capital Funds.

III. SMI POLICIES IN JAPAN

239. JAPAN also attaches great importance to SMI development. There are numerous programs and projects which are being implemented together with incentive measures aimed at SMIs.

240. In Japan, the role of technology and innovation in the development of SMIs is one of the priorities of the government, which supports R+D activities and technology and skill transfer through national bodies and the Japan Small Business Corporation (JSBC). The main thrust of Japanese policy in this field are the Technopole project, and the programs conducted by the Ministry of International Trade and Industry (MITI) for the promotion of SMIs, and aid for the exchange of technological information, regional projects, and marketing.

241. Since 1984, the Technology Development Pole (TECHNOPOLE) program has centered on the construction of 19 technopoles in the Japanese archipelago which are meant to incorporate the Japanese high technology of tomorrow. The program emphasizes the development of a "soft" infrastructure: technology, information and training. A technopole is intended to provide the occasion for cooperation between firms, in particular SMIs, universities and municipalities. The establishment of an industrial activity in a technopole gives rise to tax reliefs (a 30% deduction on equipment in the first year and 15% on the plant). Moreover, financing is provided through research grants available to the industrial research laboratories and to small firms conducting joint research.

242. At the regional level, there are Technopole Funds set up by the prefectures and the municipalities; in addition certain financing bodies such as the Small Business Corporation, provide

low interest loans with repayments periods for as long as 15 years.

243. In 1984 MITI's small business department proposed a program of grants to innovative firms in order to help these high-risk firms cover their frequently very heavy research costs and to develop new products. SMIs are also eligible for various tax advantages. Certain local governments also provide incentives to high-risk firms by means of concessionary loans and loan guarantees promoted by the local governments in cooperation with public institutes, universities and private firms in each region.

244. The Technological Pioneer Training Project assists engineers and researchers in carrying out in-depth R+D activities in order to promote the development capacities of SMIs in relation to complex and large-scale systems. They also offer assistance to researchers under the On Research Training (ORT) program.

245. Furthermore the Small Business Finance Corporation provides loans to SMIs for the marketing of products or processes based on new technologies.

246. Finally in Japan the public authorities are promoting the development of human resources for SMIs by widening the range of opportunities for increasing managerial skills. Training programs for personnel, senior staff and management are organized by the local authorities and by 10 major towns, while specialized institutes attached to the Japan Small Business Corporation train entrepreneurs and their successors, administrative staff and prefectural staff responsible for counselling SMIs.

247. In 1970 the Japanese Government enacted a law for the support of subcontracting SMIs in public tenders against large corporations. Through this law the government gives high priority to the opportunities for SMIs to benefit from public purchasing schemes. Each year MITI draws up a report on policy concerning the SMI sector in connection with purchases by the government and other public institutions. This sets the annual targets for orders to SMIs by the government and public institutions and determines what action should be taken to meet them. Both the government and public bodies are invited to participate. In 1987 the share of SMIs in total public procurement was nearly 40%. Government purchases from SMIs accounted for 43.3% of the total, and other public institutions 32.5%.

248. In Japan four government-controlled institutions are charged with the responsibility of providing interest-subsidized loans, which are linked to the attainment of MITI objectives. They are the Small Business Finance Corporation, the Shoko Chukin, the National Finance Corporation and the Samtatua Finance Corporation. Together these four bodies provided 18% of all credits to SMIs in 1986. There is also a semi-public system of loan guarantees for such enterprises, and a Small Business Investment Corporation comparable to the American system.

IV. INNOVATIVE STRATEGIES IN NEWLY INDUSTRIALIZED COUNTRIES

249. In most newly industrialized countries (NIC), measures for supporting industry do not differentiate between SMIs and large industries, nor do they have special measures for regional

development. In general these countries regard the manufacturing industry as a whole, and their foremost aim is to expedite the industrialization of the country. On the other hand, some NICs in the upper economic strata of the NIC group have adopted special measures for the development of SMIs. The Republic of Korea and Brazil have developed particularly innovative approaches.

IV.A. THE REPUBLIC OF KOREA

250. THE REPUBLIC OF KOREA has enacted extensive legislation in order to promote and protect the development of SMIs:

- SME Cooperative Law (1961): Facilitates the establishment of national assistance cooperatives among small- and medium-scale enterprises;
- SME Law (1966): All other laws, decrees, and regulations stem from this basic legislation. The law regulates government activities related to the coordination of SMI and large industrial activities, quality control of technical and managerial consultancy services, and the promotion of SMI exports;
- The Law for the Protection of Small-Scale Enterprises (1975) sets legal guidelines for subcontracts between large industries and SMIs;
- The small-scale enterprise support law (1978) provides incentives and monetary assistance to SMIs with respect to their modernization projects. In accordance with this law, an SMI support committee was established and an SMI support fund attached to it;
- The law prioritizing the products of SMIs in government public sector purchases (1981) aims at strengthening an SMI's bargaining power against large enterprises;
- The SMI Bank Law (1961) provides for the establishment of a bank which specializes in SMI assistance through local and foreign currency loans, identifying suitable investment projects for SMIs, and supporting their export drives. Moreover, the Popular Bank was appointed as the special agency for providing special credit facilities to SMIs with fewer than 100 employees and a net worth below US\$ 400,000. The Popular Bank allocates over 30% of its total credit volume to SMIs;
- The Credit Guarantee Law (1975) established the "Korea Guarantee Fund" supplementing the guarantee assets of SMIs which fall short of the banks' requirements;
- In addition to legislative measures, there are government decrees to foster SMI support. The decree for the identification and promotion of promising SMIs has set a target of 1,000 SMIs per year. Special provisions are granted to SMIs engaged in manufacturing intermediary and auxiliary products and/or manufacturing import substitutes;

- The Korean Technology Development Corporation is one of the most important establishments geared to developing the technology utilized in the Republic of Korea, by adaptating imported technologies to Korean conditions, improving existing technologies, and disseminating technological information throughout Korean industry and especially to SMIs. Special funds are allocated to the Corporation for such activities, over 30% of which are used for SMI-related activities. Probably the most important aspect of this Corporation is the coordination of technology dissemination. Every new technology imported to the Republic of Korea is presented to the Corporation for examination, and disclosed by request to SMIs. In this way multiple imports of similar technologies are avoided;
- There are also tax concessions applicable to SMIs. SMIs may establish a special counterpart fund of up to 15% of their net worth against probable expenses for the following year. The accrued tax on this allocated income is deferred for three years;
- SMIs are also permitted to allocate 1% of their foreign currency income from exports against probable future losses;
- SMIs are permitted to utilize special and higher depreciation rates, which are 50% over and above the normal depreciation rates;
- Up to 20% of an SMI's annual profit may be deducted and set aside as compensation towards probable losses due to innovation, technical improvement and modernization expenses;
- Special tax concessions are recognized for SMIs which relocate their enterprises from congested cities to Industrial Estates. Firms are exempted from local taxes for a certain period following relocation;
- Large firms may deduct 6% to 10% of the cost of R+D equipment which they purchase for using jointly with their subcontractors;
- Very small firms are exempted from income tax. Enterprises employing fewer than 50 persons do not pay property taxes.

IV.B. BRAZIL

251. BRAZIL employs similar incentives and support systems. Due to large regional economic disparities, the government has combined its incentive programs with regional development programs.

252. Among the economic development measures geared toward SMI promotion, there is one unusual and successful program which bears mentioning in this study. Others are more or less similar to activities observed in other countries.

253. In order to supplement the equity capital of SMI start-ups in certain regions, special funds were established. In the case of southeast Brazil, a fund called FINOR was established in conjunction with the South East Brazil Economic Development Agency (SUDENE). FINOR participates in the equity capital of start-up firms. The rate of participation is determined by SUDENE according to the criteria set by its council. The maximum participation limit is 50% of the equity capital. Applications are processed by the SUDENE secretariat and submitted to the Council for approval. Upon approval FINOR is instructed to participate. FINOR retains the shares until the enterprise begins to turn a profit; then FINOR offers these shares to investors on the stock exchanges of major centers in Brazil for sale at special auction sessions. The entrepreneurs may purchase "investment certificates" in exchange for up to 25% of their corporation income taxes. Companies in possession of these certificates may use them to purchase stocks at the special auction sessions. Through this system:

- new enterprises obtain the equity capital they need through FINOR;
- the entrepreneurs may use their tax payments to purchase Investment Certificates and then exchange these certificates for the shares of new but viable SMIs;
- funds necessary for the establishment of SMIs in underdeveloped areas are transferred from developed regions;
- The proportion of shares owned by outside investors never exceeds 50% of the total share capital, thus protecting the original owner from losing control of the enterprise.

PART FIVE**TURKISH SMI POLICY: STRENGTHS AND WEAKNESSES****I. THE TURKISH SMI SECTOR: PROBLEMS AND NEEDS**

254. A comparison of Part One and Part Two of this study reveals essential similarities between Turkish SMIs and the SMIs of other developed and/or newly industrialized countries. If the Turkish SMIs do not display achievements comparable to developed countries, this can be attributed to the economic and policy environment.

255. Turkey is a dynamic country. Entrepreneurship is strong and there is a constant influx of new small enterprises. These new entrepreneurs, on the other hand, often lack the necessary skills and/or capital to develop their small ventures into proper industries. Unlike large industries, the SMIs depend primarily on the personal skills and means of their owners. SMIs are neither large enough to pay for professional management, nor do they have ready access to funds for expanding their activities.

256. New and young entrepreneurs are the most important instruments in the creation and development of SMIs, and in developed countries specific policies and related institutions have been established to support them (see Part Four). In Turkey there are no specific policies or instruments to train such persons in order to upgrade their entrepreneurial skills or to help them gain access to equity capital. The absence of specific programs has been the major impediment in the development of the SMI sector.

257. Perhaps one reason government policy has overlooked the SMI sector is that SMI owners do not yet perceive themselves as a group with common concerns. While the very small and large enterprises have their own semi-political organizations (the Confederation of Artisans and Small Businesspeople and TÜSIAD respectively), there are no such organizations for SMIs. Thus, even though they constitute a very important part of the Turkish manufacturing sector they have not created a group to lobby for political decisions that would facilitate their development.

258. There are some indications that this "group spirit" is now awakening. Under the aegis of the Union of Chambers (TOBB), the Medium and Small Enterprises Board - Orta ve Küçük İşletmeler Kurulu (OKIK) - was established in 1988. It is an advisory board composed of the Union of Chambers executives and a large number of representatives from government agencies. This board addresses a broad range of concerns, covering almost all factors related to SMI development.

259. As the board was not established by the SMI entrepreneurs, and is dominated by government officials and TOBB, who also meets its expenses, it is not a suitable lobbying instrument. Unlike TÜSIAD, OKIK lacks executive power, influence, and independent means.

260. Another development is the establishment of the Turkish Foundation For Medium-Scale Businesses, Professionals and Executives (Türkiye Orta Ölçekli İşletmeler, Serbest Meslek

Mensuplari ve Yöneticiler Vakfi or TOSYÖV) in December 1989.
TOSYÖV aims:

- to facilitate the development of small- and medium-scale enterprises;
- to reduce the production costs of large industries and boost their international competitiveness by supporting the development of ancillary industries;
- to support SMEs by helping them to keep pace with new technological developments;
- to support SMIs financially by establishing a Credit Guarantee Fund.

261. TOSYÖV was founded by members of Parliament, academicians and business executives. The Foundation also aims to establish supporting sister foundations at the provincial level, and to that end recently founded BOSYÖD and KÖSYÖD in the Bursa and Kütahya provinces. The owner/managers of SMIs are eligible for membership in the central or local foundation.

262. TOSYÖV, through its founder politicians, attempts to conduct lobbying activities in favor of enterprises of up to 100 employees, and has promoted the development of SMIs by establishing consultancy firms and actively participating in the establishment of the Credit Guarantee Fund.

263. Both OKIK and TOSYÖV may be first steps toward the creation of an SMI union organized by SMI entrepreneurs and aimed at working collectively to promote the sector. The central role this union - referred to here as KOSDER - would play in SMI development is discussed in Part Five/IV.

264. The newly established Foundation of Ancillary Industries for Vehicles (Tasit Araclari Yan Sanayii Dernegi or TAYSAD) which aims to develop ancillary units catering to the automotive industry is organized conceptually along the lines of KOSDER, but represents one SMI subsector.

265. Interviews conducted with the owners of SMIs in developed regions as well as in priority zones revealed that the most critical deficiency of the SMI sector lies in the lack of means. The principal findings on this issue are:

- The number of small/young entrepreneurs who would like to become owners of SMIs is growing;
- These entrepreneurs face serious difficulties, first in establishing their units, and later when they try to expand them;
- Problems and shortcomings are generally recognized at the individual level and the will to overcome is strong;
- Once having identified their problems, there are few institutions in place to which entrepreneurs can turn for assistance;

- It is still difficult to convince entrepreneurs from priority zones that their goals, in a broad sense, are similar to those of entrepreneurs running ancillary industries in Istanbul, and vice versa.

266. There is as yet no clearly defined, comprehensive policy for the promotion of the SMI sector, as is reflected in the major policy documents and particularly in the development plans and annual programs (see Part Three/V). KOSGEB and the General Directorate of Organized Industrial Estates are the first important steps towards recognizing, defining, and promoting SMIs as a group.

267. The SMIs located in underdeveloped priority zones usually limit their commercial activities to the local market, as they generally have no access to information on outside markets and technological developments.

II. DEFICIENCIES AND GAPS IN SMI DEVELOPMENT POLICIES AND SUPPORTING INSTRUMENTS AND INSTITUTIONS

268. As discussed previously, the SMI sector of the Turkish manufacturing industry needs to adopt a comprehensive promotion system. In general the nature of such services and incentives provided to the SMIs are quite similar among the developed countries.

269. Table Five/1 demonstrates the deficiencies and the gaps in the present Turkish SMI development policies and the related supporting institutions.

270. The table compares a list of principle requirements for the promotion of the SMI sector, and measures taken to meet them. The chart reveals gaps where requirements have not been addressed. The list was compiled on the basis of an analysis of SMIs in other countries and interviews with Turkish entrepreneurs. The columns represent the institutions through which the development policies are implemented and services are provided. These institutions are classified under three headings:

- i. Public sector agencies which exist in Turkey or are in the process of being established;
- ii. Public sector agencies which should be established in Turkey, based on the experiences in other countries. These represent the major gaps in the institutional framework of SMI promotion in Turkey;
- iii. Private sector organizations, some of which are already in operation. Establishment of the remaining organizations should be facilitated in order to fill the gaps of the existing system.

271. The table compares the existing Turkish system with the more advanced systems of the developed countries. The fundamental SMI development policies adopted in Turkey or in other countries which are instrumental in rendering support services are reviewed in the ensuing discussion.

272. Before pursuing a discussion of the table, it is important to note that the policy and strategy recommendations presented

in this report must be reviewed in the context of Turkey's overall development goals.

III. SERVICES REQUIRED BY THE SMI SECTOR

III.A. TECHNICAL ASSISTANCE

273. Technical assistance is probably the most critical component in SMI support policies. Countries with flourishing SMI sectors have vigorously supported their SMIs from the planning and establishment stage, and continue to offer assistance through all stages of development. The technical support requirements of the SMIs are usually addressed through a number of specialized institutions, which are the instruments of support policies (Part One/I, One/II, and Part Four).

- Technoparks;
- R+D institutions and Innovation Centers;
- Institutes for technology transfer and adaptation of new technologies;
- Common facilities (laboratories, workshops etc.);
- Quality control centers;
- Technical information centers;
- Technically oriented consultancy firms.

The present scope of activities conducted by institutions operating in Turkey are evaluated below.

III.A.1. KOSGEB

274. As described in Part Three/V and Annex 2, KOSGEB is the key public instrument for the development of SMIs in Turkey. Founded in mid-1990, KOSGEB has been intensively engaged in the establishment of technology centers, R+D institutions, and consultancy and development centers, and in the dissemination of technical information. KOSGEB was established as the main agency for creating and coordinating technical assistance institutions, and is not itself an implementing institution. Since its inception, KOSGEB has also been burdened with large projects that fall outside its mandate. These diversions have hampered KOSGEB's progress in its main activities. Nevertheless KOSGEB has already successfully launched several consultancies, and quality improvement and development centers (specialized in foundries and plastics/rubber).

275. KOSGEB has ample independent means, provided by its establishment law. If present political support continues, with time, the organization will create most of the technical services mandated in its establishment law.

276. Currently only very limited technical support services are available through the mechanisms already established by KOSGEB.

277. The duties allocated to KOSGEB are generally implemented in other countries by regional or local development agencies. These

agencies are usually attached to provincial or municipal administrations which enable them to intensify their efforts in relatively smaller and more homogeneous territories.

III.A.2. NATIONAL PRODUCTIVITY CENTER (MPM)

278. MPM is a public agency, established by a special law in the early 1950s. The general aim of the agency is to improve the productivity of industrial enterprises. To this end the center carries out subsector based special studies and seminars. The center does not provide services to individual enterprises and its activities are geared towards all enterprises without any priority.

279. On the other hand if an individual enterprise applies for assistance the center attempts to respond, often by engaging outside consultants. Such requests, in general, are rare, and demands from SMI are even rarer. KOSGEB may utilize MPM as an expert institution for handling the productivity-related problems of SMIs. In that way MPM may make a useful contribution to SMI development.

III.A.3. TURKISH STANDARDS INSTITUTE (TSE)

280. TSE is a public agency established by a special law. Its main objectives are preparing Turkish standards, and assisting in the standardization of industrial products by conducting quality control. TSE also provides quality certificates which are awarded to producers, upon their request, after extensive laboratory tests are conducted. Though the services of TSE are equally available to all, the Institute subsidizes SMIs by charging them less than large enterprises. KOSGEB has a cooperative relationship with the Institute. TSE may play a crucial supporting role in this connection, especially for ancillary industries and the promotion of SMI exports.

III.A.4. NATIONAL SCIENTIFIC RESEARCH INSTITUTE (TUBITAK)

281. TUBITAK is a public research institute established in the early 1960s. The principal aims of TUBITAK are to conduct scientific research, to follow technological developments in other countries and collect related information, to pursue the technological developments of specific products, to conduct seminars on scientific issues, and to provide technical advice. According to its establishment law, TUBITAK treats equally all kinds of enterprises which request assistance. Apart from scientific research, all other activities of TUBITAK are undertaken in response to specific requests.

282. Presently, TUBITAK's activities are progressing slowly, due largely to financial constraints, which in turn discourages industries from applying to the Institute. In order to expand its scope of activities in technological research and development, TUBITAK has established a unit at OSTIM (the Ankara Organized Industrial and Trade Center), and is planning to establish more units at other organized industrial estates. TUBITAK's new approach to industrial development is highly commendable and may prove very useful. On the other hand, most of the principal staff of TUBITAK consist of high-level scientists, with little or no consultancy training or experience. Their services as consultants are therefore not yet attuned to

specific industrial issues. Their research endeavors tend also to be theoretical in nature.

283. In summary, TUBITAK may play a more useful role by:

- coordinating with KOSGEB, and undertaking SMI-related research studies through KOSGEB corresponding directly to SMI requests;
- working closely with persons in industry to gain a sense of specific product development needs;
- concentrating on pursuing new commercial technological developments and their applications;
- streamlining the volume of consultancy activities to services related to R+D, while increasing R&D activities;
- studying the R+D institutions in other developed countries (especially Germany and the USA) in terms of their interaction with SMIs.

III.A.5. UNIVERSITIES

284. Clearly the main task of the universities is to educate. On the other hand, especially in the USA, several universities play very important roles in research activities. The spectrum extends from basic scientific research to the development of new production technologies and of actual marketable products. Stanford University (whose pioneering research in computer technology launched the computer-based industries in Silicon Valley) and MIT (space technology) are prime examples. The projects undertaken by American universities are often large and costly, affordable only for public institutions or large industries.

285. In the Turkish environment, however, the universities may successfully become involved in SMI promotion activities through their "revolving capital" (Döner Sermaye) schemes. Their participation should be organized and coordinated by KOSGEB, who should subsidize the cost of the participating institutions' technological assistance activities. The universities are a rich source of potential technical assistance, and both they and SMIs stand to profit from a full exploitation of this potential.

III.A.6. PROFESSIONAL ORGANIZATIONS

286. A representative of the Chamber of Mechanical Engineers (TMMOB) sits on the board of KOSGEB in accordance with KOSGEB law. TMMOB issues a "Certificate of Adequacy" to enterprises working in subcategory ISIC 38 and a "Certificate of Quality" for the products they manufacture.

III.A.7. SUMMARY

287. As discussed above, KOSGEB is the agency primarily responsible for providing technical support to SMIs. The foundation law of KOSGEB lists most of the services required by SMIs. However, in other countries most of these services are implemented by separate, specialized agencies. The role of KOSGEB in this connection should be interpreted firstly as the creator

of supporting agencies, and secondly as the main development agency channeling and coordinating technical assistance among the institutions and SMIs. Accordingly, KOSGEB should be defined as the TECHNICAL DEVELOPMENT AGENCY for the SMI sector.

288. The specialized institutions which constitute the foundation of technical support for industry have not yet been established in Turkey. The institutions described above are neither specifically mandated nor equipped to fulfill the SMI sector's needs. As they all were created by special laws, it does not appear feasible to expect their complete restructuring by new legislation in order to gear them exclusively to the context of SMI promotion schemes. These institutions can therefore provide only partial and in most cases indirect support to SMIs.

289. In order to provide a full set of technical services to SMIs, KOSGEB should establish an R+D institution, a technology transfer agency, and a technical information center/databank in addition to the technoparks, quality control centers, and common facilities already in progress.

290. In the long run, development of private consultancy firms will yield better results than public consultancy services. KOSGEB should provide a special service for linking SMIs to the appropriate consultancies, and for assuring their quality. The cost of the consultancy services should also be subsidized. KOSGEB may engage its own experts for this service and draw in part from the capabilities of the universities.

291. Universities may be encouraged by KOSGEB to undertake such technical consultancy work through supplementary payment.

292. The industries in Turkey do not usually launch joint projects in order to improve the technologies or products of their subcontractors, as is common practice in Japan. Such joint projects involving one large enterprise and one or more subcontracting SMIs should be encouraged either by subsidizing the cost of the project for the subcontracting firms or providing some financial incentives to the large enterprises for bearing the entire cost of the joint project.

III.B. MARKETING ASSISTANCE

293. As discussed previously, the Turkish SMI sector may be divided into three subgroups:

- i. Subcontracting ancillary industries located in large cities;
- ii. Other SMIs located in developed areas;
- iii. SMIs located in priority zones.

294. The SMIs located in underdeveloped priority zones of Turkey cater to local markets. In relative terms, SMIs in developed areas have better access to market information channels. However, they are also in need of substantial assistance on marketing opportunities, evolving trends, product modification, new products, changing tastes and preferences etc.

295. Subcontracting SMIs should be established near the large industries they serve. The mutual benefits of such proximity have been demonstrated in Bursa in the automotive industry project.

296. In other countries the marketing assistance needs of SMIs are usually met by:

- Local and national fairs;
- Information centers;
- Market-oriented consultancy firms;
- Institutionalized dialogue between large and subcontracting industries;

297. The scope of marketing-related services in Turkey is discussed below:

III.B.1. KOSGEB

298. KOSGEB'S establishment law has not delegated it an extensive marketing assistance mandate. Its role is: "... to search for solutions to the marketing problems of SMIs and to provide consultancies so that they can remain competitive in domestic and world markets" and "to support and guide SMIs in the marketing and export of their products and to construct several branches to serve in this regard". (See Annex 2).

299. Furthermore, KOSGEB's marketing assistance is limited to helping existing SMIs to stay competitive in the markets in which they already do business. Another important aspect of marketing assistance is to provide information at the business planning stage. This assistance prevents establishment of superfluous enterprises in already saturated markets and channels them to areas where demand still exceeds the available supply.

300. KOSGEB should become involved in the establishment and coordination aspects of marketing assistance by:

- establishing marketing centers providing information on market possibilities, current trends, local and national fairs, trading practices of different regions, and addresses of potential buyers throughout Turkey;
- supporting private consultancy firms specializing in marketing, facilitating the establishment of relationships between SMI owners and consultancy firms, controlling the quality of these firms and setting quality standards, and encouraging entrepreneurs to form lasting connections with consultancy firms starting from the business planning stage;
- acting as a mediator between subcontracting firms and large industries, providing support to SMI in their contracting relations with large industries, and aiming to prevent the domination of the market by large contractors.

III.B.2. UNION OF CHAMBERS

301. OKIK (The Small- and Medium-Scale Enterprises Board) (see Part Five/I) has a subcommittee called the "Marketing Group", aimed at improving the marketing ability of SMIs, disseminating market-related information among SMIs, and organizing fairs. As discussed previously, OKIK is not equipped to play a major role in SMI promotion.

302. On the other hand, the Istanbul Chamber of Trade (ITO) is actively involved in improving the marketing potential of ancillary industries located in Istanbul. Together with UNIDO, ITO has launched an important project. The aim of this project is to establish a Trade Promotion Center in which all available data on the production of components of finished goods will be collected, classified and stored. The classified supply data will be matched with the demands coming from local or foreign users of these components.

303. The establishment of similar centers in other large cities and of a common database network will greatly improve the marketing capacities of ancillary industries.

III.B.3. STATE INSTITUTE OF STATISTICS (DIE)

304. DIE may provide indirect help for marketing activities of SMIs, both at the business planning stage and in further development stages by conducting at short intervals specially designed household surveys and processing them quickly. The information will be invaluable, especially for the consulting firms preparing market surveys for SMIs or for entrepreneurs looking for new investments and seeking diversification in their plants' production patterns.

III.B.4. SUMMARY

305. There is no public agency specially designated to improve the marketing capacity of SMIs. ITO's attempt is a very fine example and other provincial Chambers of Commerce may follow suit. However, the scope of their reach will be restricted to their provinces. Accordingly, it is preferable that the envisaged Union of Small- and Medium-Scale Industries (KOSDER) address this problem on a broad basis by establishing a network of information centers which coordinate and match supply and demand information.

306. Privately owned consultancy agencies should play larger roles. Marketing surveys prepared by professionally trained consultants will prevent the squandering of scarce resources and improve marketing opportunities. The cost of consultancy may be subsidized, probably by KOSGEB, in order to make their services available to a wider clientele of smaller enterprises. The quality of their outputs, however, should be monitored by KOSGEB. KOSGEB should also establish a unit for monitoring marketing-related services and for providing financial assistance in the forms of subsidies.

307. Local and national fairs are organized by local administrations and municipalities. They are general purpose fairs, and could focus more on the interests of SMIs. KOSDER should be more active in organizing specialized fairs geared

towards displaying products of SMIs. The cost of participation may be subsidized for the smaller enterprises.

III.C. EXPORT PROMOTION

308. Obtaining systematic information to promote export is a difficult task even for larger industries. The EC (see Part One/IV and Part Two/III) have promoted the Europarteneriat for this purpose. One of the objectives of the Europarteneriat is to promote intercommunity trade for SMIs. Japan and Korea have their own powerful export promotion organizations, JETRO and KOTRA. In Japan and Korea, General Trading Companies (Sogo Shosha) are geared to collect information and export products of other companies. These companies also distribute large orders among smaller producers on a subcontracting basis. In the USA Export Management Companies organize and implement exports of other companies. They also prepare studies on the export potential of foreign markets. In Great Britain the promotion of exports is supported by the British Overseas Trade Board.

309. Piggy Back Marketing is another new form of export promotion, in which a large industry exports the products of smaller companies in addition to its own. The Japanese system was encouraged in Turkey during the 1980s in the form of higher rates of tax rebates to larger volumes of exports. The rebate system was abandoned in the late 1980s.

310. In many countries exports are further supported by export guarantee mechanisms, e.g. Eximbank in the USA, the ECGD in Great Britain, and HERMES in Germany.

311. Examples from other countries reveal that SMI exports are generally promoted by:

- Financial and fiscal incentives;
- National export promotion agencies;
- Traders' companies;
- Intercommunal cooperative organizations;
- Export-import guarantee systems.

312. The status of similar activities in Turkey is discussed below:

III.C.1. STATE PLANNING ORGANIZATION (DPT)

313. Since the early 1980s considerable financial and fiscal incentives have been provided by the DPT. The most important were the tax rebate, and use of the Central Bank discount facilities, which were abandoned at the end of the 1980s.

314. Currently fiscal incentives such as exemptions from corporation and value added taxes, and financial incentives such as Turkish Eximbank guarantees for pre-export credits are being provided. The incentives are available to all exporters; however, in order to be eligible the company needs to obtain an "Encouragement Certificate" from the DPT.

III.C.2. FOREIGN ECONOMIC RELATIONS BOARD (DEIK)

315. DEIK was founded in 1986 by nine private institutions. They are the Union of Chambers, TUSIAD, the Turkish Foreign Trade Association, the Chamber of Agriculture, the Association for Foreign Capital Coordination, and Istanbul and Izmir Exporters Unions.

316. DEIK's objective is to participate in improving Turkey's external economic relations, and in facilitating Turkey's integration with the world economy through bilateral business councils.

317. The Board is particularly active in East European countries and in the Commonwealth of Independent States. However, its aim is to develop business between Turkey and other countries, and SMI exports are not included among its priorities.

III.C.3. EXPORT PROMOTION CENTER (IGEME)

318. IGEME was established by a special law. Its main objective is to prepare reports on the development of trade in foreign markets, coordinate the business relations of national and foreign companies, and organize fairs.

III.C.4. TURKISH EXIMBANK

319. The bank is a new establishment with a steadily expanding scope of activities, including services for exporters. Eximbank does not offer any special treatment to SMIs.

III.C.5. SUMMARY

320. There is no specialized institute for the promotion of SMI exports. Exporting is a time consuming, costly activity requiring specialized skills and knowledge. Developing countries have addressed the particular challenge of promoting SMI exports quite successfully through large export organization companies. Such organizations are to be recommended. They require skilled personnel and a considerable intangible investment, including a PR campaign to publicize the ideas to SMI owners.

III.D. TRAINING

321. Training is another important component of SMI development. The ratio of skilled personnel requirements is higher in SMIs than large industries (See Part Three/I). A shortage of skilled workers at all levels constitutes a major bottleneck for SMIs.

322. The apprenticeship law, enacted in 1986, was an important first step but is not in itself sufficient. There is a need for new technical training centers which will equip workers with practical vocational skills. The programs of such centers should be prepared by the Ministry of Education. The establishment of private technical schools should be encouraged by financial incentives similar to those granted to industry. These technical schools may assume the same status as other private educational institutions.

323. Current SMI employees also require a wide range of technical in-plant training and special training courses on areas such as productivity, marketing, management etc. These courses should

be organized by KOSGEB in accordance with its establishment law. Universities, public agencies (IGEME, MPM, TUBITAK, TSE etc.) professional organizations (TMMOB), international organizations and private firms (management consultants) may provide the instructors. The cost of these courses for the SMIs should be subsidized by KOSGEB.

324. KOSGEB may also organize, together with large enterprises, specialized training courses to be held in the premises of the large establishments. This will also facilitate the integration of large enterprises and SMIs.

325. In developed countries, in-plant training, on-the-job training and vocational training courses are usually organized by local and municipal administrations and by local development agencies. These training opportunities are offered to the employees of SMIs either free of charge or at heavily subsidized rates. Trainers are usually obtained from private training institutions or consultancy firms.

326. For Turkey, the long-term aim should be the establishment of technical and vocational educational institutions in order to supply trained manpower to a wide range of industrial subsectors. Due emphasis should be given to training in modern technologies such as electronics, telecommunication, information technology, automation, computer programming etc. starting at the apprenticeship phase.

327. For short-term improvements KOSGEB should accelerate the establishment of technical training centers, prepare in-plant training and involve large enterprises in the training of SMI employees.

III.E. ENTREPRENEUR DEVELOPMENT

328. In the previous section (Part Five/I) the importance of the entrepreneur in the establishment and development of SMIs was discussed. The capabilities of the entrepreneurs become increasingly important for enterprises utilizing advanced technology.

329. In developed countries the following types of support are provided for new entrepreneurs:

- Technical and marketing advice for investment;
- Vocational and management training;
- Grants for the preparation of investment projects;
- Grants for creating new business.

330. At present, only investment guidance centers are considered in KOSGEB's establishment law. The training centers envisaged in KOSGEB's programs may also train prospective owners in subjects such as management, accountancy, productivity etc. Short-term crash courses (4-5 weeks) have proved useful for new and young entrepreneurs. Such a project is about to be launched. This is an important development, demonstrating private initiative in these areas.

III.F. SERVICED LAND AND PRODUCTION FACILITIES

331. For investors, especially in the priority zones of Turkey, acquiring serviced land in an Organized Industrial Estate is a very important incentive. As discussed in Part Three/V.B., the General Directorate of Organized Industrial Estates had already launched numerous such development programs. In addition to serviced land, other countries offer:

- Prefabricated standardized factory buildings;
- Common recreational facilities;
- Lodgings for administrative staff and for workers.

332. The creators of these industrial estates are generally local or municipal administration or regional development agencies.

333. It is recommended that an independent agency be created to implement the services of the existing General Directorate. This new agency should be able to offer complete facilities to the investors. The undertakings should be financed through a revolving fund, to be replenished by the payments of the purchasers (see Part Six/VI).

III.G. CAPITAL REQUIREMENT

334. As was seen in Part One/II, Part One/III, and Part IV/I, one of the principle obstacles for SMIs is their inability to generate capital, both upon establishment and then in consecutive stages of development. The following is a summary of measures taken in other countries to ease the capital requirements for SMIs:

III.G.1. MEASURES DECREASING THE PAID-IN CAPITAL NEED OF THE ENTERPRISES AT ESTABLISHMENT AND EXPANSION STAGES:

a. GRANTS

335. Grants are capital injections which do not require repayments. Various types of grants are outlined in PART III/C. Grants are provided under national financial incentive systems.

b. EXEMPTIONS FROM TAXES, DUTIES ETC.

336. Exemptions, for example, from import duties, which decrease the cost of the investment, are implemented under the fiscal incentive systems.

c. DEVELOPED SERVICE LANDS, STANDARD FACTORY BUILDINGS, LODGINGS ETC.

337. Facilities are made available to investors under lease and purchase schemes. Instead of making up-front payments for land and construction, the investors pay in installments after production is underway.

III.G.2. MEASURES SUBSTITUTING CAPITAL REQUIREMENTS

338. These cover all kinds of credit facilities provided by the banks under subsidized lending schemes. Since loans have to be

repaid with interest, high debt/equity ratios heavily burden new entrepreneurs, and thus seriously decrease their chances of success.

III.G.3. MEASURES SUPPLEMENTING THE CAPITAL REQUIREMENT

a. PARTICIPATION OF THE STATE OR LOCAL ADMINISTRATION IN NEW INVESTMENTS THROUGH SPECIAL FUNDS

339. In most cases the banks appointed by the administrations manage these public funds, but they neither bear the risks, nor do they participate in the management of these firms. They wait until these new enterprises became profitable and then they either sell the publicly owned shares to the owners of the firm and/or sell to the general public through various mechanisms.

b. VENTURE CAPITAL FIRMS

340. These are firms which pool funds from their partners and through private participation. They participate in the share capital of new investments after approving the feasibility studies and business plans. They often participate in the management of these firms by appointing a member to the boards. Their motive is usually to make profit by participating in high risk/high profit ventures. These investments are generally innovative and/or high-tech. In some countries such firms are subsidized by the government through risk sharing, or providing public funds. In these cases subsidizing public bodies have other motives, such as regional development and/or development of certain sectors.

III.G.4. MEASURES IN TURKEY

341. In many countries all three type of measures are being implemented. In Turkey, on the other hand, only concessionary credit and fiscal incentive facilities have been implemented thus far.

342. After a period of unsuccessful implementation, providing of grants under the encouragement system has been suspended.

343. Public participation, especially the participation of local administrations, constitutes a very important source of capital in most of the EC countries, especially in Great Britain and in France. In Turkey during the 1970s, the Special Administrations of the provinces, (Özel Idare) headed by the governors, had attempted to create numerous joint ventures with private partners. Most of the pilot projects were in the tourism sector, and a smaller number in industry. These endeavors usually involved manufacturing products to cater to local demand where the market had already been saturated by local production. As a result, most of these medium-scale manufacturing investments could not survive. Discouraged by the outcome, such joint venture activities were largely abandoned.

344. The flaw lay not in the concept, but in the implementation. In most of the cases that failed the feasibility studies had been adequately carried out. Yet none of the ventures had any business plan. Furthermore, the private partners were local people whose individual shares in the investment rarely exceeded 5% of the share capital. Thus none of the private partners had an entrepreneurial stake in these ventures, and had usually

participated for social rather than for business reasons. Moreover, the majority of the Board of Directors were local public officials largely unacquainted with private business practices.

345. During the same decade The Industrial Development Bank of Turkey (TSKB) devised a development scheme, through which proper feasibility studies were made and distributed in the less developed regions of Turkey. Many of these projects were turned into investments by local entrepreneurs. The TSKB provided the necessary credit for the purchase of machinery and equipment, and furthermore provided up to 25% of the share capital in numerous cases. The TSKB took this line partly to fulfill the requirement of World Bank loans, and when these were depleted, this scheme came to an end.

III.G.5. POTENTIAL MEASURES FOR TURKEY

346. In developed countries the implementations of such public/private sector joint ventures usually take one of the following courses:

- The institutions which participate in new investments are established with single purpose priorities;
- Monies are provided by the general budget or from municipal funds;
- The funds are carefully utilized by the participating institutions after approval of the feasibility report and the business plan²³;
- The institutions get minority share (not to exceed 49%) and do not participate in the management of the company but monitor the developments closely and intervene when necessary;
- When the investment starts to turn a profit, the institutions sell the shares either to the founders of the enterprise or sell them on the Unlisted Securities Market (referred to in the USA as an "over-the-counter" sale).

347. Establishment of such a financial instrument is incorporated within the framework of the "Specialized Bank for SMIs" outlined in Table Five/1, and discussed in Part Six/VI.

348. Venture Capital firms are private firms which organize capital pools for use in new investments, charging a commission

²³ The business plan is perhaps the most important index of a business' potential success, a factor generally disregarded by Turkish banks when considering extension of credit to a new venture, or state planning organizations when awarding incentives. A feasibility study evaluates the prospects of an investment without the entrepreneur factor. The business plan, on the other hand, reflects the individual entrepreneur's readiness to establish and operate a viable business.

for their services. The contributors form a joint venture partnership among themselves. The company's experts appraise the investment proposals and the prospective entrepreneurs, and the venture capital firm then participates, in the contributors' names, in the investment. The profits and losses of the pool are divided among the participants, who can claim the losses in their personal income tax returns. Venture capital companies may have more than one capital pool for different types of ventures. Such companies usually seek high-tech investments with short gestation periods coupled with projections of high profitability estimates.

349. The aim of these companies is to liquidate their shares as quickly as possible and with high profit, and then reinvest in other ventures. With this strategy in view, shares are usually sold as soon as the company starts turning a profit.

350. Venture capital companies have ushered many a promising idea through the capital bottlenecks. Since the mid-1970s the development of computer hardware and software industries in the US owe a great deal to the venture capital companies, which in turn have enjoyed high rates of return.

351. The venture capital idea could boost the development of the high-tech industry in Turkey. The establishment of such companies may require certain changes in the current legislation. Recommendations are made in Table Five/1.

III.H. CREDIT SUPPORT AND GUARANTEE FACILITIES

III.H.1. COMMERCIAL AND DEVELOPMENT BANKS: AN INTERNATIONAL VIEW

352. In most countries, especially in the EC, the major lending institutions for SMIs are the commercial banks. SMIs borrow from commercial banks at subsidized interest rates. SMIs also benefit from special counter-guarantee systems which diminish the amount of the collateral requirements.

353. These subsidies are implemented under national incentive systems. The guarantee facilities, usually special funds, are created to provide letters of guarantee in support of the borrowing SMI. In many cases these funds were attached to local development agencies, whose expert staff appraise the SMIs' credit requests.

354. In newly industrialized countries, enterprises obtain long- and medium-term investment and working capital credit from development banks.

355. Development banks are specialized banks established to support certain sectors of the economy through extending concessionary investment credit (low interest, longer terms, grace periods etc.). They usually do not make any distinction between large or small enterprises.

356. Regional financial institutions or funds established in depressed or priority zones of developed countries operate special credit schemes geared towards supporting SMIs.

357. As for collateral requirements, development banks usually hold a mortgage on the new business.

358. In developing countries the commercial banks are not involved in long-term financing.

359. The general trend among developed countries is to rely on commercial banks to meet the credit requirements of SMIs. Through their incentive systems, the governments subsidize the interest rates of commercial banks rather than provide the principal of the credit. Accordingly the relatively abundant lending potential of commercial banks are also involved in SMI support schemes.

III.H.2. COMMERCIAL AND DEVELOPMENT BANKS IN TURKEY

360. In Turkey, concessionary lending is done primarily through development banks and state-owned commercial banks. Funds for credit purposes are usually borrowed from foreign and international institutions at concessionary rates with the guarantee of the State Treasury. Central bank discounting facilities are engaged to a lesser extent. Whereas there are available credit lines with low interest rates, the normal credit conditions of commercial banks have no interest rate subsidy. For that reason the volume of long- and medium-term funds for SMIs - which cannot borrow from commercial banks on their own merits - are seriously limited.

361. The development banks in Turkey (TKB, T. Industrial Development Bank (TSKB), Sinai Yatirim ve Kredi Bankasi) have no special schemes for smaller enterprises, which leaves the THB (see Part Three/V and Annex 1) as virtually the only source of concessionary finance specially geared to SMIs. The THB was originally established to finance handicrafts and small entrepreneurs, an objective which has not changed. The financing of SMIs has been assumed as a temporary duty.

362. In the 6th 5-Year Development Plan, the establishment of a special bank for the development of SMIs was envisaged. Such a bank will doubtless be beneficial to SMIs. However, the creation of such an institution will not increase the sum total of the public funds available for credit support purposes. The public authorities may simply transfer funds from one user institution (e.g. the THB) to another (e.g. a new SMI Bank).

III.H.3. ENVISIONING AN SMI BANK FOR TURKEY

363. A goal should be set to increase the volume of available funds. Funds at the disposal of commercial banks should be channeled to a new SMI Bank. This bank should be able to borrow from commercial banks under some sort of public guarantee scheme.

364. The funds will be lent to SMIs at concessionary rates. Differences between borrowing and lending rates should be met from general budget allocations or from special funds.

365. The new SMI bank should appraise the feasibility report and business plan of the investment, and bear the risks on funds borrowed from commercial banks.

366. A Credit Guarantee Fund established by a private institution would offer an invaluable service to enterprises which cannot otherwise fulfill the lending requirements of commercial banks (see Part Three/V.B.). This guarantee system is an insurance scheme. Participating enterprises would pay a premium to insure

themselves against a probable future inability to perform, and in return they receive letters of guarantee to the commercial banks.

367. This mechanism, however, is not without its problems:

- The resources of this fund are limited to the aid obtainable from foreign donors. The total volume of guarantees acceptable by the commercial banks is directly proportional to the available resources;
- It is not yet known to what extent the commercial banks will accept the counter-guarantees issued by the fund since the fund does not have the backing of a public authority. The commercial banks would monitor the current guarantee portfolio of the fund very closely;
- The current fund is too small to exercise a major impact on the SMI sector.

368. In summary:

- The envisaged SMI Bank should be established immediately;
- The bank should be able to borrow from local and foreign sources with state backing, and lend these funds at concessionary terms to SMIs;
- The bank should also receive public revenues, for example from the general budget. However, the bank should utilize this source only for interest subsidy and not as principal. Accordingly the SMI Bank should subsidize the interest rate differences between the commercial bank lending rates and concessionary SMI borrowing rates;
- The commercial banks should be encouraged by the state to lend to SMIs below their regular market rates. This encouragement may take on various forms (for example, relaxing the reserve requirements of the complying banks);
- The SMI Bank should also provide letters of guarantee to SMIs for loans from commercial banks;
- The Bank should be granted development bank status and thus be able to facilitate the SMIs' financial leasing requirements;
- The Bank should also participate in the share capital of selected SMIs. The participation is to be used as credibility leverage for borrowing from commercial banks, and should therefore be symbolic rather than substantive.

III.I. LEASING

369. In developed countries investments in machinery and equipment are frequently made through a lease and purchase scheme. These transactions are undertaken by specialized institutions. Financial leasing was introduced into Turkey by a

special law in 1984. Development banks in Turkey can lease machinery and equipment; however, this is not a common practice. Private leasing companies, which are affiliates of private or public commercial banks, are involved for the most part in motor vehicle leasing.

370. The ownership of the leased machinery legally stays with the leasing firm up to the end of the lease period. For that reason the leasing companies do not require additional collateral from the lessees. Accordingly leasing, as practiced in other countries, is quite economical for the entrepreneurs, as compared to buying equipment with commercial bank credit.

371. The leasing law and the incentive system need to be coordinated to facilitate this economical alternative for SMIs.

372. As discussed previously, serviced land and factory buildings may also be leased by the Industrial Estate Agency. This approach greatly reduces the initial up-front capital needed for investments, thus providing a boost for promising young entrepreneurs into manufacturing. However, if the venture should fail and the periodic installments not be met, then the lease is immediately terminated. The premises are evacuated, and immediately offered for lease to other businesses. These terms of contract circumvent time consuming legal embroglios. However a thorough evaluation of the feasibility reports and business plans according to high standards, and a close monitoring of the leaseholder's activities, should minimize the likelihood of failure.

373. We recommend leasing under the following auspices:

- Land and buildings could be offered for lease by the Industrial Estates Agency;
- Machinery and equipment could be leased by the SMI Bank.

III.J. FINANCIAL AND FISCAL INCENTIVES

374. Turkey's financial and fiscal incentives do not differ substantially from other national schemes. The common trend in West European countries is toward simplified systems and a smaller number of incentives. Developing countries tend toward more complicated systems.

375. The incentive systems of the EC countries are based mainly on capital grants, a system which was abandoned in Turkey.

376. The EC countries in general are enacting a transition from automatic award systems to selective systems, in which each investment receives a benefits package tailored to its needs.

377. From the point of view of Turkish SMIs, the most disappointing aspect of the current encouragement system is its favoring of larger investments. This is due to the fact that the SMI concept has not yet been firmly established in the Turkish political environment.

III.K. INFORMATION AND CONSULTANCY SERVICES

378. Information centers and consultancies offer similar, complementary services. They both provide information, but of varying intensity and depth.

379. Information centers collect and classify readily available information. They are usually public institutions and provide services free of charge or at cost.

380. The work of the consultancies, on the other hand, involves research and in-depth studies. They use generally available or original data sources, conduct experiments and sample surveys, make experimental applications etc. They provide original, specific information such as feasibility studies, market research, plant lay-outs, reorganization studies etc.

381. Consultancies are usually conducted as private, profit-oriented businesses.

382. In Turkey the importance of providing specific sectors of the economy with processed data has not yet been duly recognized. The few existing information sources in Turkey do not yet employ advanced information technologies. Their scopes are generally narrow, and the information tends not only to be poorly classified but also somewhat dated.

383. Information centers providing technical and marketing information, and information on public and legal formalities, and available incentives etc. would be a valuable asset to the Turkish economy.

384. Consultancy is gradually developing as a practice in Turkey. The pioneers in the early 1970s were technical consultants, primarily involved in preparing investment feasibility studies for obtaining incentive certificates. Management consultancies were introduced in the mid-1980s; both fields are still in their infancy.

385. In developed countries the usefulness of consultancy services has been amply demonstrated and special support is provided to promote them. Usually their services are subsidized by central or local public authorities to make them available to small- and medium-scale enterprises.

III.L. SIMPLIFICATION OF FORMALITIES AND DEREGULATION

386. The Turkish economy stands to gain from a general simplification of formalities and regulations, aimed at streamlining required procedures and public administration involvement in all kinds of economic activities. Table Five/1 indicates administrative areas in which the streamlining process should be initiated.

IV. CONCLUSIONS CONCERNING SELF-PROMOTIONAL ACTIVITIES IN THE TURKISH SMI SECTOR

387. Changes favorable to SMIs must be initiated in the sector itself. This sector, reputed for its spirited and innovative

entrepreneurs, needs to develop a group identity. As seen in previous chapters, attempts have been made in this direction; however, an organization along the lines of the European Middle Society Union (EMSU) or the German Mittelstandsvereinigung (MIT) has not yet come into being. This organization, referred to in this study as KOSDER (Union of SMIs) will exist primarily to improve the consultation relations with political authorities for:

- modification of the existing incentives which disadvantage SMIs in favor of larger industries;
- redistribution of financial facilities (i.e. credit) among industrial enterprises.

388. Both very small industries/handicrafts and large industries have formed groups. The lack of unity in the small- and medium-scale sector is very much apparent both in the current incentive and financial systems.

389. Furthermore, by forming a network and assisting each other to increase awareness of the sector among government agencies and large enterprises (contracting firms), SMIs may achieve a good deal without any outside help.

390. In many instances the instruments of existing policies for supporting industrial enterprises apply to only the smaller businesses among the SMI group, i.e. the THB, the Confederation of Small Entrepreneurs and Artisans (TESK), and the newly created Credit Guarantee Fund (KGF). Special policies for supporting SMIs should be carried out by institutions designed to specifically and comprehensively address the needs of that sector. SMIs need to form a union to promote and protect their interests for competition on national and international markets.

V. CONCLUSIONS CONCERNING THE STATUS OF THE PRESENT SMI PROMOTION STRATEGY IN TURKEY

391. The SMI concept is new to Turkey. It would not be an overstatement to point out that small- and medium-scale industries were defined for the first time as a sector in the establishment law of KOSGEB in 1990. Previously, industrial support policies considered the smaller range of the SMI sector together with artisans and handicrafts. Medium-scale industries were often disadvantaged by being considered under terms applying to large industries.

392. KOSGEB is involved solely with technical, marketing and managerial issues concerning SMIs, and is equipped accordingly. Financial and fiscal issues have still not yet been adequately studied, let alone integrated into industrial development policies.

393. Table Five/1 demonstrates the gaps in SMI promotion at both policy and institutional levels. A strategy for SMI development is presented in the following section.

PART SIX**OUTLINE FOR A STRATEGY FOR SMI DEVELOPMENT IN TURKEY****I. OBJECTIVES, PRINCIPLES AND PRIORITIES**

394. The first step toward attaining optimum conditions for a flourishing SMI sector is the recognition among SMI owners that they must organize to promote their interests and advance their position. The importance of the SMI sector for the Turkish economy must be demonstrated to and clarified for the government.

395. It is a well established fact that a strong, expanding SMI sector reduces economic fluctuations and provides the economy crucial flexibility in times of transition or crisis. Since the SMI sector deserves special attention, it should be supported by specific policies and specific policy instruments.

396. Growth in the SMI sector will take place on two fronts: through the development of existing enterprises (qualitative development), and an increase in the number of enterprises through qualified newcomers (quantitative development).

397. A sound developmental strategy must take a comprehensive approach, identifying the sector's policy, entrepreneurial, technical and financial assistance needs, and taking measures and creating institutions to address them.

I.A. GUIDELINES: POLICIES AND INSTITUTIONS

398. The following are basic guidelines for policy measures and institutional systems:

- i. The system should be devised as simply as possible, for the sake of both the target group and the implementing institutions;
- ii. The principal institutions formed to cater to SMIs have to be devoted solely to that section of the industry. To siphon off services for implementing SMI support policies from institutions primarily serving other purposes, may seem a practical and more economical solution at the beginning; however, in the long run this does not bear out;
- iii. The number of institutions created should be kept at the essential minimum, and the institutions themselves streamlined to avoid spending public funds on institutional management instead of enterprise development;
- iv. Measures taken for promoting the SMI sector must be in proportion to its role in overall economic development;
- v. Management efficiency criteria should be adopted and strictly implemented for the judicious and efficient use of resources;
- vi. Communication and flow of information between the institutions and SMIs should be given high priority;

- vii. The responsibilities of government or local administrations should be limited to:
- establishing the system of institutions;
 - providing necessary public funds;
 - preparation and implementation of financial and fiscal encouragement systems;
 - keeping political interference to a minimum once the support strategy and implementation system are established.
- viii. Details of the support strategy, policy measures and institutional operation principles should be based on the results of solid research;
- ix. Before initiating implementation the approval and support of interested groups (SMI) and political parties should be obtained;
- x. It is critical that the system be monitored once it is in place. To this end, feedback and auditing mechanisms should be employed. At all levels and in all areas flexibility and adaptability should be expected.

399. The system can operate effectively only if its component parts are well coordinated.

I.B. PRIORITY ACTIVITIES

400. These priority activities should be carried out in the following order:

- i. The objectives of SMI development should be clearly defined;
- ii. A suitable strategy should be planned;
- iii. Policy measures should be formulated accordingly;
- iv. Institution building activities should be initiated, based on the results of sound research;
- v. Existing institutions should be modified;
- vi. A built-in monitoring mechanism for the system should be created.

II. IDENTIFYING TARGET GROUPS

401. This study aims at envisaging a strategy for the development of the SMI sector as a whole. In Part Three/II.C. definitions for SMIs appropriate to the Turkish environment were suggested. Although the available statistics are severely inadequate, approximations on the nature and size of the general target groups were reached.

402. Small- and medium-scale industries are the enterprises classified in Turkish statistics under the following international code numbers):

31	Food processing
32	Leather and textiles
33	Wood products
34	Paper and printing
35	Chemicals
36	Earthenware products
37	Metal working
38	Machinery production
39	Others

403. The taking of the industrial census has been deferred from 1990 to 1993. The available comprehensive statistics refer therefore to 1985. The annual industrial surveys do not provide sufficient detail, particularly for industries employing fewer than 10 persons. Nevertheless an attempt is made in Part Three/III and Part Three/IV to estimate the size of the Turkish SMI group for the year 1989. The number of enterprises included in this group is determined according to the following definition formulated in that chapter:

- Manufacturing enterprises employing 5 to 199 persons;
- Manufacturing enterprises employing fewer than 5 persons but utilizing machine power in excess of 50 HP.

404. For the year 1989 the number of enterprises falling into the above category is estimated at nearly 60,000. The employment they created in 1989 was estimated at approximately 650,000 persons.

405. The significance of this sector for the entire economy is revealed in these figures: SMIs constitute almost 98% of the total enterprises in the manufacturing industry (excluding handicrafts and artisans) and provide half the employment of the whole manufacturing sector.

406. The SMIs may be grouped into three categories:

- i. Subcontracting ancillary industries, the majority of which are in metal work and machinery production;
- ii. Other SMIs established in large urban centers;
- iii. SMIs established in underdeveloped regions.

III. IDENTIFYING NEEDS

407. The type and magnitude of the needs of these groups differ significantly from one another. The specific needs of the different target groups should be determined by thorough studies. These studies should be carried out in close cooperation between public authorities and KOSDER, whose participation is essential.

408. The preliminary survey carried out for this study reveals that the main requirements of SMIs in less developed regions of Turkey are as follows²⁴:

- i. The entrepreneurs in underdeveloped regions usually lack sufficient technical knowledge, as well as knowledge of investment possibilities open to them. Consequently they rarely go much beyond imitating their neighbors. New business ideas, information on technical requirements, and assistance in preparing investment projects (feasibility report and business plan) should be provided to entrepreneurs at subsidized costs;
- ii. Procedures for establishing a company tend to be complex and vary from agency to agency. The entrepreneurs should be guided, and more importantly, the procedures should be simplified;
- iii. Entrepreneurs face difficulties in gaining access to and equipping premises. Industrial estates and small industry sites have to play more extensive roles in offering serviced land to entrepreneurs;
- iv. Entrepreneurs themselves usually require more training and assistance;
- v. A good infrastructure is necessary for the success of industry. The location of organized industrial estates should be selected accordingly;
- vi. One of the most critical problems in the underdeveloped areas is the shortage of skilled labor at all levels. Special measures should be taken for increasing the availability of skilled personnel;
- vii. Equity capital should be supplemented through special funds. The various mechanisms in comparable environments, outlined in this report, should be carefully studied;
- viii. SMIs are disadvantaged by the present credit requirements of the investment encouragement system, which favor large industries. The requirements should be altered to facilitate the SMIs' access to incentives.
- ix. Fiscal incentives should be applied equally for on-going SMIs and larger industries.

²⁴ The conclusions are based primarily on interviews with entrepreneurs and prospective entrepreneurs, and public officials in development-related administrations.

409. The requirements of the subcontracting SMIs (start-up or on-going) resemble those in underdeveloped regions.

410. In addition:

- i. SMIs in developed regions benefit in a very limited way from the existing incentives. As subcontracting firms operate in proximity to and in conjunction with the larger industries, they should have equal access to the benefits of the encouragement system;
- ii. The SMIs in developed areas are usually involved in higher technologies, computer-based technologies etc. These technology-intensive enterprises require transfer of new technologies, R+D activities, highly qualified specialized personnel, information on new developments in other countries etc. The development of these types of SMIs is very closely linked to the availability of such information, technical assistance and funds.
- iii. The SMIs operating in high-tech fields frequently need to invest in human resource development, R+D activities etc. It is quite difficult to obtain financing through current commercial banking channels. Special facilities should be provided;
- iv. The relation between the subcontracting industries and larger industries are not specifically regulated in Turkey (unlike Japan and the US, where there are special laws or provisions to protect subcontracting firms). The legal aspects of subcontracting should be studied and suitable regulations introduced. Cooperation between the SMIs and larger industries should be encouraged and facilitated;
- v. The equity capital of enterprises in high technologies and innovative areas should be supplemented. The establishment of privately-owned venture capital firms should be encouraged, learning from the experience of developed countries.

IV. MEASURES FOR ADDRESSING NEEDS

411. The following is a list of needs identified in Table Five/1 and measures for addressing them:

i. Technical Support

- Information centers for easy access to technical information;
- Technocenters for technological assistance;
- Common workshops and laboratories for repair, specific production, gauging etc.;
- Quality improvement centers for technical assistance in production;
- Technology transfer centers;
- Productivity improvement programs;
- Research and development opportunities;
- Machinery and equipment expertise;
- Consultants for preparing feasibility studies and business plans, and for providing technical assistance;
- Legal and administrative assistance.

ii. Market Assistance

- Easy access to market information;
- Marketing centers;
- Statistical information (consumption patterns etc.);
- Organization of local and national fairs;
- Consultants for preparing market surveys;
- Coordination between larger industries and SMIs.

iii. Export Promotion

- Export centers for information on foreign markets and marketing channels;
- TSE help for acquiring foreign norms and standards;
- Organization of international fairs in Turkey and participation in foreign fairs;
- Export companies for joint SMI exports.

iv. Training

- Apprentice training;
- In-plant and on-the-job training;
- Vocational schools;
- Entrepreneur and executive training.

v. Serviced Land and Factory Buildings

- Organized industrial estates;
- Pre-fabricated standard factory buildings;
- Lodgings for personnel and managers;
- Recreation centers.

vi. Financial Needs

- Easy access to financial information;
- Funds providing equity capital;
- Venture capital firms;
- Banks providing concessionary investment and working capital credit;

- Loan guarantee facilities;
- Financial leasing of land, buildings, machinery and equipment;
- Fiscal incentives comparable to those available to larger enterprises.

V. ADMINISTRATING INSTITUTIONS

412. It is proposed that the above activities be apportioned as described below (see also Table Five/1):

V.A. TECHNICAL ASSISTANCE

413. KOSGEB and its various centers will serve as the major source of technical assistance. TUBITAK, TSE, MPM, technical universities and professional organizations such as MMD are regarded not as specific instruments but as general institutions:

- Technoparks;
- Investment guidance centers;
- Quality improvement centers;
- Common facilities such as workshops and laboratories;
- Technical information and documentation centers;
- Technology transfer agency;
- Productivity improvement units.

V.B. FINANCIAL DEVELOPMENT

414. In Part Six/VI.E.2. a financial counterpart to KOSGEB is proposed. It is expected that all public instruments for the financial development of SMIs should be created and monitored by this special financial institute, referred to in this study as the SMI Bank:

- Venture capital funds;
- Interest subsidy funds;
- Credit guarantee facilities;
- Concessionary credit funds;
- Lease and purchase facilities.

415. Private enterprises should also participate in the financial development of SMIs through:

- Credit guarantee funds;
- Venture capital firms;
- Commercial banks.

V.C. ENTREPRENEURSHIP AND SKILL DEVELOPMENT

416. It is assumed that KOSGEB will create the specific instruments for this purpose (participation of universities and the Ministry of Education are grouped under general measures):

- Training centers (on-the-job training etc);
- Entrepreneurship development centers (jointly with the universities).

V.D. DEVELOPMENT OF EXPORTS

417. The concept of a specific Export Promotion Agency is elaborated in Part Six/VI.E.3.

V.E. OTHER

418. In Part Six/VI other specific instruments in the overall SMI support strategy are proposed. These agencies should also be created and monitored under the aegis of KOSGEB:

- Information centers (technical and marketing);
- Marketing centers;
- Consultancy centers (to organize and monitor the quality of the services of private consultants);
- Industrial Estates Agency.

419. The relative importance and effectiveness of each of these services can only be evaluated if their use is carefully documented and monitored.

VI. PROPOSALS FOR AN INSTITUTIONAL FRAMEWORK FOR SMI PROMOTION IN TURKEY

VI.A. GENERAL PRINCIPLES

420. The following points elaborate the general principles of the institutional framework presented in Part Six/I:

- i. A comprehensive, coordinated support system should be developed, which would be commensurate with the role of SMIs in the development of the economy;
- ii. The system should be simple, clear and streamlined; institutions and agencies should receive specific, clear-cut mandates to avoid duplication of efforts and competition for power;
- iii. The existing general institutions should be reviewed with an eye to gearing specific services and activities to SMI promotion;
- iv. Critical measures for SMI development should not be implemented by institutions with general purposes, but rather by agencies created for the specific objectives of SMI promotion;

- v. All public institutions created specifically for SMI promotion should have the status of an "Independent Agency." They should be directed by their board, the composition of which should reflect the independent nature of the agency;
- vi. The general and specific institutions should act in cooperation and coordination with each other, to provide services in a comprehensive, integrated manner;
- vii. None of the specific components of the system should be neglected; a system is only as strong as its weakest link.

VI.B. GENERAL POLICY MEASURES

421. There are policy measures and institutions whose aim is to serve the whole economy rather than a specific sector. General policy measures should be adjusted to reflect the relative importance of the SMI sector.

422. The incentive system is the most critical general policy measure. As elaborated in Part Three/V, fiscal incentives are biased towards larger industries. These differences should be eradicated.

423. Second only to the incentive system is policy affecting the educational system. The types and locations of vocational schools and apprentice training should be geared to meet SMI skilled labor requirements. Furthermore, training in computer sciences and programming should be prioritized in university curricula.

424. Foreign trade policies should be adjusted to encourage SMIs to make joint efforts in reaching the foreign markets. As clarified in Part Two/I, the export promotion of the 1980s was accomplished through providing extra incentives to export companies of large corporations. These corporations in turn supplemented their exportable items with the products of smaller companies. Turkey's exports soared during this period; however, the corporations gleaned the lion's share of the financial benefits provided by the incentives.

VI.C. GENERAL INSTITUTIONS

425. The existing general institutions are also important for the development of SMIs in Turkey. Certain of their activities and services can be focused to better address the specific needs of SMIs.

VI.C.1. TUBITAK

426. TUBITAK plays a critical role in providing R+D assistance to industry. TUBITAK presently does not have an R+D program geared especially to SMIs. The TUBITAK staff, however, act on demand; SMIs should be encouraged to cultivate this important contact. Funds may be allocated to TUBITAK specifically for SMI-oriented R+D activities.

VI.C.2. THE STATE INSTITUTE OF STATISTICS (DIE)

427. DIE should revise its definitions concerning Turkish industry. As discussed previously (Part Three/I), DIE does not employ a definition appropriate to Turkish SMIs. This deficiency is reflected in the activities of other state agencies and policy-making bodies. If DIE were to immediately adopt the guidelines for SMI definitions suggested in Part Three/II of this study, the results would be reflected in the Industrial Census of 1993. The presentation of the processed data should be redesigned according to the needs of the industrial enterprises and policy makers. The annual industrial surveys should also be redesigned to include the SMI sector.

VI.C.3. THE NATIONAL PRODUCTIVITY CENTER (MPM)

428. The MPM should prepare programs to identify the productivity improvement needs of SMIs. For this purpose studies at subsectional levels should be carried out. Additional funds should be allocated to NPM for these types of surveys. The activities of MPM related to the improvement of SMIs should be made known to SMIs through seminars and the distribution of free publications.

VI.C.4. THE TURKISH STANDARDS INSTITUTE (TSE)

429. The TSE is implementing programs toward the standardization of industrial production in Turkey, in an attempt to improve product quality. TSE should direct special attention to subcontracting SMIs (especially those belonging to subgroups No. 37 and 38) which produce components for large industries. SMIs should also be encouraged to cooperate with TSE and comply with its established norms and standards. Special programs should be jointly prepared by TSE and KOSGEB to inform entrepreneurs of the benefits of standardized production and the assistance offered by TSE on this matter.

VI.C.5. THE EXPORT PROMOTION CENTER (IGEME)

430. IGEME may play a very important role in the promotion of SMI exports. It could also be involved in the implementation of foreign trade policies. IGEME may guide SMIs by providing detailed, up-to-date information on foreign markets and, if possible, identifying potential purchasing agencies.

VI.D. STRATEGY DEVELOPMENT, COORDINATION AND EVALUATION**VI.D.1. THE MINISTRY OF INDUSTRY AND COMMERCE**

431. The Ministry of Industry and Commerce will play a very important coordinating role in creating an enabling fiscal, monetary, trade and administrative environment in the promotion of SMIs. The main instrument of the promotion strategy, KOSGEB, is attached to this Ministry. The points of coordination are indicated in Table Five/1.

432. The Ministry should organize offices for the purpose of participating in, organizing and monitoring SMI development activities related to:

- i. Technical support (monitoring);
- ii. Marketing assistance (monitoring);
- iii. Provision of serviced land and factory buildings: the Ministry should participate in the Industrial Estate Agency by providing a representative to the Board of Directors;
- iv. Financial and fiscal incentives: the Ministry should participate at the policy-making stage;
- v. Simplification of procedures and deregulation: all entrepreneurs need to establish permanent relationships with the Ministry beginning at the start-up phase. The Ministry should establish an office to study the current procedures with a view to simplifying or eliminating them;
- vi. Facilitating the enterprise establishment process: the Ministry should organize "One-Stop Offices" in which procedures pertaining to various ministries and agencies may be coordinated and conducted.

VI.D.2. THE MINISTRY OF EDUCATION

433. The Ministry of Education should be more involved in the training aspects of SMI promotion activities:

- i. Cooperate with and advise KOSGEB in preparing in-plant and on-the-job training programs;
- ii. Cooperate with and advise KOSGEB and the universities in preparing entrepreneurship development programs;
- iii. Adapt curricula of vocational schools to address the needs of SMIs;
- iv. Establish and administer apprentice training centers and organize on-the-job training of apprentices with large enterprises.

VI.D.3. THE STATE PLANNING OFFICE (DPT)

434. The DPT has a critical role to play in planning and coordinating:

- i. Recognition of SMIs as a special sector of the manufacturing industry;
- ii. Formulation of development strategies; preparation of national investment programs related to the establishment of infrastructures and SMI support institutions;
- iii. Preparation of promotional measures, evaluation of investment projects and awarding of promotional certificates;
- iv. Provision of export incentives to SMIs;

- v. Assistance in site selection for industrial estates and in the strategic management of the Industrial Estates Agency. Cooperation with the Undersecretariat of the Treasury and Foreign Trade in the establishment of industrial estates.

VI.D.4. THE UNDERSECRETARIAT OF THE TREASURY AND FOREIGN TRADE

435. The Undersecretariat of the Treasury and Foreign Trade has a pivotal position in the SMI support strategy and programs:

- i. Establishment of an SMI bank and all related funds (see Part Six/E.2.) and close monitoring of their activities;
- ii. Allocation of treasury land to and expropriation of private land for the Industrial Estate Agency, and participation in the Agency's direction;
- iii. Provision of special funds for agencies such as NPM, TUBITAK, IGEME, and TSE to be used for special SMI development projects;
- iv. Provision of treasury guarantees for foreign funds;
- v. Taking initiative in the establishment of an Export Promotion Agency and participating in its direction;
- vi. In cooperation with DPT, allocating funds to be utilized in providing specific financial incentives to SMIs.

VI.E. PROPOSED SYSTEM OF INSTITUTIONS FOR AN SMI DEVELOPMENT STRATEGY

436. The proposed system is summarized below:

VI.E.1. KOSGEB

437. KOSGEB is the main SMI development agency, responsible for the provision of serviced land and buildings, technical assistance, training, marketing support, entrepreneurship development, R+D activities, provision of information, and consultancy (technical and managerial) services. KOSGEB has already begun to establish:

- quality improvement centers;
- technical development centers specialized at the subsector level (foundry, rubber and plastics);
- consultancy centers;
- industrial training centers.

438. These activities should be supplemented with the establishment of:

- technoparks;
- investor guidance centers;

- common service workshops including gauging instruments, repair facilities, specialized machine tools etc.;
- general laboratories for quality and standard analysis;
- information centers;
- technology transfer center;
- marketing centers;
- an Industrial Estates Agency;
- mechanisms for promoting and monitoring ancillary agencies and SMIs;
- entrepreneur and executive support service centers.

439. With the exception of the Industrial Estates Agency, technology transfer centers and information centers, all other activities and centers listed above should be established as departments within KOSGEB and be considered a single legal entity.

VI.E.1.1. INDUSTRIAL ESTATES AGENCY

440. The existing General Directorate of Organized Industrial Estates should be reshaped as an independent agency (Industrial Estates Agency) with its own Board of Directors, allocated capital and autonomy. KOSGEB should be responsible for the establishment of this agency, but once established, the agency should become independent. The board of the agency should be composed of representatives from the Ministries of Industry, Commerce, and Finance, the Undersecretaries of the Treasury and Foreign Trade, and the DPT, KOSGEB, KOSDER, etc.

441. The Treasury-owned or expropriated land should be allocated to the agency. The agency would then develop these plots into serviced land and also build standard factories and in some cases, lodgings. The entrepreneurs would buy or long-term lease these premises. Leasing should be based on lease-and-purchase arrangements. The agency should maintain ownership of the land and the factory buildings up to the termination of the leasing period, in case of unsuccessful performance.

442. Capital should be allocated to the agency. The original allocation of capital may be partly in kind (plots of land for potential organized industrial estates). The agency should be able to take long-term loans at low interest rates. Experience in developed countries, especially in England and in France (Parts Four/I, Four/II, and Four/III), has demonstrated that this type of agency may be operated very successfully, even profitably.

VI.E.1.2. TECHNOLOGY TRANSFER CENTER

443. The Technology Transfer Center should be established in the same fashion as the Industrial Estate Agency. The Center must have independent agency status. Its board should include representatives from related ministries, TUBITAK, technical

universities, KOSGEB, KOSDER, TÜSIAD etc. The agency should be established under the aegis of KOSGEB and then should gain autonomy. The Center should not be primarily responsible for providing assistance to SMIs; however, it is not in the nature of such an institution to be limited to certain sectors of industry or only to certain kinds of technologies. For that reason the Center should serve the whole industry (for reference see the Korean model, Part Four/IV.A.).

VI.E.1.3. INFORMATION CENTER

444. The Information Center should also be established in a similar way. The Center should be involved in providing technical and market information.

445. In addition, KOSGEB should have its own information units organized as Investor Guidance Centers. These units should provide information on KOSGEB's own activities for the purpose of advising entrepreneurs on their intended investments.

VI.E.2 The SMI Bank

446. The establishment of a bank for meeting the financial requirements of SMIs was envisaged for the first time in the current 6th Development Plan. This is a critical step, yet can only have an impact on the sector in conjunction with the other support mechanisms recommended here. The SMI bank should be established as a major development bank. This bank should be involved in all aspects of development finance for the SMI sector.

447. The SMI Bank should provide the following services:

- Long-term foreign currency investment credit;
- Interest subsidy: SMIs should meet their needs for working capital from commercial banks. The supported SMIs may receive an interest subsidy, paid directly by the SMI Bank to the commercial banks in order to ease the burden of the interest;
- Credit Guarantee Facility: The Credit Guarantee Fund, which is a private organization (see Part Five/III.H.), does not have sufficient volume of capital and it is still a question whether every commercial bank will recognize the letter of guarantee provided by the fund. On the other hand, the SMI Bank, with public sector backing, should be able to provide the required letter of guarantee for commercial banks;
- Participation in selected SMIs: a special fund should be established within the Bank for participation in SMIs at the time of their establishment;
- Leasing: the Bank should lease imported or locally produced machinery and equipment to small- and medium-scale industries;

- Package deals: the Bank should appraise the proposed investment project as well as the entrepreneurs. The Bank should advise the entrepreneurs on a business plan, and the Bank should tailor its services accordingly.

448. The SMI Bank should assume a major role concerning financing for the SMI sector. All public funds and foreign resources allocated to meet the financing requirements of SMIs should be channelled through the SMI Bank.

VI.E.3. The Export Promotion Center

449. As discussed in Part Two/I and again in Parts Five and Six, Turkey had engaged in vigorous export promotion in the 1980s. Success had somewhat diminished by the end of the decade, due to radically changed export conditions and opportunities for Turkey. As previously mentioned, it is both costly and difficult for individual SMIs to penetrate into foreign markets.

450. In order to supplement their effort an Export Promotion Center should be established. The Center should work very closely with the proposed KOSDER and SMI Export Joint Ventures. It should be an autonomous organization, with its own Board of Directors representing private and public institutions. The resources required by the Center should also be provided both by public and private organizations. The services of the Center should not be offered free of charge, but should be available to SMIs at subsidized rates.

VI.F. THE INCREASING ROLE OF PRIVATE SECTOR ORGANIZATIONS

VI.F.1. KOSDER

451. SMIs constitute a major element of industry. Without a healthy and progressive SMI sector, large industries cannot flourish in the current framework of Turkish economy and policies. The flexibility, resiliency and innovative capacities of SMIs are the most important factors protecting the economy from severe fluctuations, and enabling revitalization. Accordingly the foremost objective of a strategy for the development and promotion of the SMI sector should be the recognition of the SMI concept by both policy makers, public sector officials and private entrepreneurs.

452. The most effective means to elevate awareness of the sector is to recommend to its members that they form a union for their common causes (see Parts Five/I, Five/IV, and Six/VII.A.).²⁵ Promotion of a sector is not possible if there is no consciousness of common concerns and group action toward common

²⁵ The subcontracting enterprises catering to the automotive industry have recently formed the Society of Ancillary Industries for Vehicles (Tasit Araclari Yan Sanayi Dernegi or TAYSAD), which has begun to take effective action, and as such sets a good example for SMIs. The Medium and Small Enterprises Board (OKIK) is an advisory body, and as such is not a suitable nucleus for an SMI union. A self-governing independent organization is required.

goals. The main impetus for change must come systematically from the group.

453. The theoretical framework for such a group and the benefits to be derived from it should be explored and the results disseminated by public authorities (perhaps by KOSGEB) among the entrepreneurs, to provide the impetus for such a movement. In its objectives and functions, the union (referred to in this study as the Union of Small- and Medium-Scale Industries or KOSDER) should be structured along the lines of TÜSIAD. It should protect and further the interests of SMIs as a group. One of the first tasks of this union should be to pursue the necessary improvements in the incentive system for facilitating SMI development objectives.

454. KOSDER should also participate in the establishment and direction of the Export Promotion Center and the Industrial Estate Agency, and should also be represented substantially in the direction of KOSGEB.

455. KOSDER should also establish a member registration system which will contribute to the database needed for analytical studies of the problems of subsegments for the SMI groups. The information on each member should cover the basic data on the enterprise, and should contain detailed information on the products manufactured, production capacity etc. The pioneer joint survey of ITO/UNIDO (see Part Five/I) should be regarded as the first critical step (as Istanbul alone constitutes 44% of Turkey's entire SMI sector). Similar surveys should be conducted for a comprehensive view of the country.

456. The data obtained from such surveys should be the basis of a proper databank, to be updated continuously. The maintenance of the data bank should be the responsibility of KOSDER.

VI.F.2. PRIVATE CONSULTANCIES

457. KOSGEB is a development agency, and as such provides a range of consultancy services, available through its regional offices.

458. In other countries consultancy services are either carried out by the permanent staff of a development agency, as in Brazil or in England, France and Germany, or through hired consultants. In the case of hired private consultancy services, the agency subsidizes the costs to entrepreneurs and monitors the quality of the services.

459. In Turkey, consultancy firms are a relatively new resource, to which industry on the whole has not yet become accustomed. It would be counterproductive for KOSGEB to maintain a large group of experts. It is recommended that KOSGEB form a small core group of highly qualified experts in different fields, and engage and monitor the private consultancy services. For actual studies the agency should contract out to existing consultancy firms and stimulate the useful practice of referring to consultancies by subsidizing their services for entrepreneurs.

VI.F.3. COMMERCIAL BANKS

460. In this study it is also envisaged that commercial banks participate in SMI support programs by providing medium-term credit to SMIs (see Parts Five/III.G. and Five/III.H.). Their

interest rates should be subsidized, and the collateral requirements met through credit guarantee funds.

461. In this connection, the establishment of a Credit Guarantee Fund will play a critical role in private sector involvement in SMI development. The fund functions as an insurance system, greatly increasing the supply of credit to the SMI sector. Such institutions, common in developed countries, usually have access to capital pools of insurance companies. In Turkey, local insurance companies may be encouraged to participate in the Credit Guarantee Fund, thus upgrading its position vis-a-vis commercial banks.

VI.G. PROPOSED ROLE FOR THE INTERNATIONAL AGENCIES

462. Since the mid-1960s, UNIDO has been actively involved in the promotion of small- and medium-scale industries in Turkey. At present, UNIDO is involved in numerous projects related to SMI issues. The organization should be invited to take part especially in the planning and implementation of the institution-building aspects of the development strategy.

463. The United Nations Conference on Trade and Development (UNCTAD) should participate in the establishment of the proposed Export Promotion Agency.

464. The World Bank and the European Investment Bank should also be involved first in the establishment and later in the operation of the SMI Bank. The World Bank in particular is usually actively involved in the institution-building aspects of development banks.

VII. A PLAN OF ACTION FOR STRATEGY IMPLEMENTATION

VII.A. An Overview

465. As discussed above, the "group consciousness" concept should be created among SMIs, resulting in the formation of a union (referred to here as KOSDER). KOSDER should lobby for:

- i. Eradication of inequalities in the incentive system;
- ii. Decisions to implement the establishment of the new institutions proposed in this study;
- iii. The restructuring of existing institutions in keeping with the new SMI support strategy.

466. In order to accelerate the formation of KOSDER, KOSGEB should conduct studies and promote the idea to the owners of SMIs.

467. A commission should be established immediately to conduct the necessary studies for the creation of a state development bank, which involves passing special legislation.

468. The general agencies such as MPM, TUBITAK etc. are governed by special laws. Reorganization requiring reformulation of any part of the foundation law must result in the enactment of a new law. The findings of a strategy study and the provisions of the existing laws should be carefully studied in order to point out

necessary modifications first in the laws, and then in the institutions.

469. The establishment of the independent agencies to be spawned from KOSGEB also requires special laws. KOSGEB should give priority to institution-building activities. At present, KOSGEB is heavily burdened with numerous other projects. In order to expedite the establishment of the agencies, it is recommended that KOSGEB utilize outside sources, such as universities and consultants, for the preparation of the requisite studies.

VII.B. TENTATIVE WORK PLAN

470. Implementation of the proposed strategy for the promotion of the SMI sector can proceed only as far as the legal framework allows. To construct a schedule, even a tentative one, for the implementation of a comprehensive strategy involving numerous parliamentary decisions, exceeds the scope of this study. These decisions depend more on the lobbying efforts of the concerned groups than the actual time periods necessary for the preparation of the requisite studies, organization and construction.

471. Accordingly, the following steps are recommended:

- i. Discussion and agreement on the strategy by the appropriate public authorities;
- ii. Establishment of KOSDER and the databank;
- iii. Preparation of legislation for the modification of existing agencies (TUBITAK, TSE, MPM etc) and laws for the establishment of new institutions (the SMI Bank, the Export Promotion Center, the Technology Transfer Agency, the Industrial Estates Agency);
- iv. Completion of subsectoral studies and publication of the results of the 1993 Industrial Census by DIE;
- v. Completion of the restructuring of existing institutions in terms of the SMI development strategy;
- vi. Completion of KOSGEB's restructuring (technoparks, training centers, quality control centers, workshops, entrepreneur guidance centers etc.);
- vii. Completion of the establishment of new agencies (by the end of 1996).

VIII. ENVISAGED DEVELOPMENTAL EFFECTS OF THE PROPOSED STRATEGY

472. This study proposes a change of direction in the industrial development policies hitherto implemented in Turkey. Its application will improve the economic conditions of nearly 60,000 industrial enterprises, covering almost 98% of all industrial enterprises and half the employment of the industrial sector (according to the definition proposed here). Furthermore, it will facilitate the entry of new entrepreneurs in the manufacturing field, armed with new ideas and technologies. Differences in definitions make such comparisons difficult; however, compared with the SMIs of developed countries, it appears that the level

of efficiency or value added of the SMIs in Turkey is markedly lower.

473. Furthermore, entry into the sector from the lower end and further growth appears to be difficult; many enterprises cannot pass the 5-employee and 10-employee threshold levels.

474. It is assumed that by implementing the proposed strategy, Turkish SMIs will improve their competitive positions and with the level of SMIs in developed countries.

475. Although it is too early to quantify the effects of this strategy in action, it is certainly to be expected that the new system will elevate the technological parameters of SMIs as well as increase their chances to expand export. Encouragement of new enterprises with new technologies to enter manufacturing will revitalize the industry. As a result, higher rates of growth in the industrial sector will be achieved, the impact of which will be felt in other sectors of the economy.

IX. SUMMARY AND CONCLUSIONS

476. The SMI concept is solidly grounded in developed countries, which place primary emphasis on overall economic development.

477. Research reveals that though the SMI concept is not sufficiently recognized in Turkey, it has begun to gain a foothold in critical areas.

478. Turkish entrepreneurs are dynamic, and there is a steady influx of young entrepreneurs into industry.

479. Most of these entrepreneurs lack the necessary technical and financial resources for developing their enterprises.

480. In all developed countries special support measures are enacted for the SMI sector. In Turkey the current measures are biased in favor of large industries.

481. Most public institutions, both technical and financing, which provide support to industrial enterprises, do not take the specific needs of SMIs into consideration.

482. The available research on the SMI sector is quite inadequate. Therefore it is difficult to reach quantitative judgments and formulate effective policy measures.

483. This report proposes a new definition for the SMI sector:

- i. Manufacturing enterprises employing 5 - 199 persons;
- ii. Manufacturing enterprises employing fewer than 5 persons but utilizing machine power in excess of 50 HP.

484. The development of a "group consciousness" among members of the SMI group is essential to the sector's well being.

485. SMI entrepreneurs should form an association for promoting and protecting the sector's interests.

486. The development strategy proposed in this report involves the establishment of instruments sharpened to address the specific needs of SMIs.

487. According to the proposed strategy, KOSGEB should act as the primary agent responsible for the technical, commercial and managerial development of SMIs.

488. KOSGEB should be the main instrument in the establishment of more specialized institutions geared to various aspects of the technical, commercial and managerial development of SMIs. After their establishment, these institutions should assume the status of independent agencies. The following new agencies are proposed:

- i. Information Center;
- ii. Technology Transfer Center;
- iii. Industrial Estate Agency.

489. For the financial development of SMIs, a special SMI bank with the status of a development bank should be established. The bank would provide the following services:

- i. Participation;
- ii. Investment credit;
- iii. Interest subsidies;
- iv. Credit guarantee facilities;
- v. Leasing.

490. The establishment of an Export Promotion Center is proposed.

491. In order to complete this system, the restructuring of related agencies such as MPM, TUBITAK, and TSE is proposed.

492. The establishment of offices specializing in the SMI sector in the Ministries of Industry, Commerce, Education, and Finance is proposed.

493. Participation of private sector institutions in the development of SMIs is of special significance, particularly a Credit Guarantee Fund, Venture Capital firms, commercial banks and consultancy services.

494. The envisaged work plan for the implementation of the strategy can only be approximate, as the establishment of the system entails decisions regarding the creation of new laws and the amending of existing legal measures. However, if SMI development is given due consideration, then the system should be completely established by 1996.

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ANNEX 1: The CURRENT INCENTIVE SYSTEM IN TURKEY

1. The incentive system currently under implementation is summarized below.²⁶

2. The incentive system may be grouped under three headings:

- a. Incentives related to investments with an Incentive Certificate;
- b. Incentives related to investments without an Incentive Certificate;
- c. Incentives related to public sector investments.

3. Incentive certificates are provided on a project basis. The projects should be related either to new investments or expansions. Total fixed investments exceeding TL 1 billion in priority zones and TL 5 billion in other areas may obtain investment certificates. The investment certificate provides the following benefits:

- Imports of investment goods are exempt from customs duties;
- Eligibility for an Investment Allowance;
- Payroll taxes are reduced. For investments in priority zones, higher reduction rates are recognized;
- Eligibility for financing investment funds and Foreign Exchange Earning Services is applied;
- Complete exemption from Building Construction Duty;
- Complete exemption from all transaction duties;
- Eligibility for a Resource Utilization Support premium of up to 60%;
- Deferment of VAT payments;
- Exemption from Transportation Infrastructure Duty;
- Access to medium-term credit;
- Access to factory facilities.

²⁶ Resmi Gazete (Official Gazette) March 28, 1992, No. 21185.

4. If the investment is smaller than the above-mentioned figures, the incentive certificate is not provided and the incentive measures only partially apply:

- Exemption from custom duties;
- Building construction tax exemption (applicable only to investment projects in organized industrial estates or small industrial sites;
- Resource Utilization Support Premium (applicable only to investments in priority zones, for up to 10%);
- Access to medium-term credit;
- Financial support.

5. The medium-term credit facilities open to investments with or without a certificate are:

- a. Foreign Sources: Credits obtainable under the foreign credit parity difference fund, known as the FERRIS system (Foreign Exchange Rote Insurance Scale); World Bank credits (since 1980 special credit facilities have been available for SMIs and are administered through SYKB and THB); KfW (administered through THB and TKB), and the European Council Social Development Fund.
- b. Local Sources: the Central Bank Discounting Facility, and funds allocated to the Ministry of Industry and Trade (administered mainly through THB, and also through SYKB and TKB) are available for new technologies, extensions, and investments for bottleneck removals.

6. Medium-term credits: proceeds from the Fund for Financing Investments and Foreign Exchange Earning Services are utilized as medium-term credit facilities. These are applicable only to investments holding incentive certificates. The credit is administered through TKB, THB, the Agricultural Bank of Turkey, and T. Emlak Kredi Bankasi (the Turkish Real Estate and Credit Bank).

7. Small investments without incentive certificates may borrow from special funds administered by THB.

8. In addition to medium-term credit facilities, investment projects with incentive certificates may obtain credits for working capital needs. The source is the proceeds from the Fund for Financing Investments and Foreign Exchange Earning Services. It is administered through the above-mentioned banks.

ANNEX 2: THE ESTABLISHMENT LAW OF KOSGEB**LAW NO. 3624, ENACTED APRIL 12, 1990****PURPOSE AND FOUNDATION****ARTICLE 1**

1. The Small- and Medium-Scale Industry Development Organization has been established with the purpose of upgrading the effectiveness and expanding the share of small- and medium-scale industrial enterprises in meeting the social and economic needs of the country, enhancing their competitive capacity and ensuring industrial integration in conformity with economic development.

2. This public organization is linked to the Ministry of Industry and Trade. It is a legal entity and is subject to special law provisions.

DEFINITIONS**ARTICLE 2**

1. The definitions concerning this Law are as follows:
- a. General Assembly: The Organization's General Assembly;
 - b. Executive Committee; The Organization's Executive Committee;
 - c. Administration: The Organization's Executive Body;
 - d. Fund: Small- and Medium-Scale Industry Development Fund;
 - e. Centers and Institutes: Technology Centers, Technoparks, Development Centers, institutes in specialized fields, Consultancy Centers, Technical Training Centers located in small and organized industrial estates, aimed at ensuring industrial integration; central laboratories for testing, analysis, and quality control;
 - f. Enterprises: Industrial enterprises employing 1-50 workers are defined as Small-Scale Enterprises. Enterprises employing 51-150 workers are defined as Medium-Scale Enterprises.

UPDATING THE DEFINITION OF SMALL- AND MEDIUM-SCALE ENTERPRISES**ARTICLE 3**

1. The Council of Ministers is entitled to revise the capacity of the enterprises described in Article 2 according to the prevailing social and economic conditions.

THE MAIN RESPONSIBILITIES OF THE ORGANIZATION**ARTICLE 4**

1. To establish and manage Technology Centers, Technoparks, Consultancy Centers and Institutes in order to support the R&D activities of small- and medium-scale enterprises.
2. To assist small- and medium-scale enterprises to benefit from the scientific and technological infrastructure of universities and public and private research institutes and to reinforce the cooperation between universities and industry.
3. To provide access to information sources and to disseminate such information.
4. To engage the R & D facilities of universities and research institutes to establish Technology Centers and Technoparks which will serve as technological innovation centers where knowledge on advanced technology is acquired and application to industrial practice initiated.
5. To establish Development Centers which will apply project profiles for the orientation of investments in various subsectors, to help small- and medium-scale industries utilize idle industrial capacity, to contribute to the improvement of efficiency in industry and to implement technical assistance and support programs and projects on such matters as modernization, production, management, marketing, information gathering and technology adaptation in order to equip the enterprises with the principles of modern management.
6. To assist small- and medium-scale enterprises so that they can remain competitive in world markets, to assist in their rehabilitation, to establish centers for the provision of on-the-job consultancies on materials, design, prototypes for manufacturing, selection of manufacturing processes, handling of tools and instruments, maintenance planning etc. so that enterprises can maintain a diversity of manufactured goods; to establish central laboratories for testing, analysis and control.

7. To establish Technical Training Centers to render services such as training of experts, implementation of extensive training programs and assessment of training needs of Small- and Medium-Scale Industries.

8. To upgrade the capabilities of small- and medium-scale enterprises in areas such as investment, production, management and planning.

9. To search for solutions to the marketing problems of small- and medium-scale enterprises and to provide consultancies so that they can remain competitive in domestic and world markets.

ARTICLE 5

1. The executive bodies under the organization are as follows:

- a. The General Assembly;
- b. The Executive Committee;
- c. The Administration.

GENERAL ASSEMBLY

ARTICLE 6

1. The General Assembly shall be chaired by the Minister of State to be appointed by the Prime Minister and shall be represented by:

- The Minister of State in charge of economic affairs (to be appointed by the Prime Minister);
- The Minister of Finance and Customs;
- The Minister of Education;
- The Minister of Industry and Trade;
- The Undersecretary of the State Planning Organization;
- The Undersecretary of the Treasury;
- The Undersecretary of the Industry and Trade Ministry;
- Rectors of technical universities to be appointed in rotation by the Council of Higher Education for

a one-year period in chronological order of their establishment;

- The President of the Scientific and Technical Research Institute;
- The General Secretary of the National Productivity Center;
- The President of the Turkish Standards Institute;
- The Chairman of the Board of Directors of the Chambers and Stock Exchange Union;
- The President of the Chambers of Engineers and the Architects Union;
- Presidents of the Chambers of Mechanical, Electrical, Chemical, Metallurgical, and Civil Engineers, and the President of the Chamber of Architects;
- The President of the Tradespersons and Craftspersons Confederation;
- The President of the Tradespersons and Craftspersons Cooperatives Union;
- The Chairperson of the Directors Board of Independent Accountants, Financial Advisors and Sworn-in Financial Advisors Chambers Union;
- The President of the Turkish Banks Union;
- The General Director of Halkbank;
- The General Director of the Turkish Development Bank;
- The General Directors of other banks to be deemed appropriate by the Prime Ministry;
- The Presidents of 5 chambers of industry to be selected by the General Assembly of Chambers and the Stock Exchange Union;
- The President of the Metal Work Artisans Federation;
- The President of the Electricity and Electronics Technicians Tradespersons and Craftspersons Federation;
- The President of the Wood Craft Artisans Federation;

- The President of Small- and Medium-Scale Industry Businesspersons and Managers Foundation.

2. The General Assembly shall convene at least twice a year by request of the Prime Minister. Issues will be decided by absolute majority among the members in attendance. In the event of a tie the Chairperson will cast the deciding vote.

3. The Assembly's secretarial work will be carried out by the administration.

RESPONSIBILITIES OF THE GENERAL ASSEMBLY

ARTICLE 7

1. To supervise and coordinate development and support strategies in accordance with development plans, to maintain the adaptability of small- and medium-scale enterprises to technological advances, and to maintain their orientation in competitive markets, to review and advise on activities, policies and strategies envisaged by the administration.

EXECUTIVE COMMITTEE

ARTICLE 8

1. The Executive Committee will be chaired by the Minister of Industry and Trade and will be composed of the Undersecretary of the Ministry of Finance and Customs, the Undersecretary of the State Planning Organization, the Undersecretary of the Industry and Trade Ministry, the Chairperson of Directors for the Board of Chambers and the Stock Exchange Union, the President of the Tradespersons and Craftspersons Confederation, A Technical University Rector (member of the General Assembly), the President of the Scientific and Technical Research Institute, and the President of the Administration.

2. The Executive Committee shall convene every other month at the request of the Chairperson. Issues will be decided by absolute majority among the members in attendance. In the event of a tie the Chairperson will cast the deciding vote.

3. The secretarial work of the Executive Committee will be carried out by the Administration.

THE DUTIES OF THE EXECUTIVE COMMITTEE**ARTICLE 9**

1. Pursuant to objectives and policies stipulated by the General Assembly, to take decisions for the development and support of small- and medium-scale industries and to monitor their achievement.
2. To allocate funds in accordance with the objectives of the Organization.
3. To examine the draft regulations concerning the duties, responsibilities and authorities of the bodies under the Administration; to finalize the approved regulations.
4. To take decisions in connection with acquisition and management of real estate and sale of such properties, when deemed necessary, upon prior approval of the General Assembly.

ARTICLE 10

1. All the accounts and transactions of the Fund and the Administration will be audited by the Prime Ministry's Supervisory Council.

THE ADMINISTRATION**ARTICLE 11**

1. The administration is the executive body of the Small- and Medium-Scale Industry Development Organization.
2. The president of the Administration will be appointed by a joint decree of Ministers, the Vice Presidents by proposal of the President and approval of the Executive Committee, and other personnel with the approval of the President. The President may delegate his authority to a deputy.
3. The President represents the Administration and is responsible for the execution of all activities in conformity with the rules and regulations stipulated by the Executive Committee and the General Assembly.
4. The President, Vice Presidents and the officials at all levels may delegate some of their authority provided that the limit of this delegation is explicitly determined. Delegation does not relieve the higher authority of the executive's responsibilities.

DUTIES OF THE ADMINISTRATION**ARTICLE 12**

1. To carry out the decisions taken by the Executive Committee;
2. To establish centers and institutes to help achieve a high standard of production in small- and medium-scale industries by introducing advanced technology, and to assist small- and medium-scale industries in such activities as the provision of consultancies, training, orientation etc.;
3. In accordance with the decisions taken by the Executive Committee, to furnish the Centers and Institutes with necessary equipment, materials and laboratory and workshop tools from local or foreign markets;
4. To rehabilitate, reorganize and integrate existing small- and medium-scale enterprises within the frame of general industrial development policy; to promote and orientate new enterprises according to the needs of industry; to make plans for government contribution; to seek opportunities for foreign financial and technological support;
5. To determine policies and strategies for the development, support and orientation of small- and medium-scale enterprises; to submit relevant proposals for the approval of the Executive Committee;
6. To implement activities defined by the Executive Committee concerning the establishment, development and support of enterprises which will be able to exploit technical innovations in industry;
7. To support small- and medium-scale enterprises in economic, technological and managerial fields;
8. To provide the necessary equipment, materials, laboratory and workshop tools, and R & D activities for the enterprises;
9. To support and guide small- and medium-scale enterprises in the marketing and export of their products; to construct several branches to serve in this respect;
10. To provide coordination among small- and medium-scale enterprises and concerned organizations, and coordination among the technology centers, technoparks, development centers and institutes, consultancy centers, technical training centers and institutes under the Administration;
11. To prepare investment projects for small- and medium-scale enterprises, their cooperatives or associations which are subject to Law No. 507, or to make recommendations on such

projects, to provide consultancies on their financing problems and their dealings with the insurance and loan organizations;

12. To determine the capacity of enterprises, their cooperatives and the associations which are subject to Law No. 507, and to establish branches which will assist these enterprises to maintain full capacity production and a high rate of productivity; to set up a dialogue between small- and medium-scale industries for mutual exchange of their products; to offer export opportunities for small and medium industries;

13. To assess the training needs of enterprises and to provide on-the-job training for them;

14. To launch scientific and technical research programs concerning small- and medium-scale enterprises through cooperation with universities, research institutes and other relevant organizations, and by following the activities of similar international organizations; to develop a data bank to provide information for these enterprises;

15. To carry out activities for the common interests of these enterprises and for their rehabilitation;

16. To acquire real estate required for these services;

17. To prepare regulations concerning the cadre positions, payment policy and duties of the staff to be recruited, and to submit these to the approval of the Executive Committee;

18. To promote and reward individuals and organizations for their efforts concerning the development of small- and medium-scale industries; to support the application of these studies to industrial practice;

19. To establish business enterprises with national or foreign capital or to participate in these establishments; to seek financial sources for this purpose;

20. To eliminate the obstacles hindering the development of small and medium scale industries.

PERSONNEL POLICY

ARTICLE 13

1. The permanent staff of the Administration will be recruited on a contractual basis.

2. The permanent and fundamental duties of the Organization and the title and number of positions, the provisions concerning administrative and social affairs and the payment policy will be settled by regulations issued by the Administration and approved by the Executive Committee.

Disciplinary provisions will be quoted from the pertinent articles of Law No. 657. The basis for temporary recruitment will be determined by the Administration and the temporary staff will be subject to the work contract. Benefits received from social security institutes will not be deducted.

3. The Administration will determine the services requiring specialized labor. The permanent staff can be affiliated with the Pension Fund upon application.

4. Foreign experts may also be employed according to regulations which shall be prepared and enforced with the approval of the Executive Committee.

BUDGET

ARTICLE 14

1. The budget of the Administration shall consist of a source to be administered under the "Small- and Medium-Scale Industry Development Fund".

ARTICLE 15

1. The "Small- and Medium-Scale Industry Development Fund" has been established in the Central Bank of Turkey to help fulfill the objectives of this law.

2. The sources of the fund include:

- a. Allocations from the budget of the Ministry of Industry and Trade;
- b. 0.1% annual profits based on the corporate income tax of companies and institutions chosen by the Council of Ministers among the establishments which are subject to Decree No. 223 and which have an affiliation with the Administration's scope of activities;
- c. 3% annual profits based on the corporate income tax of the Halkbank, Development Bank, T.C. Ziraat Bank, Etibank, Sümerbank, T. Emlakbank, T. Vakiflar Bank, T. Export and Loans Bank;
- d. 1% of loans provided for the establishment of small industrial estates and organized industrial zones;
- e. 2% annual income of the Turkish Tradespersons and Craftspersons Confederation;

- f. 2% annual income of the Chamber of Commerce and Industry, the Chamber of Maritime Commerce and the Stock Exchange Union;
- g. 2% annual income of the Tradespersons and Craftspersons Cooperatives Union;
- h. 0.1% annual income of the Chambers of Engineers and the Architects Union;
- i. 5% of the fuel oil consumption tax;
- j. The transfers from the Privatization Fund and the Housing Development Fund at a rate to be determined by the Council of Ministers for each year;
- k. The transfers from the Import and Export Funds at a rate to be determined by the Council of Ministers for each year;
- l. 5% of the Development and Support Fund;
- m. 2% of the Defence Industry Development Fund;
- n. The earnings gained in return for various activities of the Administration;
- o. The donations and financial aid given to the Administration, and all other incomes which stem from its assessments and legal rights;
- p. Loans obtained from all kinds of foreign and national sources (e.g. The European Settlement Fund);
- q. 2% of the annual income of The Small- and Medium-Scale Enterprises Businesspersons and Managers Association and the Independent Accountants, Financial Advisors and Sworn-in Financial Advisors Chambers Union.

3. Procedures and principles regarding income, expenditures and accounting will be determined with a regulation to be issued upon consent of the State Planning organization and the Ministry of Finance.

OBLIGATIONS, DECLARATION, PLACE AND TIME OF PAYMENT

ARTICLE 16

1. The assessments referred in to Articles 15 b, c, e, f, g and h shall be deposited into the Fund account in the Central Bank in two installments every year in May and October, based on the profits registered the previous year.

Such assessments will be registered as expenditure on the balance of the present year.

2. Receivable assessments will be collected in accordance with the Law on Assessment of Public Debts (Law No. 6183).

EXEMPTIONS AND INCENTIVES

ARTICLE 17.I

1. The Small- and Medium-Scale Industry Development Organization and the Fund will be exempted from:

- a. Corporate income tax (except economic enterprises established under the organization);
- b. Death and inheritance taxes imposed due to donations and financial aid;
- c. Bank and insurance transaction tax which will accrue in favor of the Administration;
- d. All kinds of taxes, duties and other such levies that may be imposed upon the Administration;

ARTICLE 17.II

1. The research centers, institutes, technology centers and technoparks to be established according to this law may benefit from:

- a. The investment incentives provided for the regions assigned priority in development plans;
- b. Deductions in or exemptions from income tax, corporate income tax or customs duties that can be imposed upon the purchase, production or import of equipment and materials for their activities.

NON-APPLICABLE PROVISIONS

ARTICLE 18

1. The Administration will not be subject to Law No. 1050 (Law on Public Accounting), Law No. 832 (Law of Auditing), Law No. 2886 (State Bidding Act), Law No. 657 (Government Officials Law) and Law No. 6245 (Law on Travel Pay).

2. The possessions of the Administration, however, bear state property status and any misconduct or abuse of these

properties shall provide grounds for punishment in accordance with Law No. 657.

TEMPORARY ARTICLE I

1. This law incorporates KÜSGET (Small Industry Development Organization) established under Legislation No. 83/6744 dated 17 June 1983, and SEGEM (Industrial Training and Development Center) established under Legislation No. 7/16728 dated 10 October 1978 into the Small- and Medium-Scale Industry Development Organization.

2. With the enforcement of this law, the obligations, authorities and responsibilities assigned to the above-referenced organizations either through international agreements or otherwise, and the personnel, properties (movable and immovable), and receivable and payable assets of these organizations will be deemed to have been transferred to the Administration with no need for further mechanisms and without liability to taxes, duties and other such levies to be imposed due to transfer operation.

3. Until the issuance of new regulations, the regulations governing the activities of SEGEM and KÜSGET will remain in force.

4. If, after appointment to new cadre positions the wages for certain staff fall below their current wages, the difference will be paid until the situation is rectified.

5. The present duties and titles will remain binding until restructuring is completed.

6. The staff who may wish to resign within 2 months after the enforcement of this law will be entitled to severance pay.

7. The bodies established in accordance with the legislation concerning SEGEM and KÜSGET will continue to assume their responsibilities until the new bodies are established.

TEMPORARY ARTICLE II

1. The transfer operation mentioned in Temporary Article I will have been completed within 6 months after the acceptance of this Law. The current regulations will remain in force until the transfer operation is completed and new regulations are issued.

2. The Administration shall be exempted from taxes, stamp duties and other duties to be imposed due to transfer operation.

ARTICLE 19

1. This Law shall be effective from the date of acceptance.

ARTICLE 20

1. The Council of Ministers is responsible for the execution of these provisions.

ANNEX 3 : SOME EC PROMOTION SCHEMES FOR SMIs²⁷**A. TECHNOLOGY CENTERS****TECHNOLOGICAL INFORMATION CENTERS (TICs), DENMARK****OBJECTIVES AND FUNCTIONS**

1. Fourteen TICs are located in regional centers throughout Denmark. They were established to provide managerial, financial and technological services to SMEs - both start-ups and existing firms.
2. The Danish TICs were established in the 1970s to provide, at a localized level, assistance to SMEs in adopting new technologies. In effect, the centers provide a regional service within the wider national technological service.

INSTRUMENTS

3. The emphasis in the Danish support measures is on the provision of advisory services and assistance to SMEs, and of linkages to appropriate agencies and consultants. All SMEs are eligible, though there are slightly higher subsidies for consultancy services outside the Eastern region.

DELIVERY MECHANISM

4. The services of the TICs in Denmark are delivered directly to the SMEs. These centers are funded partly by the Ministry of Industry (two-thirds) and partly by the local authorities, but maintain a high degree of autonomy in implementing their technological support services.
5. The services of the TICs are rendered actively through visits on a systematic basis to new start-ups and established firms in each area. An established network of contacts is also used to promote the services.

PERFORMANCE

6. The Danish TICs focus on the supply of information and advice despite very limited resources, and cover annually about 20% of the firms in their regional areas. They derive strength from the close, interactive relationships developed with client firms, and their links to the broader technological services in the economy. They are not in a position to provide funding. However, they are regarded as highly effective organizations.

²⁷ DIEHR, D.H., "SMI: Promotion Policies in EC Countries," Special Report, 1991

7. The Danish approach to technical assistance helps raise the awareness among SMEs of technological developments. The process of applying for benefits is facilitated significantly by the interactive approach of the TICs personnel and the regional distribution of the centers. Little paperwork is required to gain access to free consulting and other services on offer.

8. The Danish TIC approach offers the most developed form of delivery system. SMEs are well informed of the services available to them because of the active and systematic promotion carried out by the personnel in these centers.

9. The TICs achieve extensive coverage of the SME population, with each center servicing 3,000 - 4,000 firms. The centers respond to an average of 600 - 700 requests annually, of which approximately 500 are handled by the centers themselves. Given the fact that the TICs provide a broad-ranging service that extends beyond technological support, it is noteworthy that about one-third of the problems they handle are concerned with technological development. Manufacturing and craft firms account for 60% of the inquiries.

10. Evidence exists of considerable benefits derived by firms from the active provision of advice on appropriate technologies and their potential impact. Regarding the wider impact of this promotional measure, there are indications that the TICs have been effective in raising technology levels and improving the quality and competence of SMEs.

TECHNOLOGICAL CENTERS, PORTUGAL

OBJECTIVES AND FUNCTIONS

1. Technological Centers are technical and technological support agencies for firms in the same or complementary industrial sectors; they were set up to assist firms to introduce or adapt appropriate technology through an information and training service, and they assist also with quality control implementation.

2. The concept of the Portuguese Technological Centers was conceived over two decades ago but the legal instruments to establish them were not introduced until 1983, and were not in operation until 1987. Three centers provide services in metalwork industries, glass and ceramics, and footwear. By locating the centers in areas where there is a concentration of SMEs in specific sectors, a regional/localized service is provided.

INSTRUMENTS

3. Portuguese centers concentrate on the provision of 'software' services to SMEs by means of advice on appropriate technologies, related problem solving, provision of information on forms of support and services available through other agencies, and training.

4. The principal industries for which centers exist are glass (Coimbra), metalwork (Porto) and wood, cork and footwear. Essentially established as partnerships between sectoral firms, their associations and the relevant government ministries, the legal status of the centers is that of a non-profit, collective public service utility entity. The public sector is heavily involved in subsidizing the set-up and running costs of the centers for a number of years. 60% of the capital is owned by the private firms which founded them. These centers, though autonomous, are intermediary bodies which execute policy on behalf of the government. Because of substantial funding from the Ministry and the expectation that they are unlikely to be self-financing for at least five years, the government has an important influence on their initial operations.

DELIVERY MECHANISM

5. Arising from private sector involvement in the Portuguese centers, their use is also promoted by the industry associations involved.

6. The SMEs, which partly own the Technological Centers and are kept informed of their activities, apply directly for assistance to the executive personnel.

PERFORMANCE

7. The technological gap experienced by Portuguese firms is being bridged marginally by the Technology Centers, but it is as yet too early to determine how effective these have been. By their nature, the TIC services are provided in the context of a continuing relationship which the Portuguese Technology Centers will no doubt want to foster over time. The semi-private ownership structure of the Portuguese Centers should assist in this regard.

8. The Center for Metalwork Industries has 32 metalwork firms involved with the Industry Association and the state. Work carried out in 1987 consisted of certification tests on products (40% of turnover). Training activities (two-thirds of turnover) took place in 1988. Overall, activities appear very limited. The Ceramics Center has 58 firms involved as partners and is expected to fund only 15% of its operations from its own supply of services in 1988. The Technology Center for the Footwear Industry had 133 firms utilizing its testing service in 1986, and 154 in 1987. This Center was considered less advanced in implementation than the other two, particularly as the laboratory testing service was carried out by another institution.

9. The Portuguese Technology Centers also have a regional dimension and, being set up by potential beneficiaries, one would expect a good deal of prior knowledge of the broad services on offer. The Centers promote the services through visits to firms and general promotional material, but it will take time to develop effective delivery systems.

10. The Portuguese Technology Centers have the capacity to engage in a similar interactive relationship with the sectorally designated firms they were set up to serve. The extent to which they succeed will depend on their ability to attract and retain the technical and other experts needed. While the initial orientation has been on product testing and the provision of training at a basic level, the centers do form the nucleus of a strategically critical network to upgrade the quality of Portuguese industry and prepare it to compete in a post-1992 Europe. To provide a more effective service, the centers need to become integrated to a greater extent into the broader Portuguese technological system and into international technological networks and projects.

B. MEASURES SUPPORTING INNOVATION AND TECHNOLOGY TRANSFER IN ITALY

TYPE AND SCOPE OF INSTRUMENTS

1. The following instruments are distinguished by specific types of innovative activities and are as follows:

- a. Applied Research Fund or R & D activities established by firms to develop new products and processes (not widely used by SMEs);
- b. A Technological Innovation Fund which supports SMEs in undertaking activities of adaptation, improvement, and application of existing innovations at the cutting edge of technological know-how, relevant to both process and product innovations;
- c. Laws No.696/1983 and 399/1987, support the purchase of specific types of new machinery, especially automated tools which are designed to help produce new products and maintain competitiveness;
- d. Law No. 1329/1965, "Sabatini," is a recently revived measure which supports the purchase of new machinery without constraints on its type. It is geared to SMEs with a "passive" approach to innovation and usually with a small customer base.

2. Three of the Italian measures were introduced in the early 1980s while the fourth ("Sabatini") dates originally from 1965. These measures aim at strengthening the supply of innovations through financial support for R & D projects

(through the Applied Research Fund and the Technological Innovation Fund) and to improve demand by supporting specific machinery purchases embodying innovative methods and new technologies. Financial support is also lent to enable more traditional firms to modernize by acquiring the necessary machinery and equipment - this "Sabatini" measure is focused in large part on SMEs.

3. Financial support in Italy is provided largely in the form of grants, the amounts of which are proportional to the level of new technology and the degree of innovation, which, in turn, causes competitive difficulties to persist. There are of course some exceptions in the new "high-tech" firms where small-scale technologies can be used to operate in niche market segments. In Italy, it was also noted that SMEs with direct contact to the final markets were particularly innovative, being able to supply specialized products and identify new applications for products and processes.

4. Two types of financial assistance are provided for SMEs in Italy - subsidized interest rate loans and capital account grants. A combination of both may be used. The level of loan or grant awarded varies according to the degree of innovation. In determining the total investment involved, fixed assets, labor and training costs and the costs of external services are included. The measures entail varying degrees of selectivity.

5. All industrial firms are eligible to apply to the Technological Innovation Fund," but projects must relate to the development of new products or processes. There is a certain bias in favor of SMEs and southern Italian firms because of relatively poor take-up rates in these categories.

6. The measure to promote the purchase of specified categories of machinery applies to manufacturing and artisan firms only, and the machinery and equipment must come from particular high-tech categories. SMEs and southern firms are also favored here. The "Sabatini" measure is the most general/least selective of the measures, though it is utilized primarily by SMEs. The two measures concerned with the acquisition of machinery and equipment attempt to effect cost reductions for beneficiary firms through productivity improvement.

DELIVERY MECHANISM

6. Three of the four Italian measures are implemented directly by government departments (usually the Ministry of Industry). The exception is the "Sabatini" measure which is administered by an intermediary bank, the Mediocredito. Standard banking criteria are used to determine the eligibility of applications for financial assistance.

7. The application process in Italy for financial assistance under the Technological Innovation Fund is long and

complex. Decisions can take up to ten months for SME applicants and even longer for applicants under the Applied Research Fund. Applications for assistance to purchase specified categories of machinery are processed more efficiently and can be granted automatically once the terms and conditions of eligibility are met. The "Sabatini" measure is characterized by its flexibility, whereby suppliers of machinery assist in promoting their sales to qualifying firms and the administering intermediary bank can adjust selection criteria to suit changing circumstances.

PERFORMANCE

8. The Italian measures provided more tangible benefits under the Technological Innovation Fund to a small number of highly innovative SMEs. These were enabled to undertake substantial investment projects which could be financed neither by their own resources nor by financial institutions. The "Sabatini" measure extended to a substantially greater number of SMEs and assisted them to modernize their machinery and improve productivity levels.

9. The Italian Fund measures are ultimately geared to enlarging market opportunities and employment. The machinery measures in Italy improve the competitive strength of the SME sector. Indirect benefits were identified as arising from the enhanced survival/success rates of SMEs which bolstered confidence and contributed to a more favorable business climate.

RESULTS

10. Only 700 SMEs benefitted from the Technological Innovation Fund between 1983-1987. State contributions to approved projects averaged 40%. SME projects accounted for 60% of approved projects, 23% of total investment and 22% of total public contributions.

11. The Italian measure to promote the purchase of specified categories of machinery was taken up more extensively, with 13,400 projects approved between 1984 and 1987. The state contribution amounted to 25% of total investments.

12. The "Sabatini" measure has had a very high take-up rate, with approximately 58,200 projects approved between 1982 and 1987, of which 11% were funded by the state. The number of projects approved has expanded dramatically in recent years, rising from 6,000 in 1985 to 30,000 in 1987, with a strong bias in favor of SMEs. This has been facilitated by a relaxation of delivery procedures by Mediocredito, the administering agency.

13. The regional take-up of measures in Italy was such that existing concentrations of SMEs benefitted most, with marginal regional redistribution. This was particularly the case with

the Technological Innovation Fund, though less so for the "Sabatini" measure, where southern Italian firms tend to fare marginally better. There was a strong bias towards engineering/mechanical sector SMEs in projects approved under the Innovation Fund (over two-thirds of all projects), while the Sabatini measure displayed a more even distribution of recipients - non-manufacturing accounted for 50% of approved projects.

14. Italian measures have had a more identifiable impact in promoting a stronger diffusion of electronic processes in the mechanical engineering sector (where there are several Italian SMEs in medium technology activities). The Technological Innovative Fund has been instrumental in this process. The transfer of technology to low/medium technology traditional SMEs, specifically by increased levels of investment and renewal of machinery, has had a positive impact on competitiveness and export performance. However, the employment effects are frequently negative.

15. The centrally administered Italian measures, with the exception of the "Sabatini" measure, appear to be poorly delivered with little effort on the part of the administering authority in providing information on their availability, assistance with applications or general promotion. Enterprise Associations and Chambers of Commerce partly offset this weakness by creating information channels. Obstacles to using the Technological Innovation Fund measure arise from the detailed application process and the cost of technical services and external consultants in the case of complex projects. This adversely affects SMEs, and particularly those in less favored regions with weak industrial structures and information/service networks. The "Sabatini" measure, which has elements of decentralized delivery through Mediocredito, employs an easier application procedure, is more immediately relevant and used more widely by SMEs. Consortia of SMEs, in some instances, have overcome the participation disadvantages noted.

C. MEASURES OF THE EUROPEAN COMMISSION IN FAVOR OF SMES

GRANTS

1. The European Commission provides a range of grants to enterprises, public authorities, institutions and universities in a variety of areas such as Training, Regional Development, Research and Energy.

2. Globally, these individual programs make a limited contribution towards resolving the Community's more serious difficulties - (reducing regional hardship, increasing employment, improving the Community's competitive position by providing funds for development in both traditional and hi-tech industries).

3. All the programs have a Community focus and, in many cases, are designed to support and complement existing national schemes. The amount of available funds is limited and the conditions and selection criteria rigorous. Application procedures tend to vary from program to program.

4. This section is divided up by subject area and readers are advised to study programs of interest carefully before addressing more detailed enquiries to the relevant national or Community authorities.

D. TRAINING

5. The Community provides a range of training schemes, of which the three most relevant to SMEs may be summarized as follows:

EUROPEAN SOCIAL FUND (ESF)

6. Funds are provided for training and retraining schemes in new technologies etc., and can be applied to public or private projects provided these create or retain jobs. The present emphasis of the fund is on young people and the long-term unemployed in the Community's most economically disadvantaged regions. Competition for scarce resources is fierce and normally results in deductions being applied to the aid granted, particularly in the case of applications for those aged over 35. The ESF will only finance projects receiving public support, and only at the same percentage rate as public authority funds. Applications are submitted to Brussels by the national authorities - these are therefore the point of contact for interested readers.

COMETT

7. The aim is to enhance and encourage greater cooperation between universities and industry in the field of training related to innovation and new technologies. Grants ranging between 40 - 50% are provided for the project types outlined in this section.

EXCHANGES OF YOUNG WORKERS

8. This program is designed to give young workers and employees opportunities to develop their vocational experience by working in another EC Member State, thereby broadening their overall experience.

DELTA

9. Delta's purpose is to harness advances in technology and communication. The Commission has requested ECU 20 m for the pilot phase of the program.

E. RESEARCH AND APPLICATION OF TECHNOLOGIES**GENERAL INFORMATION**

10. The Community's research and technology activities are both diverse and selective and can be divided into major areas which include:

i. INDUSTRY

- a. Information Technology and Telecommunications e.g. ESPRIT/RACE;
- b. Industrial modernization in traditional sectors eg. BRITE/EURAM (Advanced Materials) and Raw Materials;
- c. Norms and Standards e.g.: Community Bureau of Reference/Nuclear Measurements.

ii. BIOTECHNOLOGY AND AGRICULTURE**iii. ENERGY**

- a. Fission;
- b. Non-nuclear.

iv. RESEARCH COOPERATION AND EXCHANGE

- a. Plan to stimulate European scientific cooperation;
- b. Forecasting (FAST).

v. QUALITY OF LIFE

- a. Health;
- b. Environment.

11. EC R & D activities are spread throughout the Commission's departments. However, the two Directorates-General primarily responsible for the management of Community Research and Development are DG XII and DG XIII (Telecommunications, Information Industry & Innovation). The objectives of these Directorates-General differ slightly.

12. DG XII coordinates and provides funding at various levels for basic and fundamental Community research. The aim of EC research is to transfer, to the Community level, only those scientific and technical activities where European collaboration would obtain obvious advantages.

13. DG XIII aims to stimulate demand for the use and production of applied technologies in the public and private sectors, particularly in the field of information.

14. Community research policy is coordinated by means of a multi-annual Framework Program which enables the EC's scientific and technical goals to be defined and facilitates the preparation of specific research activities.

F. FINANCIAL SUPPORT

THE NEW COMMUNITY INSTRUMENT (NCI)

DESCRIPTION AND MAIN OBJECTIVES

15. The new Community Instrument came into being in October 1978, when the Council of Ministers authorized the Commission of the European Communities to borrow up to 1,000 million ECU in the name of the EC and gave a mandate to the European Investment Bank to carry out lending operations with these funds on behalf, for, and at the risk of, the Community. The objective was to increase the combined credit capacity of the Community and to provide further economic objectives to which the Community attaches particular priority. These objectives are determined by the Council of the European Communities.

ACTIVITIES SUPPORTED/LEVELS OF FUNDING

NCI I

16. The first tranche of NCI I, for up to 500 million ECU, was activated in May 1979 for investment in infrastructure assisting regional development and energy projects which helped to reduce the Community's dependence on imported oil. In July 1980, the Council activated the second tranche of

borrowing (for up to 500 million ECU) and specified that up to 400 million ECU was to go to energy and infrastructure investment, as before. The remaining 100 million ECU was earmarked, in November 1980, for advance factory construction (used in Ireland) and for housing as part of the infrastructure necessary for industrial development (in the Italian Mezzogiorno).

NCI II

17. When the Council authorized a second NCI facility of 1,000 million ECU (NCI II) in April 1982, it reaffirmed the importance of directing NCI finance into regional development infrastructure and energy production, but also specified that investment projects of small- and medium-scale undertakings should benefit from NCI financing.

NCI III

18. The Council's third authorization was in April 1983. This was for an overall amount of up to 3,000 million ECU, of which the first 1,500 million ECU tranche was activated by the Council in June of the same year.

19. Again, priority was given to investments serving Community objectives in the energy sector (both production and rationalization), to infrastructure for regional development and to productive investment by small- and medium-scale undertakings, with a strong stress on projects designed in particular to promote the dissemination of innovation and new techniques.

20. A second tranche, for 1,400 million ECU, came into effect in July 1984 and covered the same areas of investment as before, except that support for industrial investment by small- and medium-scale enterprises was given the highest priority.

NCI IV

21. Agreement was reached on 17th November 1986 for NCI IV, whereby the Commission was authorized to borrow up to 750 million ECU to be committed to investment projects for SMEs in industry and other productive sectors, notably the application of technologies, rational use of energy, etc. Priority will be given to projects proposed by very small firms.

22. The EIB was invited, and agreed, to provide a further 750 million ECU from its own resources with the same scope and on the same conditions.

- These loans can also be used to finance certain categories of intangible assets directly connected with the projects concerned, such as patents, licenses, know-how and R & D costs;

- They may also carry deferment of repayment of capital and interest and could be allocated to firms in the form of capital contributions;
- There is no geographical limitation on the use of these loans, although some will be presented for investment under the Integrated Mediterranean Programs (IMP).

NCI V

23. The principles are the same as those for EIB loans; i.e. NCI loans are available:

- in a basket of currencies or in a single currency (including the ECU, for example);
- through global loans for SMEs;
- on conditions (currencies, term and rate) similar to those provided from the EIB's own resources.

THE EUROPEAN INVESTMENT BANK (EIB)

DESCRIPTION AND MAIN OBJECTIVES

1. Established under Article 129 of the Treaty of Rome in 1958, the EIB is the Community's major investment finance body and is independent of the other EC institutions. Its members are the 12 EC states. The greater part of the Bank's resources come from borrowing, principally through public bond issues or private placements, on EC and world capital markets where the EIB has an AAA credit rating. On a non-profit basis, the EIB then lends, at near the borrowing cost, to undertakings, public authorities or financial institutions for capital investments meeting specific Community economic priorities. The EIB can provide loans at fixed and floating rates, or guarantee loans made by other bodies towards the capital cost of projects.

2. The EIB also conducts lending operations outside the EC in the 66 ACP states and in twelve Mediterranean countries.

ACTIVITIES SUPPORTED/FUNDING PRIORITIES

3. The EIB's funds contribute to the EC's balanced development by providing investment finance which:

- a. Helps to stimulate development of less-favored regions. Since the EIB was established, more than half of all its loans have been provided for the less-favored regions. Finance is chiefly made available for investment in industry (both large-scale and SME) and

for all main branches of infrastructure (water, sewerage, irrigation, transport, telecommunications, improved gas and electricity supplies etc);

- b. Modernizes or converts industries or creates new activities to offset structural difficulties affecting certain sectors. Finance is provided: - to encourage the development of highly innovative sectors or for the use of advanced technology; to help the Community's industrial sector to compete on international markets; to establish joint ventures or technical and economic cooperation between companies in different EC countries, etc.

BUSINESS COOPERATION CENTER (BCC)/BUSINESS COOPERATION NETWORK (BC-NET)

DESCRIPTION AND MAIN OBJECTIVES

1. The Community has an important role to play in cooperation between enterprises in different Member States. Part of this effort takes the form of programs and policies in areas such as pre-competitive research, pilot and demonstration projects competition, innovation, transport, technology, and training.

BUSINESS COOPERATION CENTER (BCC)

2. Another part of this effort is demonstrated by the BCC, set up by the Commission in 1973. Attached to the SME Task Force, its aim is to bring European firms seeking cooperation in contact with each other. This cooperation can take place in a variety of areas. Recently the BCC has acted as an adviser to firms, concentrating its efforts on the new members Portugal, Spain and Greece.

BC-NET

3. The most important recent developments of the Center are related to the introduction of the computerized cooperation system BC-NET. The preparatory phases of this operation are in progress and the system will become fully operational in 1988.

ACTIVITIES SUPPORTED/FUNDING PRIORITIES

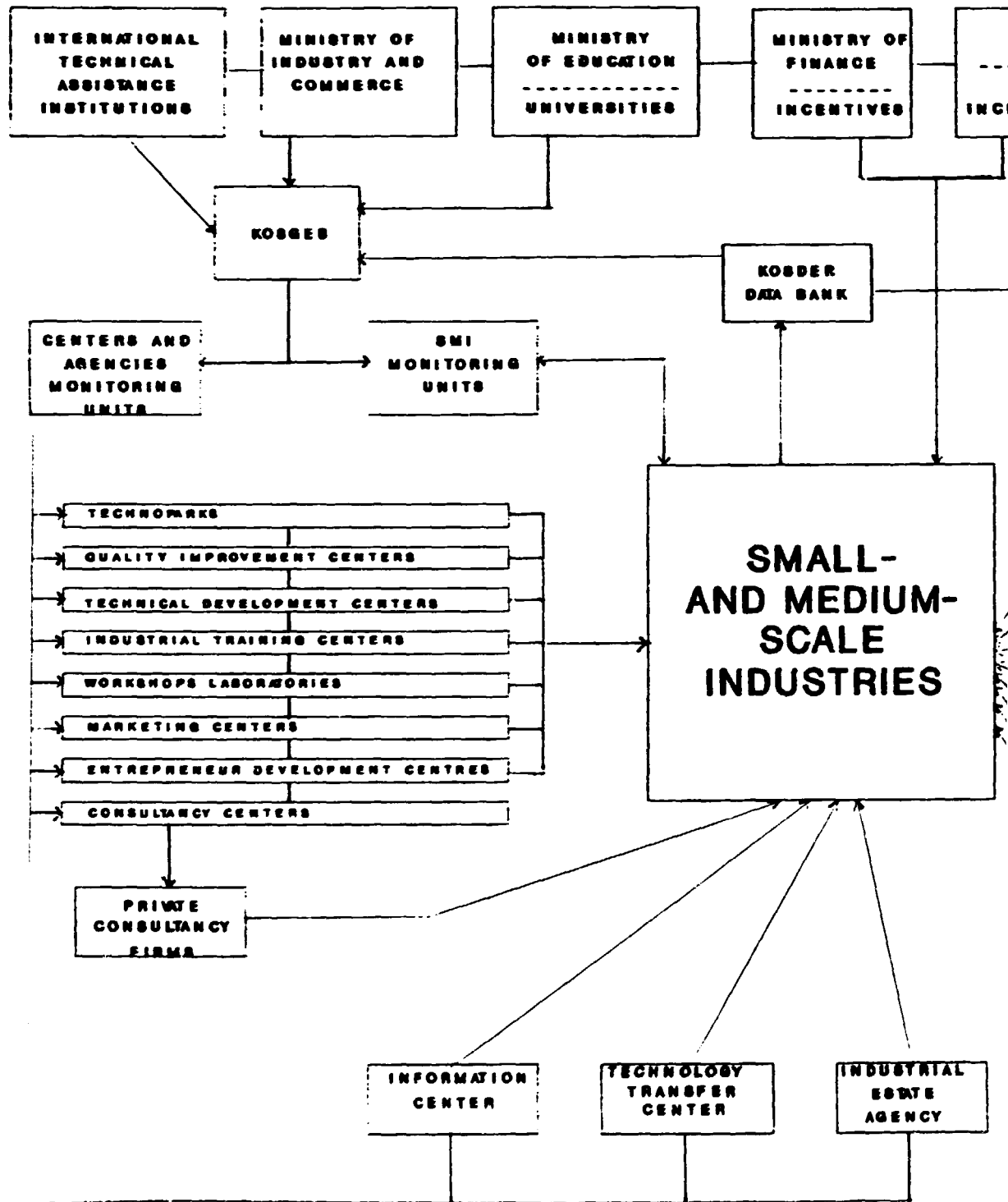
BC-NET

4. The computerized system BC-NET enables offers of and requests for financial, commercial and technical cooperation and subcontracting links to be circulated among firms throughout the EC.

In brief, it functions in the following manner:

- i. When a company is looking for a partner either in another region or another Community country, it addresses its request to an advisor/specialist agency which is a member of the network;
- ii. The request is fed into the system using a common language or "flash profile". The BC-NET system then automatically compares the request with its stock of offers.

PROPOSED SYSTEM FOR THE SUPPORT OF SMALL- AND MEDIUM-SCALE INDUSTRIES



SYSTEM FOR THE DEVELOPMENT OF MEDIUM-SCALE INDUSTRIES

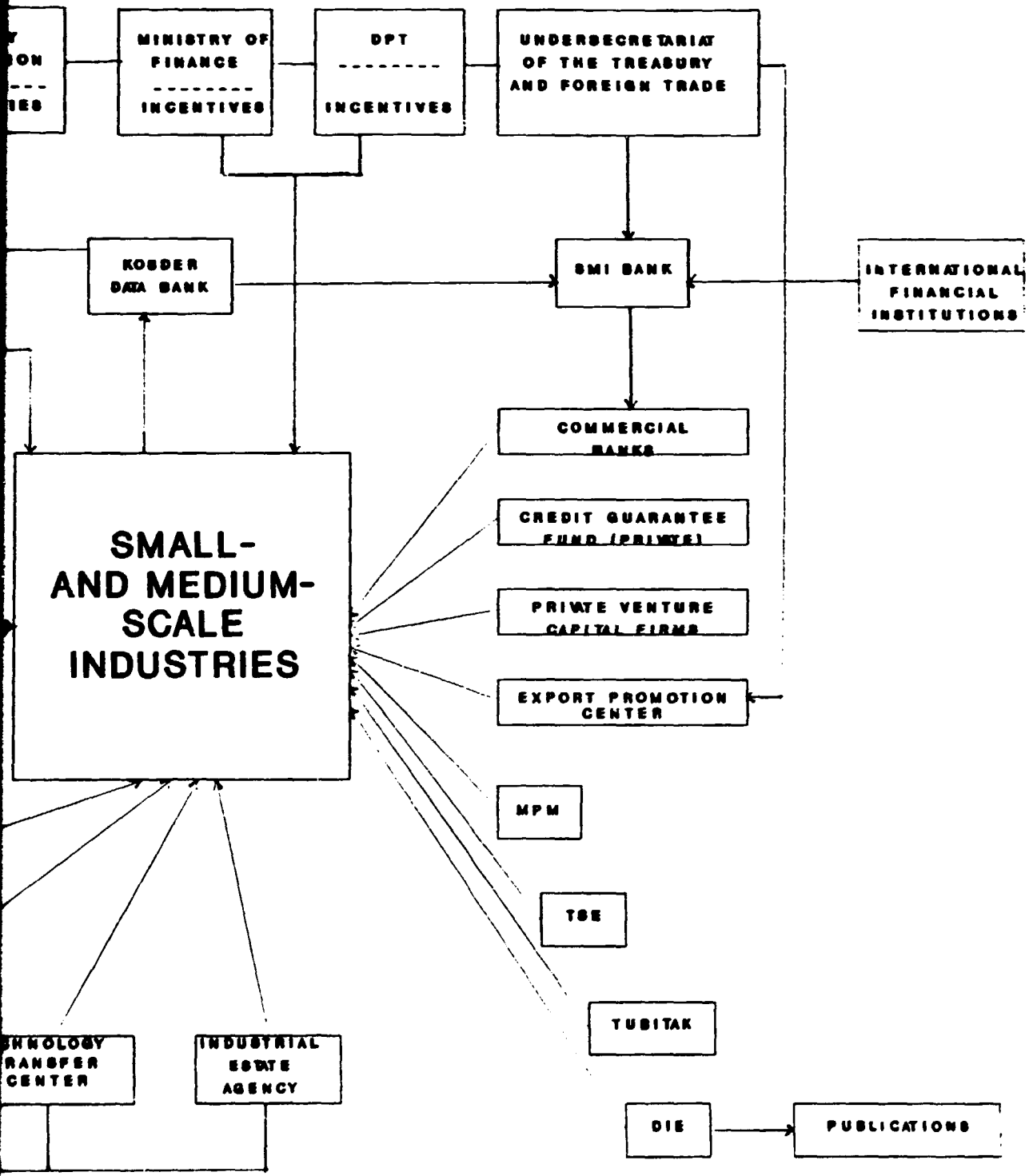


TABLE FIVE/1: FRAMEWORK FOR THE PROMOTING SMI SECTOR OF THE MANUFACTURING I

SOURCES OF FUNDS	IN COOPERATION OR IN THE PROCESS OF BEING ESTABLISHED (PUBLIC)													Financial Institutions (FIS)	Land Allocation (LAs)	
	Ministry of Industry and Trade	Ministry of Finance	Ministry of Education	State Planning Organization (SPO)	Under-Department of Treasury and Foreign Trade	MSSE	Union of Chambers	State Institute of Statistics (SIS)	National Productivity Center (NPC)	Preparation of Organization	Foreign Standards Institute (FSI)	Technology and Research Institute (TRI)	Special Units (SUs, SMI, SMI, SMI)			
Technical Support	MSSE for Coordination and Cooperation					Technical assistance, feasibility study, quality improvement centers			MSSE	Export statistics			Preparation of norms and quality control	Program activities, technological improvements		
Marketing Assistance	MSSE for Coordination and Cooperation					Marketing centers	MSSE working group	Household surveys, sectoral surveys								
Export Promotion				Secretaries for SMI	Establishment of an export promotion agency		MSSE	Export statistics					Foreign standards			
Training			Cooperation with and support for MSSE in preparing program			Training centers (MSSE)	MSSE Training Work Group	Support for MSSE in preparing training program	Support for MSSE in preparing program				Support for MSSE in preparing program and implementation			
Entrepreneurship Promotion			Cooperation with and support for MSSE in preparing program			Investment guidance center, training centers, project grants			MSSE	Support for MSSE in preparing program						
Secured Land and Production Facilities	Participation in establishment and administration	Participation in administration		Participation in site selection and administration		Funding allocation of Treasury-owned land										Allocation of land for industrial estates
Capital Requirement						Funding (local and foreign)										
Credit Support						Funding (local and foreign)	Investment guidance centers	MSSE Finance Work Group						Credit for investment and working capital	Credit for investment and working capital	
Customer Facilities						Funding	Investment guidance centers									
Financial Leasing						Funding (local and foreign)	Investment guidance centers							Implementation of financial leasing		
R & D Activities						Special provisions	R&D centers	MSSE Technology Development Work Group					Technology development	Financial support		
Financial and Fiscal Incentives	Participation in policymaking	Implementation of fiscal incentives		Special provisions for SMI cooperation with officials	Cooperation with SPO, allocation of special funds	Cooperation with SPO							Implementation of credit incentives (local and foreign)	Implementation of credit incentives (local and foreign)		
Information Services				Special office providing information on plans and programs		Information centers		Industrial census and surveys	Preparation of special reports on productivity improvement			Foreign standards	Service for technical developments			
Technical and Management Consultancy						Consultancy centers	MSSE Feasibility Work Group			Support of consultancy companies			Technical consultancy			
Specialization of Formations and Organization	Special office for specialization, development						MSSE Organization Working Group									
Common Facilities	Establishment of new, stop-offices	National research and development centers		Establishment of new, stop-offices		Common facilities: workshops, design laboratories		Periodicals publications	Publications			Publications	Laboratories			

E/1: FRAMEWORK FOR THE PROMOTION OF THE SECTOR OF THE MANUFACTURING INDUSTRY

			PROGRAM 1							PROGRAM 2						
Participating Structure (PS)	Technology and Research Institute (TR)	Special Funds (SF, SFI, SFI, SFI, SFI)	Commercial Bank (CB)	Land Allocation Office (LAO)	Subsidies	Credit Guarantee Fund (CGF)	Information Center, Database	Technology Transfer Agency (TTA)	Export Promotion Agency (EPA)	Specialized SME Bank	Industrial Estates Agency (IEA)	Union of Small- and Medium-Scale Industries (USMSI)	Venture Capital Firm (VCF)	Consultancy Firm	Large Industrial Establishments (LIE)	Commercial Bank
Preparation of norms and quality control	Problem solving, technology of improvement				Problem solving, joint research projects with USMSI		Collection and dissemination of information					Support for USMSI		Feasibility studies, business plans	Technical help to sub-contracting SMEs	
							Collection and dissemination of information					Organization of fairs, establishment of marketing centers		Market research	Commercial help to sub-contracting SMEs	
Foreign standards									Promotion of export possibilities, participation in foreign fairs			Organization of fairs		Market research	Joint projects with SMEs	
	Support for USMSI in preparation and implementation				Support for USMSI in preparing program		Information on SME training facilities					Support for USMSI				
					Support for USMSI in preparing program		Information on entrepreneurship training	Technology selection	Export techniques			Support for USMSI				
				Allocation of land for industrial estates			Information on the system					Establishment and management of industrial estates		Participation in establishment		
							Information on the system			Participation			Funds			
		Credit for investment and working capital	Credit for investment and working capital				Information on the system			Loans and medium-term credit interest subsidy						Medium- and long-term capital
						Provision of guarantee	Information on the system			Counter guarantees to commercial banks						
		Implementation of financial leasing					Information on the system			Lease and purchase of machinery	Implementation of lease and purchase for property					
	Technology development	Financial support			Participation in technology development activities		Information on the system	Implementation of R&D activities in new technology		Special funds	Help to USMSI in establishing R&D centers					Joint R&D projects with SMEs
		Implementation of credit incentives (local and foreign)	Implementation of credit incentives (local and foreign)				Information on the system			Implementation of credit incentives (local and foreign)		Lobbying				
Foreign standards	Search for technical developments						Establishment of information on the system	Information	Information on export opportunities, trade practices and conditions	Information on trading terms		Establishment of the registry				
	Technical consultancy				Consultancy through agencies	Support for consultancy companies	Information on the system					Consultancy services				
												Lobbying activities				
Publications	Laboratories				Publications		Information centers		Publications, information centers		Information centers	SME Registration and Information Center				