

# **SME STRATEGY and ACTION PLAN**



**REPUBLIC OF TURKEY  
PRIME MINISTRY STATE PLANNING ORGANIZATION**

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## LIST OF ABBREVIATIONS

DTM	Undersecretariat of Foreign Trade
EC	European Community
EIC	European Information Centre
EU	European Union
EUGS	Secretariat General for the European Union Affairs
EUROSTAT	European Statistics Office
GIT	Gebze Institute of Technology
İŞKUR	Turkish Employment Organisation
İTKİB	İstanbul Textile and Apparel Exporters' Associations
KGF	Credit Guarantee Fund Inc.
KOBİNET	Information Network for Small and Medium Sized Enterprises under KOSGEB
KOSGEB	Small and Medium Industry Development Organisation
KÜGEM	Centre for the Development of Small Enterprises
MEKSA	Foundation for the Promotion of Vocational Training and Small Industry
NUTS	Nomenclature of Territorial Units for Statistics
OIZ	Organized Industrial Zone
ORTKA	Common Facility Workshops
ORTLAB	Common Facility Laboratories
SDTŞ	Sectoral Foreign Trade Company
SIE	Small Industrial Estate
SIS	State Institute of Statistics

SME	Small and Medium Sized Enterprise
SPO	Undersecretariat of State Planning Organisation
STB	Ministry of Industry and Trade
TASEV	Foundation for Research, Development and Training of Turkish Footwear Industry
TEKMER	Centre for the Development of Technology
TESK	Confederation of Tradesmen and Artisans of Turkey
TİSK	Confederation of Employer Associations of Turkey
TOBB	Turkish Union of Chambers of Commerce, Industry, Maritime Trade and Commodity Exchanges
TSİ	Turkish Standards Institute
TTGV	Technology Development Foundation of Turkey
TÜBİTAK	Scientific and Technical Research Council of Turkey
TÜRK-İŞ	Confederation of Trade Unions of Turkey
VAT	Value Added Tax
YOİKK	Coordination Committee for Improvement of Investment Environment

## **PREFACE**

SMEs have positive contributions in providing and maintaining balanced economic and social development. They also play an important role in decreasing the level of unemployment and creating new employment opportunities and with their flexible production structure they can follow the changes in the market conditions more effectively. Due to their importance almost all the countries, especially the developed ones, are developing and implementing new policies which will encourage establishing, expanding, developing and protecting the SMEs. In this process, SME policies determined at the national level necessarily come to possess an international dimension as well.

Because of the increasing importance of SMEs, studies have been carried out since 1980s to establish a support system for SMEs. It is crucial to consider and improve these studies especially in the aftermath of the accession to the Customs Union.

SME Strategy and Action Plan has been prepared with the aim of applying the policies on SMEs at the national level and enhancing competitive power of SMEs in the process of harmonization with the EU.

SME Strategy and Action Plan, which formulates a road map for SMEs has been prepared by the "SME Study Group" composed of Ministry of Industry and Trade, Undersecretariat of State Planning Organisation (SPO), Undersecretariat of Treasury, Undersecretariat of Foreign Trade (DTM), State Institute of Statistics (SIS), Small and Medium Industry Development Organisation (KOSGEB), Turkish Union of Chambers of Commerce, Industry, Maritime Trade and Commodity Exchanges (TOBB), Confederation of Tradesmen and Artisans of Turkey (TESK) and has been approved by the High Planning Council by its decision dated 10 November 2003.

SME Advisory Committee will be formulated for implementation, monitoring and assesment of the SME Strategy and Action Plan, which can be revised in case of necessity.

We aim and hope to increase the efficiency, competitiveness and shares in value added of SMEs forming 98.8 % of all enterprises, 76.7 % of total employment and 26.5 % of total value added.

## 1 INTRODUCTION

The fundamental strategy developed for small and medium sized enterprises (SMEs) in the 8<sup>th</sup> Five Year Development Plan is based on increasing their efficiency, their share in the value added as well as their international competitiveness. With a view to accomplish these aims and in accordance with market conditions together with our obligations within the scope of international agreements, policies and programmes are being developed to create a more favourable investment environment for SMEs, the market-making role and areas of intervention of the state are being identified, and recommendations are adopted in order to define the role that the private sector should play in increasing the effectiveness of these policies and programmes. In this document, the current situation of SMEs is elaborated inline with principles and guidelines laid out in the 8<sup>th</sup> Five Year Development Plan, Annual Programmes and the National Programme, while at the same time measures that need to be taken in order to achieve the abovementioned objectives in light of the basic strategy documents are identified.

This study has been prepared by “SME Study Group” which determines the essential strategies for SMEs and carry out activities geared towards them. SME Study Group composed of Ministry of Industry and Trade, Undersecretariat of State Planning Organisation (SPO), Undersecretariat of Treasury, Undersecretariat of Foreign Trade (DTM), State Institute of Statistics (SIS), Small and Medium Industry Development Organisation (KOSGEB), Turkish Union of Chambers of Commerce, Industry, Maritime Trade and Commodity Exchanges (TOBB), Confederation of Tradesmen and Artisans of Turkey (TESK). The aim of this study is to determine the scope of existing policies and programmes as well as the activities within this scope in detailed way; to express clearly the responsibilities of public and private organisations for achieving the desired objectives; and to formulate all of the required actions and projects. This draft that has been aligned with the 8<sup>th</sup> Five Year Development Plan, Annual Programmes, Government Programme and Urgent Action Plan by SPO and in which coordination with the EU ensured by EUGS during the preparation phase, was officially approved by the decision of High Planning Council in the name of Turkey.

The execution of National SME Strategy and Action Plan shall be coordinated by SPO. Monitoring and evaluation of the Plan shall be realised by the SME Advisory Committee composed of the most relevant public and private sector organisations in this area. Information regarding the realisation of targets indicated in SME Strategy and Action Plan, as well as the evaluation and the revision proposals brought into the SME Strategy and Action Plan based on the developments arising over time shall be submitted to the SME Advisory Committee by the relevant institutions and organisations. When it is considered necessary, the SPO shall revise the SME Strategy and Action Plan taking opinions of the Advisory Council into account.

## **2 CURRENT SITUATION**

### **2.1 STRUCTURE OF THE SME SECTOR AND ITS POSITION WITHIN THE NATIONAL ECONOMY**

In Turkey, the number of SMEs including those in the service sector constitutes 99.8% of total enterprises and 76.7% of total employment. The share of SME investments within total investments reaches 38% and 26.5% of total value added is also created by these enterprises. Although the share of SMEs in total exports fluctuates on an annual basis, on the average, it is 10% and their share in total bank loans is below 5%<sup>1)</sup>.

Those SMEs that are tradesmen and artisans as well as merchants and industrialists are represented by the Confederation of Tradesmen and Artisans of Turkey and the Union of Chambers of Commerce, Industry, Maritime Trade and Commodity Exchanges of Turkey.

Tradesmen and artisans are organized within the scope of 12 professional federations, 82 unions of chambers of tradesmen and artisans and 3496 chambers of tradesmen and artisans functioning under TESK. As of 31 January 2003 there are 2,761,513 enterprises according to the register records of tradesmen and artisans. Although the number of tradesmen and artisans that are registered has shown an increase through the years, a tremendous

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<sup>1)</sup> Sarıaslan,H.; Türkiye Ekonomisinde KOBİ'ler (SMEs in Turkish Economy) (Ankara, TOBB, 1996) p.9.

decrease in the registry/closure ratio has been observed especially following the periods of economic crises. In 1999, 225,224 companies were officially registered while 59,058 (26%) were closed down. In 2001, the number of registrations was 120,295 and that of closures was 101,999 (84%). In 2002, the number of new registries rose to 122,091 while that of closures increased to 116,100 (95%).

TOBB, which is the legal high-level organisation of merchants and industrialists- comprises 11 chambers of industry, 2 chambers of maritime trade, 175 chambers of commerce and industry and 108 commodity exchanges. According to data for the year 2000, the number of registered members is 995,647. Last year, TOBB initiated the TOBB-NET project that will provide an opportunity for publishing information about all enterprises that are members of the chambers and commodity exchanges on its Web site based on industrial classifications. In the near future, these data will be able to be followed as opening to updates on this system.

The main target group of the SME support programmes is the manufacturing industry SMEs. According to 2000 figures of the State Institute of Statistics, (those enterprises with 1-150 workers are considered as SMEs) there are a total of 208,183 SMEs operating in the manufacturing industry employing 922,715 people. SMEs constitute 99.2% of all the enterprises in the manufacturing industry and they account for 55.65% of employment in this sector<sup>2)</sup>.

When manufacturing industry is analysed in terms of distinction of public-private sector and sizes of enterprises, it is observed that 0.1% of the businesses are state enterprises, whereas, 99.9% are private enterprises. State enterprises employ 7.5% of the employees in all the work places and produce 17.2% of the value added. Private enterprises, on the other hand, employ 92.5% of the work force and create 82.8% of the value added. According to the 2000 figures of SIS, data regarding the manufacturing industry are presented in Table1.

TABLE 1: Data Pertaining to Enterprises Operating in the Manufacturing Industry (2000)

YEAR	SECTOR	SIZE GROUP	WORK PLACES	AVERAGE NUMBER OF EMPLOYEES	VALUE ADDED (Euro)	RATIO TO NUMBER OF WORK PLACES (%)	RATIO TO AVERAGE NUMBER OF EMPLOYEES (%)	RATIO TO VALUE ADDED (%)
2000	TOTAL		209,817	1,658,098	44,506,303,249	100.00	100.00	100.00
		1-9	198,700	527,624	3,138,145,989	94.70	31.82	7.05
		10-49	6,970	179,152	3,292,615,489	3.32	10.80	7.40
		50-99	1,743	121,697	2,517,268,601	0.83	7.34	5.66
		100-150	770	94,242	2,608,668,892	0.37	5.68	5.86
		151-250	704	135,424	4,481,906,611	0.34	8.17	10.07
		251+	930	599,959	28,467,697,667	0.44	36.18	63.96
2000	PUBLIC		262	124,104	7,665,474,917	100.00	100.00	100.00
		10-49	32	854	18,468,580	12.21	0.69	0.24
		50-99	17	1,288	25,885,488	6.49	1.04	0.34
		100-150	22	2,780	90,748,946	8.40	2.24	1.18
		151-250	59	11,982	252,718,410	22.52	9.65	3.30
		251+	132	107,200	7,277,653,493	50.38	86.38	94.94
2000	PRIVATE		209,555	1,533,994	36,840,828,332	100.00	100.00	100.00
		1-9	198,700	527,624	3,138,145,989	94.82	34.40	8.52
		10-49	6,938	178,298	3,274,146,909	3.31	11.62	8.89
		50-99	1,726	120,409	2,491,383,113	0.82	7.85	6.76
		100-150	748	91,462	2,517,919,947	0.36	5.96	6.83
		151-250	645	123,442	4,229,188,200	0.31	8.05	11.48
		251+	798	492,759	21,190,044,174	0.38	32.12	57.52

)SOURCE: State Institute of Statistics, 2000, (1 Euro: 574.345.24 TL)

However, as a result of the earthquake in 1999 and the crises of November 2000 and February 2001, it is known that there have been changes in the number of enterprises. In 2003, the 8<sup>th</sup> General Census of Industry and Work Places shall be conducted covering the data for the year 2002 as well. Furthermore, forming an Administrative Business Registration System and a Statistical Business Registration System in all the sectors, opportunity for accessing sound and up to date statistical data in line with the European Union (EU) norms shall be provided.

Turkish industry is much more SME-based than the EU industry when the European scales of enterprises are taken into account as a comparison base. When comparing the economy as a whole with that of the EU economy, however, it is seen that the agricultural sector and the rural population employed in the agricultural sector have considerably higher proportions in Turkey than corresponding average figures in the EU. However, this situation is in a process of rapid change towards the normal standards of developed countries in line with the movement of urbanisation.

On the other hand, capital accumulation of Turkey remains insufficient in relation to the country's development needs and foreign capital inflow to the country stays at a very low level as well. In this situation, considering the surplus manpower that exceeds the capacity of the large enterprise sector, arising in cities, it is an inevitable development option for Turkey to promote SMEs, which is the most economic employment creation field.

## **2.2 INSTITUTIONAL STRUCTURE**

There are a number of public organisations responsible in the formulation and implementation of SME policies. The Undersecretariat of State Planning Organisation is responsible for preparing long-term development plans and annual programmes that also cover SME policies. SPO takes the opinions of all the relevant public and private organisations during the preparation process of the Development Plans, determines macro policies for SMEs and ensures coordination among public and private organisations with the aim of increasing the effectiveness of implementation of these policies. Moreover, SPO evaluates the developments, proposes revisions to the policies, if required.

The main public organisations in charge of the implementation of SME policies is the Ministry of Industry and Trade together with its affiliated organisation of Small and Medium Industry Development Organisation. The Undersecretariat of Treasury and Undersecretariat of Foreign Trade are also the institutions that implement incentive programmes for SMEs. In implementing the SME policies, TOBB and TESK also play an important role as two main professional organisations. In addition, SMEs are supported in the areas of loans and guarantees through T. Halk Bank Inc., Tradesmen and Artisans Credit and Security Cooperatives Union Central Association of Turkey (TESKOMB) and Credit Guarantee Fund Inc. (KGF). Other organisations that render services to SMEs within the scope of their operational domain are Scientific and Technical Research Council of Turkey (TÜBİTAK), Technology Development Foundation of Turkey (TTGV), Turkish Standards Institute (TSE), Turkish Patent Institute (TPE) and Turkish Accreditation Agency (TÜRKAK).

### **2.3 RECENT DEVELOPMENTS AND SUPPORTS PROVIDED TO SMES**

As of 2002, it was not possible to provide Turkish SMEs with a financial market up to the standards of developed countries with modern support facilities beginning at the start-up phase of the SMEs and legislation that would ensure a working environment facilitating their operations. Efforts for informing and training entrepreneurs did not reach the desired level and cooperation between universities and the industry did not bring the expected outcomes, either. Based on adverse changes in the macroeconomic balances of the country and the difficulties encountered in establishing stability, the guidance power of incentive policy has declined and the targets of the incentive system have been realised at the level below what was initially envisioned.

SMEs operating under these circumstances have been the sector that is most adversely affected by economic crises. As a result of the economic crises, the Turkish lira depreciated excessively, production dropped due to the rise in prices of imported input and the decline in domestic demand, supportive measures to support exports could not be taken on time and confidence problem arose in the economy.

As a result of reaching of the duty loss of state banks incurred from subsidized credits to the level high figures that could not be compensated by the Treasury, a provision that was the loss of income to arise from the subsidized credits extended by Ziraat Bank Inc. and Halk Bank of Turkey Inc. to tradesmen, artisans, young entrepreneurs and female entrepreneurs would be paid as advance payment from the budget and that state banks could not be given any duty that would cause them to incur duty losses, was put into effect.

Following this decision, banks increased their loan interest rates in a retroactive and unilateral manner, and as a result, enterprises have had difficulties in repayments, a serious contraction has been observed in credit facilities, rate of credit use has gone down, and SME incentive credits have decreased to a level incomparable with previous years as well. With the aim of overcoming the problems of the state banks with the real sector in retroactive receivables, it is announced that 55% interest rate would be applied to cooperative loans extended to tradesmen and artisans. Those tradesmen and artisans who paid their debts with an interest rate of 97% were allowed to withdraw the interest difference in instalments or use these payments in set-off transactions.

The increase in social security premiums put especially those enterprises that follow a net wage policy in a difficult position. While some of them dismissed workers or lowered wages, tendency to use domestic and foreign illegal work force has increased. On the other hand, a facility was introduced for enterprises to pay their accumulated debts to the Social Securities Organisation and Bağ-Kur with 3% of interest and with payment terms of up to 18 months.

In this period, supports for SMEs in the areas of infrastructure, financing, guarantees, R&D, training, consulting, marketing and promotions were continued.

With the aim of having small and medium sized industrialists produce in modern and healthy conditions and of taking environmental pollution under control, establishment of Small Industrial Estates (SIE) and Organized Industrial Zones (OIZ) is being promoted by the General Directorate of Small Arts, Industrial Zones and Estates under the Ministry of Industry and Trade.

In accordance with the Law of Establishment<sup>3)</sup> No. 3143, the Ministry provides special loans with low interest rates and long terms for cooperatives of small industrialists within limits determined according to the degree of regional development. These credits are given for the entirety of infrastructure construction and up to 70% of superstructure construction. Ministry also provides credit facilities for the infrastructure construction of OIZs where small and medium sized industries are located.

Until the year 2003, construction of 362 SIEs was completed including a total of 83,318 work places (Table 2). Currently, 400,000 people are employed at industrial estates, which have an employment capacity of 500,000 people. The number of SIEs completed without the credit support of the Ministry of Industry and Trade is around twice the number of those finalized with the support of the Ministry. There are apprenticeship schools or training centres in 275 of the SIEs that have been opened for servicing.

TABLE 2: Small Industrial Estates Completed

YEARS	NUMBER	NUMBER OF WORK PLACES	EMPLOYMENT CAPACITY (PERSONS)
1960-1995	262	62,113	386,080
1995	273	63,640	395,222
1996	289	65,326	405,338
1997	291	70,747	437,864
1998	294	71,722	443,714
1999	306	72,130	446,162
2000	313	74,121	445,000
2001	349	81,453	488,000
2002	362	83,318	500,000

SOURCE: Ministry of Industry and Trade (These data are only for those small industrial estates that have used loans from the Ministry.)

In the year 2000, the Law on Organized Industrial Zones No: 4562 was put into effect regarding the establishment of OIZs. The infrastructure facilities of OIZs are in a better level than SIEs and production has started in 10,582 (66%) of the total 13,344 work places in 65 SIEs. 351,299 people (30%) are

<sup>3)</sup> Law No. 3143 on the Establishment and Duties of the Ministry of Industry and Trade.

currently employed in these work places which have an employment capacity of 1,159,754 people. There are 2,258 work places in 118 OIZs, which are under construction, and these work places shall provide employment opportunities for extra 466.490 people. Meanwhile, 93 OIZs are at the feasibility and planning phase. Almost all of the enterprises at the OIZs are in the SME scale.

Within the process of increasing effectiveness of public investments carried out by SPO, in order to allow for more rapid completion of the OIZ and SIE constructions that are in the Investment Programme, only the projects which have been identified as first degree priority and which have high feasibility are funded. Projects that have lost their priority are followed up with trace allowance, and those projects which have not yet been granted a tender and which have lost their feasibility are taken out of the programme, thus ensuring rational use of appropriations.

In 2001, the Law on Technology Development Zones No: 4691 was put into effect with the aim of supporting technology-based enterprises, developing cooperation between universities and the industry, and facilitating the spread of technology. Within the framework of the provisions of this law, the Ortadoğu Techno Park (METU-Ankara) and TÜBİTAK-Marmara Research Centre Techno Park were introduced with the publication of the Law. Subsequently, the following twelve Technology Development Zones were established: İzmir Technology Development Zone, Ankara (Bilkent) and Gebze OIZ Techno-park were announced in the Official Gazette No: 24934 dated 12 November 2002; İstanbul Technical University Arı Techno-city and Hacettepe University were announced in the Official Gazette No: 24989 dated 10 January 2003; Yıldız Technical University, Eskişehir and Kocaeli Universities were announced in the Official Gazette No: 25075 dated 10 April 2003; Selçuk and İstanbul Universities were announced in the Official Gazette No: 25193 dated 8 August 2003. All of the enterprises in the Technology Development Zones are in SME scale and it is seen that these businesses operate in the IT, defence and electronic industries in particular.

With the aim of encouraging investments, directing the savings of Turkish workers abroad into investments in the country, and making foreign capital inflow increase, the Law Amending the Law of Industrial Zones and the Law of Organized Industrial Zones No: 4737 was put into effect after being

published in the Official Gazette No: 24645 dated 19 January, 2002. As a result of the evaluations of applications by the Industrial Zones Coordination Board, the secretariat of which is run by the Ministry of Industry and Trade, it is planned that the establishment of industrial zones will be started in 2003 with a Decision of Council of Ministers.

Support for the enterprises that operate on export-oriented basis in 24 Free Zones which had been established within the framework of the provisions of Law No: 3218 dated 06 June, 1985 has been continuing. As of 30 September 2002, 27,473 people were employed in these zones.

As of 2003, there are 759 SMEs that are partners of 23 Sectoral Foreign Trade Companies (SDTŞs) established by the Communiqué published in the Official Gazette No: 22859 dated 26 December, 1996.

According to the Decision of Council of Ministers dated 27 December, 1994, the Undersecretariat of Foreign Trade provides state aid for exports for enterprises in line with the rules of the EU and GATT. In this context, information regarding the aids provided for SMEs in the period of 1996-2000 is given below (Table 3).

TABLE 3: Support Provided for SMEs by the Undersecretariat of Foreign Trade within the Scope of Public Aid for Exports in 2002

TYPE OF AID	NUMBER OF SMEs	AMOUNT OF AID (EURO)
R&D aid	626	24,547,368
Support for environmental costs	217	211,121
Support for market research	240	235,454
Aid for offices/stores abroad (for opening/operating)	47	1,359,477
Support for participation in exhibitions abroad	8,380	40,995,531
Aid for training	5	519,127
Aid for employment	9	316,882
Aid for brands	18	1,490,592
TOTAL	10,142	69,600,394

The most important share within financial aids provided for SMEs is constituted by the loans offered by T. Halk Bank with convenient terms.

Within the year 2002, the bank made a total 427,488,000 Euros credit used from the Fund to 33,567 SMEs and via industrial credits, met the credit demands of 18,873 SMEs with a total of 71,840,935 Euro worth. In the same period, tradesmen and artisans used 145,059 loans amounting to 102,637,407 Euros through tradesmen and artisans credit and security cooperatives. Breakdown of the Bank's loans between the years 1999-2002 is presented below(Table4).

TABLE 4: Distribution of T. Halk Bank Inc. Loans by Year (EURO)

YEAR	SME LOANS				COOPERATIVE LOANS		ENTREPRENEURSHIP LOANS	
	FUND LOANS		INDUSTRIAL LOANS		LOANS for TRADESMEN & ARTISANS			
	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT
1999	-	685,738,733	26,074	171,854,638	707,546	676,238,083	29,614	16,294,645
2000	-	742,286,453	26,849	152,551,319	877,757	681,797,755	4,536	5,284,076
2001	37,492	560,376,085	14,191	26,462,817	891,222	158,777,136	2,568	369,042
2002	33,567	427,488,443	18,873	71,841,175	145,059	102,637,787	520	44,834

SOURCE: T. Halk Bank Inc. (The average exchange rate for Euro was used for each respective year.)

Impact of the 2001 economic crisis had become apparent in the amount of loans provided by the bank. A considerable decline was seen in the number of SME loans and the volume of cooperative loans while the most serious decline occurred in the entrepreneurship loans.

As of the end of 2001, 40,300,000 Euros of credit guarantee support was provided for 1079 credits in the amount of 55,000,000 Euros used by 631 companies through Credit Guarantee Fund Inc., which had been founded for the purpose of providing guarantee support for the credits of the SMEs taken from Halk Bank of Turkey.

Reorganisation process at T. Halk Bank of which SME credits guarantee support is provided by KGF, as well as the economic crisis which began in the financial markets resulting in a significant contraction within the economy had caused considerable cutback in the activities of KGF. Their activities in 2001 declined by 72% in numbers and by 48% in volume as compared to the previous year.

KGF's activities are mainly concentrated in the manufacturing industry (94%) while with respect to the sub-sectors, most of the guarantee support is given to the food and beverages industry which are followed by the weaving and apparel, health, machine building and forestry products industries. Trend of the decline in the share of credits with incentive certificates within the total of credits with guarantee support has been continuing. This rate, which was 75% in 1999 and 54% in 2000 constituted 43% of the total in 2001.

As a result of KGF's efforts for cooperating with other banks that extend credits to SMEs, a protocol was signed with Garanti Bank of Turkey Inc. in 2002.

Investment and working capital credits are provided for investors to whom incentive certificates are given within the framework of the "Resolution on State Aid for SME Investments" which is implemented by the Undersecretariat of Treasury's General Directorate of Incentive and Implementation. Furthermore, within the scope of incentive certificates, SMEs are also entitled to make use of exemptions from customs duty and Mass Housing Fund;

investment allowance<sup>4)</sup>; VAT exclusion; and taxes, duties and fees exemption.  
(Table 5).

TABLE 5: Distribution of SME Incentive Certificates by Year (EURO)

YEAR	NUMBER of SMEs	INVESTMENT LOANS	WORKING CAPITAL LOANS	TOTAL LOANS	FIXED INVESTMENT	EMPLOYMENT
1997	1,550	91,647,059	18,375,350	110,022,409	175,770,308	14,974
1998	1,171	53,588,566	13,270,729	66,859,295	114,159,916	12,117
1999	1,695	57,786,553	37,786,549	95,573,102	130,681,864	10,222
2000	1,229	37,757,778	26,242,056	63,999,834	85,479,946	5,587
2001	246	4,253,903	3,223,375	7,477,278	14,026,531	674
2002	390	14,188,452	5,552,338	19,740,789	46,418,326	1,498
2003	147	5,918,707	2,041,980	7,961,259	19,681,317	517
<b>TOTAL</b>	<b>6,428</b>	<b>265,141,017</b>	<b>106,492,377</b>	<b>371,633,966</b>	<b>586,218,209</b>	<b>45,589</b>

SOURCE: Undersecretariat of Treasury (The average Euro exchange rate was used for each respective year,) April 2003

Within the framework of the provisions of the abovementioned resolution, as of 2000, provision of state supports for the activities of the existing credit guarantee institutions and the practises of supporting establishment of new credit guarantee organisations have been started.

Within the scope of KOSGEB's activities, in 2002, support services were provided for 2928 companies in the area of consultancy, 6472 companies in the area of laboratories, 5870 in training, 224 companies in quality and 4175 in the area of preparation of construction projects through 28 Centres for the Development of Small Enterprises (KÜGEMs).

In order to develop the kind of SMEs which may operate information intensively and in the field of high technology through supporting their R&D based activities and to incorporate them into the economy in the long-term, in 2001, R&D activities of a total of 140 enterprises were supported through 11 Centres for the Development of Technology (TEKMERS) and 784 people were

<sup>4)</sup> This support factor was taken out of the scope of incentives and transformed into a general financial regulation as of 24 April, 2003 which is the date on which law no. 4842 dated 9 April, 2003 was published in the Official Gazette.

employed in these projects. In 2001, SMEs were provided with 277,161 Euros of support as part of the operations of Common Facility Workshops (ORTKAs) and Common Facility Laboratories (ORTLABs), which are implemented within the framework of the “Regional and Local Industry Development Programme”. In order to ensure SMEs’ opening up to international markets, 88 companies were supported in 18 international fairs with a total area of 925 m<sup>2</sup> in the year 2001. 369 companies were also promoted in 25 domestic fairs with a total area of 4687 m<sup>2</sup>. Furthermore, providing 31,326 Euros of aid for 103 companies in 2001, Export-oriented Market Research SME Overseas Cooperation Travel (İPAGs) to 7 different countries were organised.

The number of member enterprises of the Information Network for Small and Medium Enterprises (KOBİ-NET) operated by KOSGEB has reached 12,000. A significant increase was observed in the number of internet sites, which are run by the private sector, and rendering informative services for the SMEs over the Internet.

Following the liquidation of extra-budgetary funds with the Law No: 4684 dated 20 June, 2001, the KOSGEB Fund were taken into the general budget and KOSGEB’s source of income was re-identified. During the second half of 2002, owing to the generation of a considerable amount of income, KOSGEB has reached to the level that can now meet its investment needs from its own resources.

Preparations towards the Project for the Development and Support of SMEs within the scope of Eastern Anatolian Development Programme to be implemented in the provinces of Van, Muş, Bitlis, Hakkari, and which will be coordinated by SPO and use of EU MEDA resources, are in its final stage. Activities planned under the scope of this project are: Improving the machinery infrastructure of the small and medium sized enterprises in the region; intensification of training, consultancy and information services reinforcing the management structures of the existing SIEs; implementing promotion and marketing programmes to support the sales of local products (including handicrafts) to outside of the region; and initiating finance schemes for SMEs. Development of the provincial organisation of KOSGEB and its service infrastructure shall also be provided within the scope of the project. Activities planned in the four provinces within the frame of this project which covers three

years, are aimed to be implemented in all of the provinces of the region in the medium term by subsequent projects.

Within the structure of the regional development programmes to be developed, efforts has being made to develop SME support approaches and practices that are suitable for the local natural resources, labour infrastructure and potential, market conditions and corporate structure of the region, while at the same time it is aimed to provide more support for the less developed regions within the scope of improved incentive programmes.

At 345 Vocational Training Centres of the Ministry of National Education in 81 provinces, vocational training in 109 different subjects has being given to students and trainees. In the year 2001, 37,239 vocational courses were opened and a total of 725,711 people were trained in these courses. 503,494 of the trainees were females and 221,217 of them were males. Yearly development of the data pertaining to the students and trainees trained within the programmes implemented at vocational training centres is presented in the Table 6.

TABLE 6: Operations of the Vocational Courses of the Ministry of National Education by Year

ACADEMIC YEAR	NUMBER OF PROVINCES	NUMBER OF VOCATIONAL TRAINING CENTRES	NUMBER OF VOCATIONS	NUMBER OF STUDENTS & TRAINEES	NUMBER OF INSTRUCTORS
1996-1997	80	312	80	195,951	4,089
1997-1998	80	321	89	267,074	4,122
1998-1999	80	326	89	226,644	4,759
1999-2000	80	330	89	218,576	5,084
2000-2001	81	342	109	248,496	4,640
2001-2002	81	345	109	250,000	5,165

SOURCE: Ministry of National Education

The Urgent Action Plan of the 58<sup>th</sup> Government had put a lot of emphasis on promotion of the real sector and the following measures have been adopted:

- Reorganizing incentive measures,

- Issuing the Law on Monitoring and Supervising of State Aid, establishing an authority for monitoring state aid,
- Allocating free land for investors,
- Taking measures for the necessary arrangements required to encourage direct foreign investments,
- Creating a Special Ad Hoc Committee to provide an inventory of state aids, to investigate their effectiveness and to come up with suggestions,
- Reclassifying regions in terms of state aid for investments,
- Incorporating into the economy those facilities that were closed down due to the crisis or insufficient capital and those facilities that have been working with a low capacity, ensuring new investments,
- Supporting SME investments;

in order to increase effectiveness of policies and programmes developed for supporting SMEs, to realise new type of actions and to approach decisively the subjects on which a consensus was reached on previous rounds, however, no concrete development has been made so far.

Within this framework, developments that have been realised until June 2003 are as follows:

Within the Law on the Amendment of Certain Laws No: 4842 which was published in the Official Gazette No: 25088 dated 24 April 2003, arrangements have been made to ensure that investment allowance is automatically granted to investor without the need for an investment incentive certificate.

Law on Foreign Direct Investments No: 4875 was put into effect after having been published in the Official Gazette No: 25141 dated 17 June 2003.

Law No: 4884 amending Turkish Commercial Code, Tax Procedure Law, Stamp Tax Law, Labour Code and Social Insurance Law, laying down provisions for transactions related to articles of incorporation being carried out by the Commercial Registrar's Offices within the Chambers, in line with the One

Stop Shop principle, put into force after having been published in the Official Gazette no: 25141 dated 17 June 2003.

Studies on the legislation required for the monitoring and supervision of state aid have being continued by relevant institutions.

Legislative regulations regarding the free allocation of land to investors have been prepared and submitted for the opinion of the relevant institutions and organisations.

A Special Ad Hoc Committee has been formed with the aim of providing an inventory of state aids and examining their effectiveness as well as presenting proposals in this area. The commission has already started to function.

The Implementing regulation on the Establishment and Working Principles of Securities Markets Organized Outside of the Stock Exchange was put into effect after being published on the Official Gazette dated 18 March 2003.

When the current practices as well as the policies and programmes that are envisioned in the last period for SMEs are compared with the norms of the EU and developed countries, it is seen that Turkey's SME support system does not have the capacity to meet the needs of enterprises, and that insufficient resources and lack of sufficient institutional capacity constitute a significant obstacle in terms of obtaining short and medium-term results from the policies and programmes that are designed to develop and support SMEs. The need to improve SME-oriented services both quantitatively and qualitatively, and to ensure effective coordination among institutions still continues. For this purpose, development of an SME definition that determines, the framework of activities of all relevant institutions is primarily required.

## 2.4 DEFINITION OF SME

In Turkey, it is observed that different organisations with activities related to SMEs use different SME definitions within the framework of their job descriptions, target groups and resources allocated for their operations. These definitions reflect differences both in terms of the criteria selected for the identification of the definitions and of the limits determined within the frame of these criteria (Table 7).

Formulation a common SME definition is needed in order to establish a standard in developing policies for SMEs, planning the programmes to be implemented within the framework of these policies, and in conducting research in this field. Due to discrepancy of SME definitions, companies are exposed to different assessments by institutions when demanding services . This situation causes gaps between the perspectives of service providers and of those who demand services, reduces the effectiveness of implementations, and constitutes an important obstacle in providing transparency of services. The issue of Turkey's compliance with the SME definition of the EU is a point that is emphasized in the Progress Reports prepared by the European Commission regarding Turkey's candidacy to the EU, as well as among the short-term measures of the Accession Partnership prepared for Turkey in 2003.

TABLE 7: SME Definitions Used in Turkey

ORGANISATION	SCOPE OF DEFINITION	CRITERION FOR DEFINITION	MICRO SIZED ENTERPRISE	SMALL SIZED ENTERPRISE	MEDIUM SIZED ENTERPRISE
KOSGEB	Manufacturing Industry	Number of Workers	-	1-50 workers	51-150 workers
HALKBANK	Manufacturing Industry, Tourism, Software Development	Number of Workers	-	-	1-250 workers
		Fixed Investment Amount (Euro)	230,000	230,000	230,000
UNDERSECRETARIA T OF TREASURY	Manufacturing Industry, Tourism, Agricultural Industry, Education, Health, Software Development	Number of Workers	1-9 workers	10-49 workers	50-250 workers
		Investment Amount, Amount of Investment Subject to SME Incentive Certificate (Euro)	350,000	350,000	350,000
UNDERSECRETARIA T OF FOREIGN TRADE	Manufacturing Industry	Number of Workers	-	-	1-200 workers
		Fixed Investment Amount (Euro)	-	-	1,830,000
EXIMBANK	Manufacturing Industry	Number of Workers			1-200 workers

SOURCE: Undersecretariat of Treasury, Undersecretariat of Foreign Trade, KOSGEB, EXIMBANK, T.HALK BANK.

## 2.5 RELATIONS WITH THE EUROPEAN UNION

### a) Association Relation and the Customs Union

Relations between Turkey and the EU (the European Economic Community as it was then called) commenced with the “Association Regime”, the framework of which was drawn by Ankara Agreement that took effect on 1 December 1964. The working principles of the Association Regime were separately laid out in the Additional Protocol that took effect on 1 January 1973. With this Protocol, the Community was envisioned to nullify the customs duties and volume restrictions on industrial goods to be imported from Turkey as of the date of the commercial provisions of the Protocol taking effect (1971), whereas, Turkey was to gradually eliminate the customs duties and taxes or fees having equivalent effect that were imposed on industrial goods originating in the Community.

Parallel to this process, within the framework of partnership, since 1963, the Community has provided financial aid to Turkey in the amount of a total of 827 million ECU, 78 million ECUs of which were in the form of grants, 637 million ECUs were soft loans and 115 ECUs were credits with market conditions with the aim of contributing to the rapid development of the Turkish economy and of supporting Turkey in fulfilling her obligations arising from the association relation. In 1970s, Turkish-EC association relations did not prove to be fruitful and came to a point of halt in 1980s, as a result of which, financial cooperation was not functional until 1995 except for some exceptional cases. On 14 April 1987, with reference to the right granted to all European countries, Turkey applied for membership to the EC. However, in 1990, the Council of Ministers of the EC concluded that it would be appropriate to postpone the decision to determine Turkey's membership, based on the evaluation of the European Commission.

Relations between Turkey and the EU gained impetus with the Association Council Decision No: 1/95 dated 6 March 1995 which finalized the process of forming a customs union between Turkey and the EU in the area of industrial products. With the Resolution concerning Development of Association Relations accompanying the Council Decision, improvement of cooperation in some sectors was anticipated while financial cooperation was initiated again

with a unilateral statement issued by the EU. Within the scope of this statement, an expected total of 2,2 billion ECUs worth of grants and credits were envisioned for Turkey in the scope of the Customs Union. However, due to certain reasons, only a limited portion of this financial aid (around 33%) has been provided to Turkey

With the foundation of the Customs Union, following a process of study with extensive participation, the SME Action Plan was prepared in order to support the SMEs in Turkey. However, this plan could not be realised, as sufficient resources were not available.

At the Cardiff Summit of June 1998, EUs “European Strategy for Turkey” was enacted. Within the framework of this strategy, an “Industrial Strategy” was also formulated with the efforts of both parties to cover the issues related to the Turkish industry’s and SMEs’ situation in respect of the Customs Union and harmonisation with the EU. This was followed by the establishment of a Contact Group for Industrial Cooperation between Turkey and the EU, but this strategy was not put into action by the EU.

#### b) Helsinki Summit Candidacy Process

At the Helsinki Summit of 10-11 December 1999, Turkey was accepted as a candidate to the EU. The decisions of this Summit envisaged the establishment of an “Accession Partnership” like in the case of the other candidate countries and having Turkey benefit from “pre-accession aid” within this framework. While PHARE, ISPA and SAPARD were developed for supporting the harmonisation of Central and Eastern European candidates, Turkey was not included in this scope. In this period, the financial aid for Turkey came from the allocation from MEDA-II and from the funds of the European Strategy where Turkey was provided with 177 million Euros of annual support. This support is anticipated to go up to 250 million Euros in 2004, 300 millions in 2005 and 500 million Euros in 2006. Besides Turkey’s harmonisation efforts in a number of fields, “SME Strategy and Action Plan” shall also be supported by these resources.

At the Helsinki Summit, decisions were also taken that point to a new phase in the enlargement process as the “Millennium Declaration” was adopted.

In this framework, it was envisioned to give priority to the following areas in the enlargement of the EU:

- Increasing scientific and research activities and production of technology,
- Improving, renewing and spreading vocational training,
- Developing and supporting SMEs,
- Placing emphasis on regional development

Following Turkey's acceptance as a candidate to the EU, work commenced to coordinate the Turkish policies with those of EU with the purpose of enabling Turkish SMEs to compete with those of the EU member states and of the candidate countries. This work includes the following:

#### Participation in the CC BEST Process

In line with the recommendations of the Amsterdam Summit of 16-17 June 1997, BEST (The Business Environment Simplification Task Force) was established to prepare a report on the improvement of the business environment for SMEs and the simplification of legislation. The goal of BEST's work is to ensure an exchange of best practices among countries and to create an environment where countries can benefit from one another's experience.

Based on the report of the BEST working group, the European Commission prepared an action plan to promote entrepreneurship and competitiveness. This action plan covers the following areas;

- Training and internships,
- Access to finance,
- Research and innovation,
- Transparency of support services,
- Public administration,
- Employment and working conditions.

With the aim of promoting SMEs and creating the best possible business environment, efforts and improvements of member countries in the abovementioned six areas were published on 27 October 2000 under the heading “European Union Report on the Implementation of the Action Plan to Promote Entrepreneurship and Competitiveness”.

In line with the resolution of the European Commission regarding involvement of the candidate countries in BEST’s activities under the leadership of the Ministry of Industry and Trade and the secretariat of KOSGEB, and with the participation of all the institutions related to SMEs, the “CC BEST Turkey Report” was prepared. The report was submitted to the Commission in Ankara on 13 July 2001 and in Brussels on 28 September 2001 and was published on 20 December 2001 together with the reports of the other candidate countries.

#### European Charter for Small Enterprises

The work of CC BEST that had been designed for provision of unity among the SME policies of the member states gained more substance with the EU SME Charter adopted at the Feira Summit of 19-20 June 2000. With this development, the CC BEST process came to an end and process of preparation of the EU SME Charter Reports were initiated.

The Charter was endorsed by Turkey together with the other candidate countries on 23 April 2002 at the conference held in Maribor of Slovenia and it includes the following ten main areas:

- Education and training for entrepreneurship,
- Developing cheaper and faster processes for business start-up,
- Better legislation and regulation,
- Training to provide qualified personnel,
- Improving on-line access,
- Benefiting More out of the Single Market,
- Improving taxation and financial issues,

- Improving the technological and innovative capacity of SMEs,
- Supporting e-commerce and technology-based enterprises,
- More effective and stronger representation of SMEs on national and international platforms.

By endorsing this Charter, Turkey has committed with all her institutions and bodies to take concrete steps in the ten above-mentioned areas, to develop programmes and projects, and to allocate the required resources.

Therefore, the EU SME Charter is in a way Turkey's long-term SME strategy document and homework. Turkey's report for 2002 in relation to the EU SME Charter was prepared under the coordination of KOSGEB and with the participation of relevant institutions and was submitted at the European Council meeting in February of 2003. Work is in progress for the preparation of the report for 2003.

European Community Multiannual Programme for Enterprise and Entrepreneurship, and in particular for Small and Medium-sized Enterprises

The abovementioned strategies and SME policies are transformed into projects and actions especially in the "Multiannual Programme for Enterprise and Entrepreneurship, and in particular for Small and Medium-sized Enterprises".

Turkey has been participating in the Multiannual Programme under KOSGEB's coordination, which covers the period of 2001-2005 and which was initiated with decision no: 2000/819/EC published in the Community's Official Gazette dated 20 December, 2000. This programme is the first Community programme that Turkey is taking part and the Turkey-EU Memorandum of Understanding Regarding the Multiannual Programme was signed on 23 October 2002.

Turkey's share of contribution to the Programme is approximately 4,5 million Euros which is provided from Financial Cooperation Programming and KOSGEB's budget.

Within the scope of the programme, in a short period of time, the number of European Information Centres (EICs) will be increased to 12 from one. Two European Information Centres will be opened in İstanbul and one will be opened in the provinces of Adana, Ankara, Bursa, Denizli, Gaziantep, İzmir, Kayseri, Konya, Samsun, and Trabzon each.

Out of the 23 EU Information Centres to be tendered in 2002, 12 will be located in Turkey. Although this is regarded as a significant success, it must be kept in mind that there are currently more than 300 European Information Centres active in Europe.

Turkey's national approach regarding the Multiannual Programme can be summarized as follows:

- Placing emphasis on sharing and exchange; creating synergy among the organisations that serve and support SMEs, developing cooperation among institutions, mobilising dormant resources and directing them towards areas of need,
- Beyond solely receiving financial aid, placing emphasis on internalising EU's SME policies and strategies,
- Acquiring know-how, learning EU's SME policies, projects, best practice examples and successful solutions.

In this process, Turkey aims at rapidly learning and implementing the financial tools and mechanisms such as;

- Start-up capital,
- Venture capital,
- Credit guarantee,
- Business angels<sup>5)</sup>

that the EU has developed to support technology and knowledge-based innovative SMEs in particular.

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<sup>5)</sup> İş Melekleri, (Business Angels): private financial enterprises that provide financing instruments to entrepreneurs other than banks.

### Lisbon Summit of March 2000

At the Lisbon Summit of March 2000, EU countries took important decisions as articulated on the Lisbon Strategy document. These decisions include furnishing the EU with the highest competitiveness in the world, making it a dynamic and knowledge-based economy, and ensuring sustainable development as well as creating more job opportunities and a better work environment aimed at ensuring social cohesion, with the policies to be maintained until 2010.

For this purpose, it is intended to increase gross national income per capita, to increase productivity, to provide job opportunities for at least 70% of the active population, to allocate more resources for R&D activities, to elevate the level of education, to spread the use of internet, to increase the use of venture capital while reducing state aids, and to obtain social cohesion. The goals of the Lisbon strategy are expressed in a more concrete manner in the European Charter for Small Enterprises while the need to improve the environment for trade among member states and to simplify the legislation are underlined.

### Bologna Agreement

As the abovementioned work and developments continued in the EU, OECD countries' ministers responsible for industry and SMEs met in Bologna, Italy on 15 June 2000 and signed the Bologna Agreement on SME policies. Developments taking place after the Bologna Summit will be reviewed at the Ministerial Meeting to be hosted by KOSGEB in İstanbul in June 2004.

### Sub-Committee Meetings

Issues pertaining to SMEs are dealt with by Committee No: 3 for Trade, Industry and European Coal and Steel Community Products that is one of the Sub-committees of EU-Turkey Association Committee. So far, the Committee convened on 7 December 2000 in Brussels, on 16 May 2001 in İstanbul and on 17 July 2002 in Brussels and will continue its activities in the coming future.

### 2002 Progress Report

It is emphasized in the 2002 Progress Report for Turkey which is one of the regular progress reports issued annually by the European Commission for the candidate countries that there has been no development regarding the legislation on SME definition in line with the acquis, and that there has been a decline in the financial resources such as credits etc. allocated to SMEs. The report also underlines the fact that Turkey needs to prepare an SME strategy and action plan. Meanwhile, it is stated that the Law that was published in the Official Gazette no: 24863 of the Republic of Turkey dated 1 September, 2002 confirmed Turkey's participation in all Community programmes thus the participation in the EC 6<sup>th</sup> R&D Framework Programme.

### **2.6 BASIC WEAKNESSES OF THE TURKISH SME SECTOR**

Special conditions of Turkey become determinant factors upon the development options; within this context the growth of SMEs constitutes an indispensable policy domain. As a consequence, it is of importance to formulate policies and programs for developing and supporting SMEs during the process of integration with the EU.

While developing an SME strategy that conforms to the policies and programs of the Union, there exist certain basic weaknesses that need to be taken into consideration as a necessity of reflecting the current conditions of our country for providing a basis for future cooperation.

The problems of the Turkish SMEs tackled below constitute the basic bottlenecks regarding their development and gaining competitiveness both in the world and in the Single Market of the EU. These problems, which correspond to Turkey's structural obstacles, pose serious barriers to the success of current policies and programmes. Therefore, measures toward solution of these problems are being developed in strategy documents on the national scale.

### **2.6.1 INSUFFICIENT KNOW-HOW AND LOW LEVEL OF TECHNOLOGY**

A typical Turkish SME produces for the Turkish market using traditional production methods; however, in a number of fields, it has to compete with foreign firms, primarily with the EU firms, in the domestic market. The technological level of Turkish SMEs is much lower than that of European companies and Turkish SMEs engage themselves in producing low quality goods with low value added, often using outdated designs, ineffective production methods and older machinery and equipment.

Furthermore, SMEs have no tradition of using consultancy services and giving R&D orders. Know-how related service sectors could not develop because of the low level use of engineering-consultancy, design, technology transfer and educational services and insufficiency of the trade of products and services in the country, which are subject to industrial property. In fact, Turkey has a natural potential to develop capacity in these fields requiring human capital rather than fixed capital.

As a requirement of restructuring in the face of the competition created by the Customs Union and the opportunities of the EU's Single Market, technology level of Turkish SMEs had to be increased extensively and within this context, bulk amount of know-how has been required to be transferred to SMEs. Nevertheless, competitiveness has not been obtained through upgrading technology level as a result of market mechanism in Turkey; since the technological needs that have risen because of the competition pressures and search for new markets, could not be transformed into economic demand under current structural conditions of the country; and because of the trade links between the service providers (e.g.; engineering, design and technology transfer consultancies) to these needs and the consumer side (e.g. SMEs of manufacturing industry) have not developed.

During this period, adequate support could not be provided for the SMEs due to limited public funds; and together with the impact of structural problems impeding the spread of technology, neither the competition pressure brought about by the Customs Union nor the need for new markets felt as a result of the shrinkage of the Turkish market as a consequence of economic

crises succeeded to cause upgrading technology level of the SMEs of the country in general.

Because of the inability of Turkish SMEs in producing products at the quality and variety demanded by the EU consumers in general, the exchange rate advantage brought by the crisis of February 2001 did not create an opportunity to produce for export and an increase in the number of closed enterprises was observed in this period. At present, the problem of insufficiency of know-how in SMEs prevents price-based market forces from functioning and also constitutes the most significant bottleneck in front of Turkey in gaining adequate benefits from the Customs Union.

As in all developing countries, what lie in the basis of this kind of structural problems are such issues as inability to transform technological needs of SMEs to economic demand automatically; lack of development of commercial links between the SMEs and know-how related service providers which, in turn, gives no opportunity for the growth of SMEs that are supposed to be producers of services. The creation of an adequate market mechanism, which would provide a breakthrough from this structural problem and which would enable both sides to come together requires cultural developments, certain public support schemes and regulations and especially market-making organisations.

### **2.6.2 DISADVANTAGED FINANCIAL ENVIRONMENT**

The credit share used by SMEs out of total credit volume (about 5 %) in Turkey is quite low when compared with their contribution to the country's employment and value added. Capital market instruments to serve SMEs couldn't be developed either.

The high level of public borrowing in the money markets restricts the credit volume available to the private sector and drives interest rates extremely high. This situation combined with the scarcity of governmental supports has caused the SMEs to be almost totally excluded from the credit market.

As a result of the longstanding high-level public borrowing policy in Turkey, banks' funding capacity for SMEs has declined; investment/project finance services have been narrowed to a large extent. Further more the market

mechanism in this field has been destroyed mainly due to the economic crises that brought about a wave of bankruptcies for banks and many enterprises staying in debt to banks.

As a consequence of the crisis in the financial sector, many banks withdrew from the market or from serving companies. Reduced the credit volume and institutional capacity available for SMEs in the financial sector negatively affected even t the SMEs that could survive in the crisis conditions.

Due to short of institutional capacity available for SMEs in the financial sector, it is not possible to make use of the money and capital markets of the EU to ease credit bottleneck for SMEs. There have being experienced problems even in transferring already available funds for Turkey to the SMEs.

Halk Bank, which has traditionally rendered financial services to SMEs, has now become dysfunctional and privatisation of the bank has been planned.

In Turkey, financing instruments such as credit guarantees for SMEs, venture capital investment partnerships, real estate investment partnerships, SME finance companies, factoring and leasing companies for SMEs, an SME stock exchange enabling SMEs to make use of equity markets have either remained as mere theory or have only had symbolic value.

### **2.6.3 FACTORS WHICH HAVE ANIMPACT ON THE COMPETITION BETWEEN TURKEY AND THE EU**

Some elements of the Customs Union may have negative repercussions on the conditions of competition between Turkey and the EU.

Certain EU funds, which are used for overcoming regional developmental disparities, developing infrastructure, introducing solutions to environmental problems, developing R&D capacity, generating employment and solving some sectoral problems, reduce fixed capital, R&D and environmental investment costs and employment expenditures of producers in the EU. However, Turkish producers who need to compete in the same market and under the same conditions are not able to enjoy these resources.

Vis a vis the support and services offered to small and medium sized enterprises in the member countries of the EU, the quality, variety and size of state aids to SMEs in Turkey are relatively inadequate even when their

proportional contribution to the employment, value added and tax earnings are taken into account.

Moreover, there are no effective systems to compensate for the negative impacts of the Turkish-EU Customs Union on the SMEs.

On the other hand, some countries, which have made Free Trade Agreements (FTA) with the EU, primarily North African countries, Mexico and South American countries eschew from signing FTAs with Turkey due to their hesitation about entering into competition with Turkish goods. This situation, firstly, puts Turkish goods in a disadvantaged position in these markets vis a vis the goods originating from the EU and secondly, provide an opportunity for the goods originating from the abovementioned countries to enter the Turkish market with a very advantageous position enjoying the right of being in free circulation within the EU. This affects SMEs negatively and causes unfair competition.

In addition to the basic structural problems explained above, Turkey is in an insufficient position in receiving foreign capital despite its economic potential, human resources and the recently introduced legal and institutional infrastructure. It is further observed that non-financial supports offered to the SMEs have not developed adequately; in this field the public sector is unable to meet the demand and the private sector lacks the institutional capacity to play an active role. Therefore, actions are envisaged in order to develop and support SMEs within the framework of following principles and policies.

### **3 OBJECTIVES, PRINCIPLES AND POLICIES**

The main goal of long-term macroeconomic policies has been defined as providing sustainable economic growth, reducing the inflation rate to the EU average and increasing the competitiveness of the economy.

Therefore, establishing the macroeconomic balance and realizing structural reforms are of utmost importance. Within the same context, substantial measures are foreseen in order to restructure the public sector and to increase the effectiveness of existing mechanisms.

Within this framework, the objectives, principles and policies pertaining to supporting and developing SMEs are indicated below.

### **3.1 MAIN OBJECTIVES**

As indicated in the 8<sup>th</sup> Five Year Development Plan, the basic targets of SME policies are to increase the productivity of the sector, its share in total value added and its international competitiveness. For this aim, it is primarily envisaged to increase the share of SME credits within the total credit volume of the banking system and to strengthen institutional capacity in the field of venture capital, finance investment partnerships and real estate investment partnerships in order to enable SMEs to use these modern financial instruments in a more effective manner,

In the field of non-financial support, it is envisaged to increase the effectiveness of support by means of developing communication and interaction between service providers and SMEs and professional organisations representing SMEs. Furthermore, greatest importance lies in strengthening of the institutional capacities and partnership skills of all service providers, public institutions and organisations and professional organisations, in order to deliver higher quality services to a higher number of SMEs.

Starting from the fact that the low technological levels of SMEs constitute the most important obstacle in front of their international competitiveness, the development of transfer capacity and quality improvement are aimed at accelerating diffusion of technology. In this context, it is foreseen to concentrate supports in the areas of training, consultancy and R&D directed to the development of the technological infrastructure of companies.

### **3.2 PRINCIPLES AND POLICIES**

The basic strategy areas for SMEs have been determined taking national priorities into consideration, based on the priority areas listed in the European Charter for Small Enterprises. The activities to be carried out within the scope of these strategy areas aim first to solve problems of finance and

technology that have been identified as basic weaknesses of Turkish SMEs and the other relevant problems in the context of competitiveness.

### **3.2.1 EDUCATION AND TRAINING FOR ENTREPRENEURSHIP**

Programmes will be developed in all educational levels for teaching entrepreneurial skills in order to foster the entrepreneurial spirit.

In the implementation of training and educational programmes for SMEs, activities of the public and private sectors shall be effectively coordinated while the service capacity of professional organisations shall be strengthened and the IT infrastructure for distance learning shall be set up especially for those SMEs with fewer workers.

Training programmes shall be held at the managerial level in order to establish organisational culture in the SMEs.

Sectoral training programmes shall be held in order to enable SME employees to take active role in the institutional decision-making process.

Informative programmes will be organised in order to establish the concept of human resources management system in SMEs.

Legislative regulations shall be made in order to create professional standards and the system of testing and certification.

A legislative regulation which will require all entrepreneurs starting-up businesses to document their related vocational training shall be made.

Cooperation of vocational high schools and universities with entrepreneurs and industrialists in less developed regions shall be develop in order to ensure that they build production bases and organisational structures scientific and suitable for specific market conditions.

SMEs shall be informed about best practices in the developed and developing countries in order to realisation of successful ideas and applications as soon as possible.

SMEs shall be informed about project and technology management.

Joint programmes shall be developed in order to ensure that SMEs make use of the information capacity of universities and large firms. The relations between producer and supplier industries shall be strengthened and projects developing the training level of staff working for the supplier industry shall be supported.

### **3.2.2 DEVELOPMENT OF CHEAPER AND FASTER PROCESSES FOR BUSINESS START-UPS**

The legislation pertaining to process of establishing businesses shall be simplified so as to reduce bureaucracy. Coordinated training programmes shall be held by professional and service organisations in order to inform SMEs in the processes of business start-up. For this purpose, information offices shall be set up and the cooperation among existing offices shall be further strengthened.

Entrepreneurs shall be informed about the investment environment starting from the beginning of the establishment phase, sector-based development plans and market research shall be prepared and submitted to the attention of entrepreneurs, and SMEs shall be kept informed so as to ensure that they act in line with the concept of strategic planning starting from the establishment phase.

Employment-generating activities by entrepreneurs shall be encouraged and the budget allocated for programmes geared towards the employment of skilled labour shall be increased.

### **3.2.3 ENACTMENT OF BETTER LAWS AND LEGISLATION**

The necessary legal adjustment/adjustments shall be made in order to introduce an SME definition that complies with the EU Recommendation.

Once the definition of an SME is harmonised with the EU definition, the statistical system shall also be developed with due consideration of the EUROSTAT norms. The new system will be able to generate data that are appropriate for the policies and programmes determined within the scope of the new definition and thus statistics on SMEs will be monitored on a continuous and renewable database.

Regulations that have an adverse effect on SME activities shall be reviewed and the efforts for improving the investment environment shall be completed. Amendments shall be made to pieces of legislation that need to be simplified and/or developed.

Coordination among institutions which make and implement SME policies shall be improved, policies and programmes shall be continuously monitored according to rational criteria and be updated, institutions and bodies shall be evaluated in the light of performance criteria to be developed according to the sectors they serve.

In order to ensure that SMEs work within conditions of a free market economy, public services delivered in the same sectors together with private business shall be assessed and it shall be prevented from creating unfair competition environment.

Non-governmental organisations pertaining to SMEs shall be supported and training and informative activities shall be organised in order to grant these organisations a more active role in the planning and implementation phase.

Mechanisms that will provide support for enterprises suffering from financial problems that are likely to survive if they are restructured shall be created. Legislation on execution, bankruptcy and liquidation procedures shall be improved.

The legislation on state aid to SMEs shall be improved by taking regional development maps to be created into consideration. Bureaucratic procedures on applications for state aid shall be simplified.

Legislation shall be prepared in order to prevent splitting of companies and to encourage mergers.

### **3.2.4 TRAINING TO PROVIDE QUALIFIED PERSONNEL**

Education and training institutions shall offer training according to professional standards in order to meet SME demand for skilled labour; the quality of existing training programmes shall be upgraded and their capacity shall be increased.

Training programmes shall be developed in order to establish the concept of life-long education and training so as to develop the skills of the active work force in line with the market demand shaped by growing and changing products and production processes.

### **3.2.5 IMPROVING ON-LINE ACCESS AND TRANSACTOINS VIA THE INTERNET**

Informative activities via Internet shall be improved in order to promote public services for SMEs to ensure to expand communication between SMEs and government agencies. In order to increase the effectiveness of this processes, special informatory efforts to explain the benefits to be obtained by SMEs by using the Internet shall be made, thus use of computer and the Internet shall be spread out.

Efforts shall be made in order to develop on-line transaction facilities on the Internet.

### **3.2.6 OPENING UP TO NEW MARKETS**

Strategic planning towards exporting will be realised with the participation of the private sector in order to protect SMEs from the negative impact of globalisation, to release from sectoral and regional dependencies and to identify areas for potential competitiveness. The legislation of export incentives shall be renewed according to the long-term strategy providing coordination of all relevant bodies.

SMEs shall be informed for channelling them to exporting. Sectoral export organisations shall be expanded. The sectoral foreign trade company model shall be improved according to international best practices. Additional support shall be provided in order to increase the efficacy of this implementation.

The quality of products and production process shall be improved in order to make SMEs more competitive in international markets, while also informing them about international standards.

Local and national brands shall be supported in order to make them competitive in all foreign markets.

Measures shall be taken in order to decrease the cost of energy, employment and communication inputs for export companies by decreasing tax rates in these fields.

The resource structure of Eximbank shall be strengthened; bureaucratic procedures shall be reduced and simplified. Especially measures to lessen the credit guarantee problem shall be taken.

### **3.2.7 IMPROVEMENTS TO BE MADE IN TAXATION AND FINANCIAL MATTERS**

Pertaining to the state aids on investments, within the frame of tax incentives, the process of transformation to the system without incentive certificate shall be monitored and improved. Studies shall be made with the aim of revising special-purpose tax supports and the cash support system as based on region, scale and horizontal assistance in accordance with the foreseen regulations in the EU and other international agreements.

Regional differences in state aid for investments shall be redetermined according to the concluded Nomenclature of Territorial Units for Statistics (NUTS) within the framework of EU harmonisation efforts. Incentives shall be reviewed for sub-regions, provinces and where there are relevant, special regions with problems requiring support.

Plants closed down due to the crisis or lack of capital or those operating with low capacity shall be regained into the economy and provisions shall be made for realisation of new investments.

A new approach (The Anatolian Approach) shall be developed in order to solve SMEs' problems with banks.

Efforts shall be made in order to simplify tax legislation pertaining to SMEs.

Banks shall be encouraged to give SME credits.

Special credit programmes for young and female entrepreneurs shall be made more effective and widespread.

Efforts shall be made in order to bring those with feasible projects together with capital holders.

SMEs shall be supported with modern financial instruments and by modern institutions in a well functioning environment complete with capital markets and money markets. Search on financing applications such as venture capital, finance investment partnerships and real estate investment partnerships shall be expanded and funds that can constitute a resource for such implementations shall be mobilised.

SMEs shall be informed about financing services; informative programmes shall be prepared with cooperation of finance organisations, professional bodies and public service companies. An information system on finance shall be created.

KGF's resources shall be increased and efforts shall be made in order to increase the fund multiplier for a more effective use of collateral responsibility fund.

The required work shall be undertaken in order to ensure that KGF operates in cooperation with more banks.

The founding of new credit guarantee organisations shall be supported.

Steps shall be taken in order to ensure that resources acquired through international cooperation programmes are used for realising pilot projects for modern finance practices.

### **3.2.8 DEVELOPMENT OF TECHNOLOGICAL AND INNOVATION CAPACITY OF SMEs**

Strategies shall be developed and projects shall be prepared for fostering SMEs' capacity for technology and innovation within the scope of the Community's 6<sup>th</sup> R&D Framework Programme.

Services geared towards the dissemination of know-how in Turkey shall be strengthened. Capacity for know-how transfer and consultancy shall be developed.

Increase in the capacities in engineering, technology transfer, R&D, design and of service producers all other related to technology shall be provided. Their trade links with the client (e.g. manufacturing) SMEs shall be strengthened. Through developing market-making policies, efforts regarding setting up intermediary organisations to increase this interaction shall be made.

In the process of developing market mechanism between producers of technological services and small and medium sized industry, efforts shall be made to promote the creation of R&D capacities either inside of companies or as separate service companies and setting up of contracted research organisations, in line with the arising demand in required areas, in order to strengthen the capacity for generation of technology of the country.

In this context, cooperation between universities and industry shall be supported, SMEs shall be leaded towards R&D activities and meeting of SMEs with universities in the techno parks shall be ensured.

Establishment of Technology Development Zones shall be supported. Training, consultancy, and R&D supports related to the creation of quality awareness and the development of techno-infrastructure in line with the dissemination of the harmonisation of SMEs with the Technical Legislation, their acquisition of the CE mark and making use of metrology, standardisation, testing and quality systems (MSTQ) shall be increased. Efforts regarding development of private quality and certification systems shall be made.

The creation of local and regional clusters and communication networks shall be promoted. Fieldwork studies shall be carried out in order to provide a basis for these implementations. Efforts shall be made to disseminate technology through developing cooperation among companies. Information networks among companies shall be strengthened and active participation of all enterprises to take part in these systems shall be ensured.

With the aim of supporting organisation of SIEs within cluster approach, analysis of existing conditions on sectoral basis and field studies shall be carried out. Pilot projects shall be conducted in the SIEs to be determined as a result of these activities.

The legislation on crediting of construction of SIEs shall be revised and completion of constructions on time shall be ensured. Modelling studies shall be made in order to strengthen the existing practises in a way that supports the establishment of business clusters and to increase the capacity of cooperation.

### **3.2.9 INFORMING SMEs ABOUT BEST PRACTICES VIA THE INTERNET AND DEVELOPMENT OF HIGH LEVEL SME SUPPORT**

The variety of SME support services shall be increased and their quality shall be raised to catch up with international standards.

The interaction between the SMEs and service providers shall be increased. The number of service provider contact offices shall be increased in order to match supply and demand more easily and to ensure that supply is shaped according to the needs of the sector. The structure of action programmes shall be made more flexible.

SMEs shall be informed about successful SME activities on a national or international level also by making use of information and communication technologies. SMEs will be facilitated to benefit from the experience of successful companies

Informative activities about the positive impact of institutionalisation on company operations shall be executed. Management and organisational models shall be created and promoted for SMEs active in different sectors.

The level of communication among regions shall be enhanced in order to make possible the spread of best practices.

Public and private sector institutions and organisations shall be informed about policies and programmes implemented in other countries in order to support SMEs. Efforts shall be undertaken in order to develop their own activities following the examples of successful countries. Turkey will take active part in relevant international activities.

The number of KOSGEB service centres shall be increased according to an organisation programme. Current service centres shall employ an adequate number of staff. The service quality of these centres shall be enhanced to have standard practices and they will be assessed according to various performance criteria.

The KOSGEB action programme shall be enriched by developing special support programmes for different regions and sectors. The applications of common facility laboratories and workshops shall be spread. Budget allocated for employment support shall be expanded and the scope and sustainability of this service shall be increased.

The revenue sources of KOSGEB shall be better programmed in order to ensure that the organisation reaches to a regular income structure. The organisation shall be granted a financial capacity that will enable the provision of services across its target group. The required institutional capacity shall be created in order to develop high-level SME support services.

Consulting services for SMEs shall be standardised. Training activities shall be held for independent consultancy firms and actions will be taken for accreditation of these firms while their services shall be continuously supervised.

In rendering support services, cooperation with professional organisations shall be observed. Training and information activities shall be carried out in order to delegate the delivery of support to professional organisations.

Special SME support projects shall be developed with due consideration of local potentials within the framework of regional development projects.

The promotion of all sorts of support directed at the SMEs will be expanded and SMEs shall be informed about the use of international resources.

The establishment of small industrial specialty estates shall be encouraged and the setting up of sectoral foreign trade companies in these estates shall be supported.

The required infrastructure for transferring the population employed in agricultural into industry shall be planned; in less developed regions, the construction of infrastructure shall be phased in order to complete them in the shortest time possible. It will continue to give the OIZs and SIEs in these regions credits with lower interest rates and longer terms.

Likewise, agricultural cooperatives and unions having the character of SMEs that have been set up by entrepreneurial producers in the countryside shall continue to be supported in order to create and further develop rural industry.

### **3.2.10 MORE EFFECTIVE REPRESENTATION OF SMEs ON NATIONAL AND INTERNATIONAL PLATFORMS**

Institutions and organisations representing SMEs shall play a larger role in developing SME policies and programmes. Apart from developing SME-specific policies and programmes, efforts shall also be made to ensure that due attention is paid to the SME dimension in all policies and programmes.

Institutional capacity-building activities shall be supported in professional bodies and non-governmental organisations representing SMEs in order to increase their communication with their members. The cooperation level among such organisations shall try to be raised by bringing them together through projects to be funded by national and international sources. Therefore, a process of common opinion building shall be fostered whereby SMEs shall be represented in a better and stronger manner.

## **4 LEGAL AND INSTITUTIONAL ARRANGEMENTS**

The legal and institutional arrangements required in order to reach the above mentioned objectives are listed below:

Steps will be taken in order to amend Law No. 507 on Craftsmen and Small Artisans in line with current needs.

Law No.3624 on the Establishment of Small and Medium Industry Development Organisation shall be amended according to current needs.

Actions will be taken in order to amend the Chambers of Commerce and Industry and Commercial Exchanges Law No. 5590 according to current needs.

Legislative regulations shall be made about the SME definition.

Food legislation shall be harmonised with the EU acquis.

Legislation regarding the formation of a testing and certification system about professional standards shall be prepared.

Legislation shall be prepared requiring those who open up new businesses to document their vocational training in the relevant field.

## **5 ACTION PLAN**

An Action Plan has been formulated in order to clearly outline the roles of public and private bodies and to identify projects that need to be implemented by utilising local and international resources within the framework of main strategic elements and determined basic problems within the scope of this strategy document delineating SME policies.

**ACTION PLAN**

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECT	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
1. EDUCATION AND TRAINING FOR ENTREPRENEURSHIP	1.1.Providing entrepreneurship training	1.1.1.Providing training and education that promote entrepreneurial spirit on all educational levels	-Legal Action: Adding the subject of entrepreneurship to all high school and university curriculums -Administrative Action: Following the activities of the EU Campaign on Awareness Raising for Entrepreneurship		-Ministry of National Education -Higher Education Board	-Ministry of Labour and Social Security -Ministry of Agriculture and Rural Affairs -Ministry of Culture and Tourism -Ministry of Industry and Trade -SPO -KOSGEB -İŞKUR -TOBB -TESK	2004-Continuous
		1.1.2. Facilitating access to information and advisory services for entrepreneurs regarding their current or potential area of business	-Disseminating the activities of KOSGEB Entrepreneurship Institute		-KOSGEB -İŞKUR	-Ministry of Industry and Trade -SPO	2003-Continuous

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
1. EDUCATION AND TRAINING FOR ENTREPRENEURSHIP (CONTINUED)	1.2. Promotion of vocational education, training and advisory services	1.2.1. Eliminating SMEs' lack of information and experience in technical, financial and managerial fields, rendering advisory services	-Developing the support rendered to SMEs within the scope of KOSGEB Training Regulation and the Regulation on the Use of Advisory Services		-KOSGEB	-TOBB -TESK	2003-2005
		1.2.2. Providing support services for meeting SME needs for trained labour within the scope of "Vocational and Technical Education Regulation" pertaining to the enforcement of laws no. 3308 dated 5 June 1986 and 4702.	-Organising training programmes for entrepreneurs who will establish new businesses and also for existing companies		-Ministry of National Education -Ministry of Industry and Trade	-KOSGEB -TESK -TOBB -MEKSA -TİSK -TÜRKİŞ	2004-Continuous

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
1. EDUCATION AND TRAINING FOR ENTREPRENEURSHIP (CONTINUED)	1.2. Promotion of vocational education, training and advisory services (Continued)	1.2.3. Establishing the communication infrastructure for distance education in order to reduce the staff cost of external training for especially those SMEs with a smaller number of staff	-Establishing and developing the distance education and communication infrastructure		-KOSGEB	-SPO -DTM -TOBB -TESK -TASEV -MEKSA -Other relevant professional organisations	2004-2006

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
2.DEVELOPMENT OF CHEAPER AND FASTER PROCESSES FOR BUSINESS START-UPS	2.1. Ensuring that transactions between enterprises and public institutions and organisations are executed from a single centre	2.1.1. Improving bureaucratic procedures for business start-up or developing taking the best practices in the world into account	-Carrying out studies on setting up one-stop shop centres where entrepreneurs will establish new businesses or develop existing ones can obtain necessary information.		-Ministry of Industry and Trade	-KOSGEB -TOBB -TESK -TISK	2003-Continuous

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
3. ENACTMENT OF BETTER LAWS AND LEGISLATION	3.1. Eliminating different and incoherent definitions in the SME legislation	3.1.1. Introducing an SME definition which takes national conditions and the EU recommendation into consideration	<p>-Legal Action: Making the necessary legislative regulations in defining SMEs for providing harmony with the EU recommendation</p> <p>-Administrative Action: Execution of informative activities about the SME definition by professional organisations representing SMEs and other organisations rendering services to SMEs.</p>		-Ministry of Industry and Trade	<p>-Ministry of Finance</p> <p>-SPO</p> <p>-Undersecretariat of Treasury</p> <p>-SIS</p> <p>-KOSGEB</p> <p>-TOBB</p> <p>-TESK</p>	2003-Continuous

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
3. ENACTMENT OF BETTER LAWS AND LEGISLATION (CONTINUED)	3.2. Simplifying the SME legislation	3.2.1. Simplifying the legislation by purging those aspects reducing effectiveness in SMEs' activities. Forming one-stop shop centres for information and implementation	-Legal Action: Identifying and improving the legislation that needs to be simplified -Administrative Action: Administrative arrangements by institutions (Currently YOİKK is working on this subject.)		-Undersecretariat of Treasury	-Ministry of Industry and Trade -Relevant institutions and organisations	2003-Continuous
	3.3. Developing a statistical database for SMEs	3.3.1. Developing decision-making structure in policy formulation via an effective database	-Harmonising SME statistics with the EU  -Carrying out studies to prepare an SME inventory	Formation of a updateable database for SME-related statistical data	-Ministry of Industry and Trade -SIS	-SPO -KOSGEB -TÜBİTAK -TOBB -TESK	2004-2006

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
3. ENACTMENT OF BETTER LAWS AND LEGISLATION (CONTINUED)	3.4.Improving Bankruptcy Laws		-Legal: Completion of the draft law on improving the Execution and Bankruptcy Law -Administrative: Informing the organisations and companies		-Ministry of Justice	-All institutions and organisations taking part in the implementation phase	2003-2004
	3.5. Ensuring the continuity of operations of companies facing financial problems	3.5.1. Offering support to companies with financial problems that are likely to be functioning if they are restructured to enable efficient operations	-Developing the Anatolian Approach		-Undersecretariat of Treasury	-Ministry of Finance Banks -SPO -Banks	2003-Continuous

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
3. ENACTMENT OF BETTER LAWS AND LEGISLATION (CONTINUED)	3.6. Making improvements in the Turkish Commercial Code	3.6.1. Facilitating procedures regarding companies in the Commercial Code	-Making the necessary amendments to the Turkish Commercial Code to facilitate the liquidation procedures for companies -Informing institutions and enterprises		-Ministry of Justice	-Ministry of Industry and Trade	2003-Continuous
	3.7. Improving the legislation on state aid to SMEs, making its enforcement more effective	3.7.1. Improving the investment environment and enabling investors to benefit from the incentives provided more easily	-Rearranging special purpose tax supports and the cash support system based on region, scale and horizontal aid in line with EU and other international agreements		-Ministry of Finance -SPO -Undersecretariat of Treasury		2003-2005

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
3. ENACTMENT OF BETTER LAWS AND LEGISLATION (CONTINUED)	3.7. Improving the legislation on state aid to SMEs, making its execution more effective (continued)	3.7.2. Collecting data based on statistical regional units established by SIS and SPO, formation of regional development maps, formation of assistance programmes based on these maps and determined regional aid densities by organisations allocating state aids.	-Rearranging regional differentiations for state aids to investments according to Nomenclature of Territorial Units for Statistics (NUTS)		-Ministry of Finance -SPO -Undersecretariat of Treasury	-Ministry of Industry and Trade -DTM -SIS -KOSGEB	2003-2004

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
4. TRAINING TO PROVIDE QUALIFIED PERSONNEL	4.1. Supporting the formation of skilled human resources	4.1.1. Developing of SMEs' access to skilled human resources and their professional skills and managerial capacity	-Establishment of a National Professional Standards Institution -Formation of a testing and certification system based on professional standards -Planning and execution of modern practices regarding raising skilled labour	The Project on Strengthening Professional and Technical Education in Turkey and Integrated Projects	-Ministry of National Education	-All institutions and organisations offering training and education programmes for SMEs	2003-2006
			-Improving the skills of active work force by developing education programmes which will help the concepts of life-long education and training to establish.		-Ministry of National Education	-SPO -All institutions and organisations offering training and education programmes for SMEs	2003-Continuous

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
5.IMPROVING ON-LINE ACCESS AND TRANSACTIONS VIA THE INTERNET	5.1. Increasing communication between SMEs and public organisations.	5.1.1. Providing more SMEs to be informed about public activities expanding Internet use	-Developing information dissemination activities via the Internet in order to provide the announcement of state services rendered for SMEs -Expanding computer and Internet use by informing enterprises about the advantages of the Internet use; developing online transaction facilities via the Internet		- KOSGEB	-SPO -All organisations offering services for SMEs	2003-Continuous

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
6. OPENING UP TO NEW MARKETS	6.1. Forming national policies in order to enable competition in international markets	6.1.1. Developing policies in national and sectoral scale for providing competitiveness in international markets	-Making the "Exports Strategy Plan" prepared by DTM which covers special strategies for SMEs a binding national policy document		-SPO -DTM	-KOSGEB -TESK -TOBB	2003-2005
		6.1.2. Increasing the endurance of SMEs against national and international crises by diversifying markets	-Reducing dependence on limited number of markets by increasing trade relations with neighbour countries and formulating national policies for newly emerging markets		-SPO -DTM	-KOSGEB -TESK -TOBB	2003-2005

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECT	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
6.OPENING UP TO NEW MARKETS (CONTINUED)	6.2. Making the SDTŞ system developed for encouraging SMEs to export or to find new markets for exporter SMEs more effective	6.2.1. Activating this system aiming to create new exporting SMEs in Turkey	-Examining the models in countries which have successfully implemented the system and forming model SDTŞs in various sectors	Project on Developing the Sectoral Foreign Trade Companies (SDTŞs) Project	-DTM	-SPO -KOSGEB -İGEME -TOBB	2003-2005
	6.3. Increasing the level of knowledge and awareness about the quality and standards of products and services and international trade rules	6.3.1. Expanding supports in the area of harmonization with the foreign markets by disseminating information on quality and standards in them taking into account international competition conditions	-In addition to the KOSGEB Common Facility Laboratories Support Model expanding informative activities about support offered by other organisations and producer unions on the same topic in a coordinated manner and setting up Information Centres as foreseen by the "Strategic Plan of Exports"		-Ministry of Industry and Trade -DTM	-KOSGEB -TESK -TOBB	2003-2005

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
6. OPENING UP TO NEW MARKETS (CONTINUED)	6.4. Monitoring/ supervising service quality and management facilities in order to maintain sustainability in exports	6.4.1. Supervising and encouraging compliance with international standards	-Quality certification in compliance with international standards, and -Supporting R&D activities and expenditures within the framework of international commercial rules	The Project on Developing the SDTŞ System	-DTM	-KOSGEB -İGEME -TOBB	2003-2005
	6.5. Supporting local and national brands	6.5.1. Supporting local and national brands for ensuring their competitiveness in international markets	-Strengthening fashion-brand supports -Making the Market Research Support for SMEs more effective	Fashion and Textile Cluster Project	-DTM -İTKİB	-Organisations to take part in the Project Management Committee	2004-2006
				Automotive	-KOSGEB	-Organisations to take part in the Project Management C SPO ommittee	2004-2006

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
7.IMPROVEMENTS IN TAXATION AND FINANCIAL MATTERS	7.1. Increasing effectiveness of the supportive role of tax rates and practices for those businesses particularly in the phase of establishment and early growth	7.1.1. Forming effective tax systems which reward success, encourage to start business and promote small businesses to grow and generate and sustain employment	-Forming a working group in order to determine possible legal arrangements		-Ministry of Finance	-SPO -All relevant organisations and institutions	2004
	7.2. Supporting existing finance mechanisms and creating new mechanisms	7.2.1. Strengthening the KGF capital structure and spreading the activities of KGF	-Transferring the total amount in the Colleteral SPO Responsibility Fund into the KGF's capital -Developing cooperation of KGF with other banks		-KGF Inc.	-Institutions and organisations represented in the KGF Board of Directors	2003-2004

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
7.IMPROVEMENTS IN TAXATION AND FINANCIAL MATTERS (CONTINUED)	7.2. Supporting existing finance mechanisms and creating new mechanisms (continued)	7.2.2. Expanding the resources of the SME financing system	-Applying to the relevant programmes in order to make use of available EU funds, -Informing SMEs on this subject		-SPO -EUGS -TUBİTAK -KOSGEB	-Institutions and organisations offering finance support to SMEs	2003-2005
		7.2.3. Providing the meeting of those who have project ideas with capital holders.		-Establishment of a Virtual Business Development Network	-KOSGEB		2003-Continuous
				-Establishment of Technology Markets	-TTGV		

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
7.IMPROVEMENTS IN TAXATION AND FINANCIAL MATTERS (CONTINUED)	7.2. Supporting existing finance mechanisms and creating new mechanisms (continued)	7.2.4. Analyzing the financial structure of SMEs and financing facilities for SMEs.	-Carrying out studies on searching the financial structure of SMEs and available financial opportunities; developing financial models suitable for Turkey		-Ministry of Industry and Trade	-KOSGEB -Finance Institutions	2003-2005
		7.2.5. Improving state aids to SME investments	-Diversifying state aids to SME investments, increasing the resources allocated for application.		-Undersecretariat of Treasury	-Ministry of Finance -Ministry of Industry and Trade -SPO -Halk Bank -Development Bank,	2003-2005

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTIONS	RELEVANT INSTITUTIONS	TIMELINE
7. IMPROVEMENTS IN TAXATION AND FINANCIAL MATTERS (CONTINUED)	7.3. Promotion of employment generation	7.3.1. Encouraging young and female entrepreneurs in their employment-generating activities	-Developing special projects, training and credit programmes for these segments of the society	The Project on Supporting of Women Entrepreneurship	-TESK	-Halk Bank -KOSGEB	2003-Continuous
		7.3.2. Searching for ensuring the opportunities of maximum flexibility in working life, developing alternative working models and contract types; searching ways to reduce taxes and other social fees which increase the cost labour upon employers, development of support systems for employers with specified duration particularly in the nature of encouraging employment	-To advance activities on setting an Employment Strategy -Disseminating the KOSGEB Employment support	The Project on the Active Workforce Market and Integrated Projects	-İŞKUR -KOSGEB	-Ministry of Labour and Social Security -Ministry of Industry and Trade -Ministry of Finance -SPO - Undersecretariat of Treasury	2003-2005

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
8.DEVELOPMENT OF TECHNOLOGICAL AND INNOVATION CAPACITY OF SMES	8.1.Increasing technology transfer and dissemination	8.1.1. Raising the technological level of the SMEs to gain competitiveness; strengthening know-how related services and developing capacity for transfer and consultancy in the country	<ul style="list-style-type: none"> <li>-Supporting activities towards diagnosing industrial problems of SMEs and matching them with solution providing services</li> <li>-Bringing market standards into engineering, consultancy, design and services related to know-how transfer to be purchased by SMEs,</li> <li>-Developing a market for service providers which will assist SMEs in transferring know-how and improving their relations with SMEs,</li> <li>-Supporting service purchases of SMEs financially</li> </ul>	The Project on Technology Transfer and Dissemination	<ul style="list-style-type: none"> <li>-SPO</li> <li>-GIT</li> </ul>	<ul style="list-style-type: none"> <li>- Ministry of Industry and Trade(STB)</li> <li>-KOSGEB</li> </ul>	2004-2005

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
8.DEVELOPMENT OF TECHNOLOGICAL AND INNOVATION CAPACITY OF SMEs (CONTINUED)	8.1. Increasing technology transfer and dissemination (continued)	8.1.1. Raising the technological level of the SMEs to gain competitiveness; strengthening know-how related services and developing capacity for transfer and consultancy in the country (continued)	-Supporting market-making activities of which develops supply side in a demand driven manner in order to develop trade between know-how related service producing SMEs and those SMEs which consume these services, -Undertaking activities to support the setting up of R&D capacities either inside of SMEs or as separate service producers and the establishment of contracted research organisations in required areas in order to strengthen the technology production capacity of the country				

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
8.DEVELOPMENT OF TECHNOLOGICAL AND INNOVATION CAPACITY OF SMEs (CONTINUED)	8.2. Enhancing information about research, technological development and innovation in SMEs	8.2.1. Encouraging SMEs to invest in technology by showing them the benefits of research, technological development and innovation in order to make them to gain a sustainable competitive edge	-Developing and executing a national campaign with relevant participating organisations under the coordination of KOSGEB		-KOSGEB	-TTGV -TÜBİTAK -TOBB	2004-Continuous
		8.2.2. Creation of innovative SMEs	-Determining a strategy, preparing and implementing an action plan in order to ensure that SMEs make use of the 6th R&D Framework Programme		-KOSGEB -TÜBİTAK -Universities	-TOBB	2003-2005

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
8.DEVELOPMENT OF TECHNOLOGICAL AND INNOVATION CAPACITY OF SMEs (CONTINUED)		8.2.2. The creation of innovative SMEs (continued)	-Ensuring cooperation between universities/ research centres and SMEs in research, technological development and innovation projects		-KOSGEB -TOBB -Universities	-Ministry of Industry and Trade -TÜBİTAK -TTGV	2003-2005
	8.3 Creating mechanisms which aim to follow, transfer and disseminate new technologies	8.3.1. Creating one-stop shop centres offering specific advisory services on technology and innovation within the context of integrated service provision	-Building of the necessary institutional capacity	Setting up Innovation Relay Centres and incorporating them in the EU-IRC Network	-KOSGEB - TOBB - TÜBİTAK	-TTGV	2003-2005

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
8. DEVELOPMENT OF TECHNOLOGICAL AND INNOVATION CAPACITY OF SMEs (CONTINUED)	8.4.Increasing cooperation among SMEs, large scale enterprises, universities, professional organisations and public institutions/ organisations	8.4.1. Supporting capacity for developing cooperation among SMEs, large scale enterprises and professional organisations and for developing advisory services	-Developing incentive mechanisms and instruments providing SMEs with the use of information and experience accumulated by universities -Developing and disseminating the practices of the Centre for the Development of Technology (TEKMER) and Technology Incubator without Wall (DTI) by involving Chambers of Industry in the process	Spreading TEKMER and DTI implementations	-KOSGEB -TOBB -Universities		2003-2005
	8.5.Forming local and regional clusters	8.5.1.Forming clusters in OIZs, Industrial Zones and Small Industrial Estates	-Conducting modelling and feasibility studies for the establishment of local and regional clusters	Formulating study and pilot application projects	-Ministry of Industry and Trade	-KOSGEB -TESK -Universities	2003-2005

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
8. DEVELOPMENT OF TECHNOLOGICAL AND INNOVATION CAPACITY OF SMEs (CONTINUED)	8.5. Forming local and regional clusters (continued)	8.5.2. Forming sectoral clusters	-Developing model projects for spreading clusters	Fashion and Textile Cluster Project	- İTKİB - DTM	Organisations represented in the steering committee	2004-2006
				Establishing Centres of Excellence -Automotive -Footwear -Leatherwear/ Fashion -Furniture	- KOSGEB	-TOBB -TESK -Related Professional Chambers	2004-2006
		8.5.3. Forming clusters among SMEs working on local handicrafts	-Preparing an inventory of all craftsmen working with local handicrafts in the country and carrying out a modelling study on supporting them with cluster models	The Local Handicrafts Project	-SPO	-Ministry of Industry and Trade -Ministry of National Education -Ministry of Culture and Tourism -Ministry of Agriculture and Rural Affairs -KOSGEB -TESK -Universities	2003-2005

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
9. INFORMING SMEs ON BEST PRACTICES VIA THE INTERNET AND DEVELOPING HIGH LEVEL SME SUPPORT SCHEMES	9.1. Providing SMEs to benefit from the best practices to raise their level of success	9.1.1. Informing SMEs in order to spread the best practices	<ul style="list-style-type: none"> <li>-Spreading promotional activities on the best practices, developing information services through the Internet</li> <li>-Expanding the application of KOSGEB Information Offices at local chambers</li> </ul>	<ul style="list-style-type: none"> <li>-The SME Markets Project</li> <li>-National successful implementations project (Studying examples of the best practices)</li> <li>-Opening up the business support programme and its projects for Turkey</li> <li>-Launching SME Observatory and Innovation Scoreboard in Turkey</li> <li>-Comparing Turkish SMEs with their counterparts in the EU in terms of economic values</li> </ul>	<ul style="list-style-type: none"> <li>-KOSGEB</li> <li>-TOBB</li> </ul>	-SPO	2003-Continuous

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
9. INFORMING SMEs ON BEST PRACTICES VIA THE INTERNET AND DEVELOPING HIGH LEVEL SME SUPPORT SCHEMES (CONTINUED)	9.2.Facilitating access to information	9.2.1. Forming policies enabling establishment and effective operation of communication networks among enterprises; providing a conducive and favourable environment for cooperation in the communication between service providers and purchasers, technology transfer, R&D, information exchange and cooperation in competitive markets via establishment of communication networks	Executing awareness-raising, training and advisory programmes		-KOSGEB	-SPO -DTM -TOBB -TESK	2003-Continuous
			Spreading the European Information Centres	Setting up 12 EU Information Centres	-KOSGEB -TOBB	-TESK	2003-2005

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
9. INFORMING SMEs ON BEST PRACTICES VIA THE INTERNET AND DEVELOPING HIGH LEVEL SME SUPPORT SCHEMES (CONTINUED)	9.3. Increasing the quality and scope of non-financial services	9.3.1. Ensuring that non-financial supports given are of the same quality by all service providers	-Increasing the number of KOSGEB service centres -Developing activity standards for service providers, implementing accreditation practices		-KOSGEB	-TOBB -TESK -TSE	2003-Continuous
	9.4. Increasing the support capacity of institutions/ organisations that are representative of SMEs	9.4.1. Increasing the capacity of institutions/ organisations that are representatives of SMEs to support the development of their members, concentrating on informative activities via the Internet	-Expanding Turkey-EU Business Development Centres		-TOBB -KOSGEB	-TESK	2003-2005

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
9. INFORMING SMEs ON BEST PRACTICES VIA THE INTERNET AND DEVELOPING HIGH LEVEL SME SUPPORT SCHEMES (CONTINUED)	9.5. Supporting compliance of SMEs with the environmental legislation	9.5.1. Developing and facilitating the process of harmonisation of enterprises with the environmental legislation	-Taking initiatives to provide SMEs to benefit from EU programmes for their harmonisation with the environmental legislation -Developing a control system for compliance with legislation	Environmental Legislation Promotion Project	-Ministry of Industry and Trade -Ministry of Environment and Forestry	-SPO	2003-2005

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
9. INFORMING SMEs ON BEST PRACTICES VIA THE INTERNET AND DEVELOPING HIGH LEVEL SME SUPPORT SCHEMES (CONTINUED)	9.5. Supporting compliance of SMEs with the environmental legislation (continued)	9.5.2. Supporting the use of environment-friendly technologies	-Supporting investments using environment-friendly technologies and developing production methods which reduce energy costs or create alternative or renewable energy sources	Establishing 12 training centres in 11 cities for the cooling sector and other projects to be developed in the future -Training 2500 industrialists -Setting up recycling centres of cooling gases in 24 provinces and reuse centres in 3 provinces	-Ministry of Environment and Forestry -KOSGEB -TOBB	-SPO -Undersecretariat of Treasury -TTGV	2003-2005

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECT	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
10. MORE EFFECTIVE REPRESENTATION OF SMES ON NATIONAL AND INTERNATIONAL PLATFORMS	10.1. Developing coordination among relevant ministries and institutions/ organisations in order to provide cooperation of SME policies and implementations	10.1.1.Improving coordination among relevant ministries and institutions/ organisations, facilitating the coherence and continuity of SME policies and implementations	-Ensuring a more active functioning of KOSGEB General Assembly -Considering a potential broadening of the target group covered by Law No. 3624 dated 12 April 1999 in line with EU's SME definition		-Ministry of Industry and Trade	-SPO -Undersecretariat of Treasury -DTM -KOSGEB -TOBB -TESK -Relevant Non-Governmental Organisations	2003-Continuous
	10.2. Increasing the participation of professional organisations in the preparation phase of SME legislation	10.2.1 Enhancing participation of professional organisations in the preparation of legislation concerning the SMEs in order to strengthen social dialogue with the society	-Making improvements on the legislation titled "Principles on Preparing Drafts of Laws, Decree-laws, Regulations and By-laws" published in the Official Gazette No. 21339 dated 8.9.1992		-Ministry of Industry and Trade	-TOBB -TESK	2003-2004

STRATEGY FIELD	TOPICS	AIMS	ACTIONS	PROJECTS	RESPONSIBLE INSTITUTION(S)	RELEVANT INSTITUTIONS	TIMELINE
10. MORE EFFECTIVE REPRESENTATION OF SMES ON NATIONAL AND INTERNATIONAL PLATFORMS (CONTINUED)	10.3. Developing professional organisations and non-governmental organisations related to SMEs and making their activities more effective	10.3.1. Developing the service capacity of professional organisations and non-governmental organisations pertaining to SMEs through increasing their interaction with the government organisations	-Identifying the needs of Non-Governmental Organisations in order to increase their effectiveness and efficiency -Carrying out informative activities about the operations of public organisations in order to facilitate access to information		-KOSGEB	-SPO -TESK -TOBB -Other relevant institutions and organisations	2003-Continuous