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PUBLIC POLICIES ON IMPROVING CONDITIONS FOR SME GROWTH, FINANCE, AND INNOVATION

KOBİ BÜYÜMESİ, FİNANS VE İNOVASYON İÇİN İYİLEŞTİRME KOŞULLARI HAKKINDA KAMU POLİTİKALARI

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Abstract

The world economies have been in the process of globalization. Localization tendencies have also gained importance in recent years and the small and medium-sized enterprises (SMEs) operating on regional scale have come to the fore. Large firms and economies of scale have been successful in the relatively crawl world from the mid-1930s to the mid-1980s. In the first half of the twentieth century, the highest level reached by the modern industry has been identified with large-scale, and it has become a fashion for governments around the world to encourage the development of the heavy industry. In the beginning, the idea of "bigger is better" is valid. Afterwards, the view has gained importance that the bigger one is too ineffective, overcosting, not flexible enough and has bureaucratic obstacles, and that smaller and faster actors will succeed in a wider area. While SMEs accounted for %80 of the American enterprises in 1970, this rate reached %90 in the 90s. SMEs have a key position and significance now in Turkey as in many developed and developing countries of the world. This interest and importance generate a motivation to start this study. In this study, firstly basic information about SMEs is given. The strengths and weaknesses, needs and current positions of SMEs are examined by giving samples such as G20, the European Union countries and Turkey. Farther, the current structure and legal basis of SMEs in Turkey, explanations and evaluations related to the development process of them are focused. Some policy suggestions are made for SMEs lastly.

Keywords: SME, KOSGEB, Employment, Support, Development.

Jel Codes: L33, L53, O16, P42

Özet

Dünya ekonomileri küreselleşme sürecindedir. Yerleşme eğilimleri de son yıllarda önem kazanmaktadır ve bölgesel ölçekte faaliyet gösteren küçük ve orta ölçekli işletmeler (KOBİ'ler) ön plana çıkmaktadır. Büyük firmalar ve ölçek ekonomileri, 1930'ların ortasından 1980'lerin ortasına kadar nispeten yavaş büyüyen dünyada başarılı olmuştur. Yirminci yüzyılın ilk yarısında, modern endüstri vasıtası ile erişilen en yüksek seviye, büyük ölçekli olarak tanımlanmaktadır ve bu, dünyadaki hükümetler için ağır sanayinin gelişimini teşvik etmek için bir moda haline gelmiştir. Başlangıçta, "daha büyük daha iyidir" fikri geçerli idi. Daha sonraları ise, daha büyük olanın çok etkisiz, yüksek maliyetli, bürokratik engelleri olduğu, yeterince esnek olmadığı, daha küçük ve daha hızlı aktörlerin daha geniş bir alanda başarılı olacağı şeklindeki görüş önem kazanmıştır. KOBİ'ler 1970 yılında Amerikan işletmelerinin %80'ini oluştururken, bu oran 1990'larda %90'a ulaşmıştır. KOBİ'ler, günümüzde dünyanın birçok gelişmiş ve gelişmekte olan ülkesinde olduğu gibi Türkiye'de de önemli bir konuma ve öneme sahiptir. Bu ilgi ve önem, bu çalışmaya başlamak için bir motivasyon oluşturmaktadır. Bu çalışmada, öncelikle KOBİ'ler hakkında temel bilgiler verilmektedir. KOBİ'lerin güçlü ve zayıf yanları, ihtiyaçları ve mevcut konumları, G20, Avrupa Birliği ülkeleri ve Türkiye gibi örnekler özelinde incelenmektedir. İlaveten, Türkiye'deki KOBİ'lerin mevcut yapısına ve yasal dayanağına, bunların gelişim sürecine ilişkin açıklamalara ve değerlendirmelere odaklanılmaktadır. Son olarak KOBİ'ler için bazı politika önerileri yapılmaktadır.

Anahtar Kelimeler: KOBİ, KOSGEB, İstihdam, Destek, Gelişme.

Jel Kodları: L33, L53, O16, P42

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INTRODUCTION

Small and medium-sized enterprises (SMEs) play a crucial role both in developed and developing economies, especially for economic growth and recovery. Number, employment capacity and value-added of SMEs constitute a large share of the countries production volume. Countries have been taking the role of SMEs in the economy while preparing their public policies. Enterprises which have less than 250 employees or 25 million TL annual net income are within the scope of SME in Turkey. Approximately %99 of enterprises consist of small and medium-sized enterprises (SMEs) in developed and developing countries. SMEs are seen as the cornerstone of economies. This sector, which is so important for the economy, also has some difficulties. Undoubtedly, the most important of these difficulties is the shortage of capital. Today, government agencies are very closely concerned with these problems of SMEs and provide the necessary support, thus increasing employment. SMEs are subsidized in various ways in Turkey through several institutions and organizations including primarily KOSGEB (Basci & Durucan, 2017, p. 59-60). According to the available data (2019), 3,645,469 small and medium-sized enterprises operate in Turkey. These enterprises contribute %73 to employment, %59 to value-added and %58 to investments. Besides, their share in employment, export, value-added and investment areas is still relatively low (KOSGEB, 2019).

The goal of this study is to explain the role of SMEs, their weaknesses and needs, public policies of some countries such as the European Union, OECD, G20 and Turkey on SMEs and make suggestions on what governments should do for the growth of SMEs. All remarks regarding datas and key findings are made by the database and reports of countries, institutions, unions such as Turkey, the European Union, OECD, G20, etc.

Definition of SME and SME Criteria

The role of small and medium enterprises (SMEs) in the world economy is gradually increasing and gaining importance. SMEs are becoming more and more indispensable in the economies of developed and developing countries with their contribution in creating new employment areas, their ability to adapt to the changes in market conditions, their effects on economic and social development. This development leads countries to determine appropriate policies for the promotion and development of SMEs. (EU SME Annual Report, 2019, p. 57; World Bank, 2011, p. 6; United States International Trade Commission, 2010, p. 1-3).

Efforts have been initiated to support SMEs since the late 1980s in Turkey. Small and Medium Industry Development and Support Administration (KOSGEB) is established within the Ministry of Industry and Trade of Turkey in April 1990 in order to increase the share of SMEs in the country's economy, improve their competitiveness and realize the integration in the industry in line with economic developments. Organizations such as The Directorate of Strategy and Budget, The Ministry of Treasury and Finance, The Confederation of Turkish Tradesmen and Craftsmen play a role in the creation and implementation of SME policies in Turkey. Firms or businesses are defined as follows when many examples in the world are analyzed: Enterprises employing 1-50 workers in the manufacturing industry sector are considered small, and those employing 51-150 workers are considered medium-sized enterprises. SMEs are defined differently. The Economic

Cooperation and Development Organization (OECD) is an important international platform in this field with its efforts on SME policies and the dissemination of best practices. The European Commission also plays an important role in the development of SMEs in the union. SMEs and Entrepreneurship Working Group within OECD are working to increase the efficiency of small businesses by introducing best practice policies and collaborating between member countries and non-member countries. An assessment of these policies is taken part in the following sections.

The number of employees and the total turnover or balance sheet are considered as an international definition that determines whether an enterprise is SME or not. The following tables Table 1 and 2 represent the contents of SMEs in terms of Turkey and the European Union.

Table 1. *SME Criteria in the European Union*

Company category	Employees	Turnover	or	Balance sheet total
Medium-sized	50 -249	≤ 50 million EUR		≤ 43 million EUR
Small	10 - 49	≤ 10 million EUR		≤ 10 million EUR
Micro	< 10	≤ 2 million EUR		≤ 2 million EUR

Source: Annual Report on European SMEs 2018/2019 s. 16

Table 2. *SME Criteria in Turkey*

Company category	Employees	Turnover	or	Balance sheet total
Medium-sized	50 - 249	≤ 125 million TL		≤ 125 million TL
Small	10 -49	≤ 25 million TL		≤ 25 million TL
Micro	< 10	≤ 3 million TL		≤ 3 million TL

Source: KOSGEB 2018 Annual Report, p. 2

SMEs' Role in the Economy

SMEs stand out with their strengths in an economy such as supplying more production and product diversity with less investment; job creation with low investment costs; easy adaptation to demand changes and variations; being prone to technological innovations; realizing balanced development between regions. After all, it is known for its characteristics such as minimizing distortion in income distribution, promoting, directing and mobilizing individual savings, supporting and supplementing large industrial enterprises, and forming one of the cornerstones of the democratic and liberal economy as a political and social stability factor. While determining policies for SMEs, priority is given to the solution of finance and technology problems and competitiveness problems, which are specified as the weaknesses of SMEs. In this framework, what needs to be done to strengthen SMEs in an economy and eliminate their weaknesses can be summarized as follows. A more detailed evaluation is given in the conclusion section (Basci ve Durucan, 2017, p. 61-73; Turkoglu & Celikkaya, 2011, p. 3).

- The importance of entrepreneurship and education should be increased.
- Cheaper and faster business establishment processes should be developed.
- Law and legislation arrangements should be made.
- Qualified personnel should be trained.

- Internet access should be improved and SMEs should be informed about the best practices via the internet.
- Improvements should be made in opening up to new markets, taxation and financial issues.
- Issues such as improving the technology and innovation capacity of SMEs and better representation of SMEs on international platforms are given priority.

Role of SMEs in the European Union Countries

SMEs employed approximately 97.7 million people in 2018 in the EU. This represents %66.6 of all European jobs for 2018. SMEs accounted for over EUR 4.35 million value-added at current prices against a total value produced by the private, non-financial sectors of approximately EUR 7.72 million (%56,4) (EU SME Annual Report, 2019, p. 15). Table 3 represents the numbers, value-added and employment rates of SMEs in the European Union countries.

Table 3. Number of SMEs and large enterprises in the EU countries and their value-added and employment (2018)

	Micro SMEs	Small SMEs	Medium-sized SMEs	All SMEs	Large Enterprises	Total-All Enterprises
Number of Enterprises	23.323.938	1.472.402	235.668	25.032.008	47.299	25.079.312
% of	%93	%5,9	%0,9	%99,8	%0,2	%100
Value in € million	1.610.314	1.358.496	1.388.416	4.357.046	3.367.321	7.723.625
% of	%20,8	%17,6	%18	%56,4	%43,6	%100
Number of Employment	43.527.668	29.541.260	24.670.024	97.738.952	49.045.644	146.784.592
% of	%29,7	%20,1	%16,8	%66,6	%33,4	%100

Source: Annual Report on European SMEs 2018/2019 p. 17

The role of SMEs is very important for the economic recovery in Europe. The number, value-added and job creation rate of SMEs constitute an important part of the European economy. The vast majority of SMEs in the EU need external financing to develop and maintain their existence. For this progress, the EU Commission has been putting more emphasis on the sectoral composition of the economy and the structural changes associated with it. SMEs are closely monitored and supported by the European Commission for European welfare and economic recovery. In doing so, the Commission is undertaking an innovative mission by adapting information-intensive services to SMEs in order to make the manufacturing industry more efficient and more competitive (European Commission, 2008; European Commission, 2013).

When the annual reports of the European Commission are examined, SMEs that produce high-tech products and services have maintained their dominance within the framework of the measures and legal regulations taken in the last crisis and it is observed that post-crisis employment capacities and value-added have increased (EU SME Annual Report, 2019, p. 57). However, much remains to be done to improve SMEs in Europe. Small Business Act for Europe (SBA), launched in June 2008 firstly, plays an important role in the implementation and adoption of policy measures. This act is based on 10 basic principles. These principles are; education and entrepreneurship, second chance, environment and green economy, internalization, public procurement and support services, access to finance, enterprise skills and innovation, responsive administration for SME policy making, business creation and single market. Besides, the “*SBA Fact Sheet*” which includes the developments about 10 principles is prepared by the countries every year.

In 2009, Turkey has been a party to this process for the development of SMEs and their integration with European SMEs and implemented a law for this purpose. The first report on the developments within the Law is published in 2012 and the second report in 2016. In accordance with the determinations made by OECD (OECD 2012 SME Policy Index Report, p. 67), Turkey has seen good performance on the implementation of the principles laid down in the law. In the SME Policy Index Report published in 2016, Turkey has been the first in 7 principles. These are entrepreneurship, support services, access to finance, standards and technical regulations, innovation, environment and internationalization. According to this report, Turkey continues its pro-active approach towards SMEs (OECD 2016 SME Policy Index Report, p. 37). In the OECD SME Policy Index Report published in 2019, Turkey has been the first in 9 principles mentioned above. These are entrepreneurship, regulatory environment, support services, access to finance, standards and technical regulations, business skills, innovation, environment and internationalization (OECD 2019 SME Policy Index Report, p. 54). Moreover, actions on the implementation and monitoring of the SBA are carried out under the coordination of KOSGEB in cooperation with institutions/organizations related to SMEs.

Role of SMEs in Turkey

KOSGEB which is established on 20/4/1990 with Law No. 3624 tends to increase the share of SMEs and entrepreneurs in economic and social development by offering support and services to improve their competitiveness in Turkey. Turkey has approximately more than 3.5 million SMEs (3,645,469) and 7052 large-scale firms. %93,65 of all SMEs are micro enterprises, %5,29 of them are small and %0,89 of them are medium-sized. %12,6 of all SMEs are operating in the manufacturing sector. SMEs constitute (2019); %99,83 of total enterprises, %72,7 of total employment, %58,3 of total investments, %50,6 of total value-added, %55,4 of total export (micro enterprises %19,7, small enterprises %19,2, medium-sized enterprises %16,5 and large enterprises %37,2) %61,7 of total sales, %35,3 of R&D expenditures. The share of large-scale enterprises with 250 or more employees in exports is recorded %44,6 in 2018. The share of micro enterprises is %8,6; the share of small enterprises is %11,1; the share of medium-sized enterprises is %16,4 in imports. The share of large-scale enterprises with 250 or more employees in imports is recorded %64 in 2018. According to the main activity of the enterprise, %57,5 of exports and %56,5 of imports are made by enterprises

operating in the industrial sector. The share of enterprises whose main activity is trade is %38,9 in exports and %31,6 in imports (TUIK, 2018). The share of the top 5 most exporting enterprises in the industrial sector is %18,5 in the industrial sector and the share of the top 5 most exporting enterprises in the commercial sector is %14,1 in the trade sector. These rates and information reveal the importance of SMEs in economic and social structuring and demonstrate the need to support these businesses in line with technological developments (Satir, 2014, p. 4; KOSGEB, 2019).

Empirical Studies on SMEs in the European Union Countries

Some analyses within the EU countries show that (EU Annual Report, 2019, s. 42-45; 46-53): There is a clear positive relationship between the growth of investments and consumption and the growth of SME value-added. Between 2008 and 2018, trends between loan availability in the European economies and SME value-added increase has remained relatively small. The relationship between SME employment growth and household consumption is positive. The correlation between Research and Development (R&D) indicators and SME employment growth is positive and relatively high. Economies characterised by less business friendly environment have experienced slower growth in SME employment. There is a strong negative relationship between the amount of cumulative State Aid given to the financial sector and the value-added development in the SME sector between 2008-2018. Rise in government spending is related to low growth in SME value-added. Member states that spend more on labour market policies as a percentage of GDP have seen greater growth in SME employment. There is a negative relationship between SME employment growth and labor costs (excluding wages and salaries). The availability of financing is positively linked to SME employment growth. The relationship between SME employment and the value-added of SMEs producing medium-low and low technology products and the value-added of SMEs in the manufacturing sector is positive. This finding is normal since these SMEs generally produce labor intensive production.

Need of Public Policies for Supporting the SMEs

Facilitating the growth of SMEs is central to creating jobs for the growing labor force. SMEs account for %50-80 of jobs in economies. SMEs in the EU resisted the crisis better than larger enterprises between 2008-2018. SMEs tend to be associated with poorer economic outcomes than larger enterprises. SMEs' labor productivity is estimated at 1/3 of that larger enterprises. SMEs pay lower wages, they invest less, they tend to be less technologically advanced and the innovate less than larger firms. SME growth performance and productivity is currently poor. Turkish SMEs grow slower than both large enterprises in Turkey and SMEs in comparator countries. The two main priorities for SMEs are (a) access to finance and (b) the ability to adopt and use technology and to innovate. The development of medium term finance contributes significantly to SME performance in terms of employment, sales and investment. SMEs must enhance their ability to use knowledge and develop products, markets and processes to underpin productivity and thus competitiveness and sustainable growth (Harvie & Lee, 2003, p. 4; Blackburn, 2011, p. 571-574).

Public Policy Samples for Supporting the SMEs

This section provides examples and overall assessments about the structure and development of SMEs in countries or country groups such as the European Union, OECD, G20 and Turkey.

European Union's state aids for SMEs

The General Block Exemption Regulation (GBER) was implemented from 29 August 2008 to 31 December 2013. The number of government supports for SMEs in EU member countries has been increased with this regulation. In this context, there are 26 measures in the regulation. This regulation, which is put into practice for the settlement of some "market failures" faced by SMEs, includes different types of subsidies. These are employment and investment assistance, assistance to disadvantaged and disabled employees, research and development and innovation assistance (R&D&I), environmental aid, consultancy assistance, regional assistance, child and parent support for women entrepreneurs to overcome their difficulties in accessing finance, help to participate in fairs and educational aid.

This regulation was replaced by a new one in 2014. Program for the Competitiveness of Enterprises and SMEs (COSME) covering the period of 2014-2020 has a budget of 2.5 billion Euros. The target audience of this program is as follows:

- Entrepreneurs, especially small and medium-sized businesses that will benefit from easy access to resources,
- Citizens who want to own a business but have difficulties in the establishment and development of their businesses,
- Member state officials who will be better supported for effective policy development and implementation.

The purpose of COSME can be summarized as follows.

Improving access to resources with equity capital and loans for SMEs:

Providing an equality opportunity for growth period investments will provide SMEs with commercially available, reimbursable equity financing instruments, mainly with a loan guarantee. Secondly, SMEs are provided with credit opportunities, including direct or other risk-sharing arrangements and debts of financial intermediaries.

Improving the entry of SMEs to union market and global markets: A growth-oriented business service facility is provided through the Enterprise Europe Network to facilitate business expansion in the Single Market. This program also provides commercial support to SMEs outside the European Union member countries. In addition, international industrial collaborations are supported to reduce the gap between the EU and its main trading partners.

Increasing entrepreneurship: Activities are organized to develop entrepreneurship skills and attitudes of new and young entrepreneurs.

Tax incentives for SMEs in OECD and G20 countries

SMEs and Entrepreneurship Working Group within OECD addresses issues related to general entrepreneurship and SME issues such as business

environment, burdens brought by regulations, access to finance and venture capital, taxation and executive education, e-business, and women's businesses. The working group also specifically evaluates the innovative beginnings and the increasingly important role of SMEs in terms of job creation and growth. It also allows evaluation of SME policies and programs to identify and disseminate best practices. Through the SME and Entrepreneurship Working Group, OECD tries to improve the performance of small businesses by introducing cooperation and best practice policies in this field between member and non-member economies at the international level. The Working Group is tasked with reviewing and maintaining SME and entrepreneurship-related issues and policies at the national and international levels. In doing so, it is constantly in consultation with member and non-member countries. OECD member states are also making many innovations and regulations, particularly tax incentives, under the leadership of the OECD.

Many OECD and G20 member states offer a number of special provisions and measures to reduce the tax compliance costs of SMEs. Any government intervention, including tax preferences, needs to be carefully implemented to help achieve the stated policy objectives. This is called the heterogeneity of the SME population. Many OECD and G20 member states offer a number of specific provisions and measures to reduce the tax compliance costs of SMEs for the size of an enterprise and the government's intervention through tax policies. It is important to target tax regulations carefully. Fulfilling the objectives expected from the policies is also important for reducing tax compliance costs. The burden of tax compliance costs and the expansionary impact of innovation can provide an advantage for smaller or newer SMEs compared to older SMEs because established companies face the difficulty of finance and cash flow, which is one of the obstacles to growth. A policy objective should be simplifying and addressing such difficulties. On the other hand, such a policy target has some risks even in such small SMEs. Young, small firms are also the riskiest and most likely to leave the line of business for this reason, it should be taken care that tax preferences or simplification measures do not cause other difficulties. On the other hand, these challenges should be prevented from resulting in incentives to change economic activities in undesirable ways, such as slowing growth because such a situation may also cause negativity for the development of SMEs.

SMEs are generally lower-taxed in OECD and G20 countries. It is seen that SMEs are taxed especially in capital gains in OECD and G20 countries and supported with some tax incentives. In addition, some countries tax SMEs disproportionately lower than large enterprises. This leads to deterioration in economic policies. Governments take many measures by providing tax incentives and simplification measures for SMEs to mitigate these disruptive effects. Tax preferences also aim to help other challenges faced by SMEs and support the growth of SMEs. In this respect, these measures encourage careful targeting of any special tax rules for SMEs. Taxation of SMEs and establishment of SME-specific tax rules can play a useful role in addressing the challenges faced by SMEs and disproportionately high tax compliance burdens, if carefully designed. The distribution of SME income in all member countries, the size of the enterprise, decisions regarding investment, employment and finance, and compliance with tax rules significantly affect tax incentives for SMEs. For example, SMEs in Japan are taxed at around

%30 (Dalsgaard, 2008, p. 6) This rate is less than other country rates. The rate applied in the USA, Canada, France and the UK is around %40. Germany and Italy apply uniform tax rates to SMEs. A country's tax system should be impartial about its impact on business decisions, including the creation, form and growth of SMEs. Besides, the United States applies a narrower tax base to SMEs and writes off \$ 125,000 of its capital expenditure. This amount can be increased up to 200,000 USD according to the Administrations FY2007 proposal envisage (Jayasekara & Thilakarathna, 2013, p. 8; Sarisoy & Sarisoy, 2008, p. 391).

Another important issue affecting SMEs in these countries is particularly about their limited access to financing for growth and expansion, which has intensified since the financial crisis. It is observed that SMEs, which have limited access to equity financing, face significant restrictions regarding debt financing in OECD and G20 countries. Regarding debt financing, SMEs in countries are considered to have limited capacity to generate more financing. It is often seen that they face more costs than their major competitors in access to financing. In this context, many governments in OECD and G20 countries support SMEs through special tax rules such as credit programmes and non-tax programmes. These supports include special corporate tax rates for SMEs, higher tax credits or tax exemptions, and SME substitution taxes. While many of these specific SME tax rules are designed to support the growth and profitability of SMEs, they can sometimes have deceitful effects on the economic order. Governments should consider whether certain measures have a disproportionate impact on SMEs or not when designing and implementing these tax policies. These preferences should be carefully targeted and designed to support companies that make positive contributions to the economy.

Policies and Plans Aimed at Fostering the SME Sector in Turkey

Five-year development plans: Five-year development plans have being prepared to support entrepreneurship in Turkey. 4 plans were prepared between 1960-1984. SME concept and SME plans have been brought to the agenda for the first time with the 4th and 5th development plans. General Directorate of Small Industry Development and Support Administration (KUSGET) was established in 1983 to strengthen the technology and management capacities of small businesses. Small industrial enterprises are in the same category as artisans in the 5th five-year development plan covering the period 1985-1989. Small businesses are included in an industry category in order to benefit from any government incentive policy with this plan. The reason for this is that companies or firms called subcontractors are asked to be protected against those who are greater than them. KOSGEB and Credit Guarantee Fund Inc. (KGF) has been established respectively with the 6th five-year development plan. KUSGET is also merged with KOSGEB. The 7th five-year development plan covering the 1996-2000 period attaches importance to the employment creation capacity of SMEs and encourages funding of SMEs' training. As mentioned above, all plans prepared after 2000 focus on the development of SMEs and increasing the diversity of their support in line with the regulations of the European Union, OECD and other associations (Muftuoglu, 2009, p. 9-15; Ozdemir et al., 2007, p. 182-190).

The last Eleventh Five-Year Development Plan (2019-2023) points to the increase in productivity of SMEs and the continuity of the need for growth and institutionalization of them in terms of increasing competitiveness in the economy,

developing innovation and entrepreneurship and creating employment. In this context, the Model Factory (SME Competence Center) Consultancy Support Program will be launched in order to increase the efficiency of SMEs and contribute to their digital transformation; Efficiency Support Program will be implemented in OIZs (Organised Industrial Zone) to ensure efficiency transformation of SMEs. It is targeted to increase the share of R&D expenditures of SMEs from %19,6 in 2018 to %25 in 2023. and is calculated that the export share of SMEs will exceed %60 by this plan (The Directorate of Strategy and Budget, 2019).

SME strategy and action plan (KSEP): The last SME Strategy and Action Plan was prepared in 2015 for the period of 2015-2018 and updated in March 2018.

State aids and investment & tax incentives: SMEs were first given state aids (incentives) through a state arrangement on January 24, 1993 in Turkey. The name of this arrangement is "Investments and Foreign Exchange Earning Services Incentive Fund". Its purpose is to direct and encourage investments, exports, foreign exchange earning services and loans in line with the targets set forth in "Development Plans" and "Annual Programs", and to ensure that loans with low interest rates are used in financing investments (Muftuoglu, 2009, p. 20-25).

The first special state aid was given to SMEs in Turkey on September 19, 1996. This decree is introduced that small and medium enterprises (SMEs) can benefit from state aid as "incentive certificate" for the first time in Turkey. SMEs are defined as enterprises that employ a maximum of 150 employees and whose total assets (excluding machinery, equipment, fixtures, land, buildings, vehicles) are below 50,000 TL. On 19 February 1999, the mentioned decree was revised. With this decree, SMEs operating in the manufacturing industry, employing a maximum of 150 employees, and whose total assets (excluding machinery, equipment, fixtures, land, buildings, vehicles) are below 100,000 TL are defined as SMEs. The term "SME" is used for the first time by this decree for small and medium sized enterprises in Turkey (Ozcelik & Taymaz, 2004, p. 413-416; Ozdemir et al., 2007, p. 216-226; Gulmez & Yalman, 2010, p. 238-241; Elci, 2011, p. 1-19; Turkoglu & Celikkaya, 2011, p. 61-64; Ulusoy & Akarsu, 2012, p. 114-120; Celik et al., 2013, p. 84-87).

In addition to all these arrangements/decrees, there are two very major incentive legal arrangements in Turkey since the mid-2000s. The first of these is Law No. 5084. The aim of this law is to increase investments and employment opportunities by applying tax and insurance premium incentives in some cities, providing energy support and assigning land for investments free of charge. The other one is "Technology Development Zones Law" numbered 4691. The purpose of this law is to provide technological knowledge in order to bring the industry of the country to an internationally competitive and export oriented structure by providing cooperation between universities, research institutions and organizations, and production sectors, to develop innovation in product and production methods, to raise the product quality or standard, to increase efficiency, to reduce production costs, to commercialize technological knowledge, to support technology intensive production and entrepreneurship, to ensure the adaptation of small and medium sized enterprises to new and advanced technologies, to create investment opportunities in technology-intensive areas by

taking into account the decisions of the Science and Technology High Council, to create job opportunities for researchers and skilled people, to assist technology transfer, and to provide the technological infrastructure to accelerate the entry of foreign capital into the country that will provide high/advanced technology. Since 2007, a tax deduction application has been introduced for self-employment earnings. The minimum living allowance has been started from those self-employed earnings with Law No. 5615. SME state aid, which has been implemented over the years in Turkey, can be listed as follows; state aids (incentives) given by various laws (acts) and decrees and related regulations, tax incentives such as declining balance depreciation, tax exemption, tax credits, accelerated depreciation, R&D cost reductions, etc. customs tax and VAT incentives, special aids, incentives and tax exemptions for technology development zones and organized industrial zones, credit guarantees, discounts, etc. risk insurance, infrastructure incentives, etc (Ozcelik & Taymaz, 2004, p. 413-416; Ozdemir et al., 2007, p. 216-226; Gulmez & Yalman, 2010, p. 238-241; Elci, 2011, p. 1-19; Turkoglu & Celikkaya, 2011, p. 61-64; Ulusoy & Akarsu, 2012, p. 114-120; Celik et al., 2013, p. 84-87).

It is necessary to determine their share in total loans in order to measure the performance of SMEs. The share of SMEs in total loans has increased over the years in Turkey. The total loan share, which was %5 in 1990, increased to %25-30 in 2000s. While the share of SME loans in total loans was %26 in December 2018, it decreased by %23 in December 2019 due to the recent economic crisis (The Directorate of Strategy and Budget, 2019, P. 107-109).

KOSGEB supports: Turkey has introduced a series of new programs and organizational structures to support SME upgrading in the mid-2000s. These all include programs managed by TUBITAK, KOSGEB, TTGV, TOBB. For all programs, the annual number of firms assisted is more than 4000 equaling about %0,2 of all SMEs in Turkey. KOSGEB has been established as an “affiliated organization” to the Ministry of Science, Industry and Technology on April 20, 1990 with the objectives of (KOSGEB, 2019):

- Increasing SMEs’ share and effectiveness,
- Improving SMEs’ competitive power and level,
- Ensuring industrial integration in conformity with economic development, for providing the social and economic needs of Turkey.

The principles adopted by KOSGEB for SMEs’ development and growth can be summarized as in Table 4.

Table 4. *Basic values of KOSGEB in Turkey*

Definition	Statement
Accessibility	KOSGEB offers easily accessible services to meet needs.
Leader and Router	KOSGEB aims to be a pioneer and guide in the field of activity and develops expertise in this direction.
Target Audience Oriented	KOSGEB; is aware of what customer value creation, target audience wants, expectations and needs are and act in this direction.
Neutrality	KOSGEB is equidistant to all parties; It shows a biased, concrete, data and information-based approach.

Transparency	KOSGEB acts in accordance with the law, transparently and with accuracy.
Efficiency and Productivity	KOSGEB uses its resources efficient and realistically.
Accountability	KOSGEB is based on the understanding of honesty and accountability towards its target audience.
Innovative Approach	KOSGEB is open to new information. It aims to continuously improve the existing knowledge by exploring and trying different approaches to act with the best solutions.
Cooperation and Openness	KOSGEB is prone to cooperation with national and international institutions/organizations.
Dynamism	KOSGEB has the ability to make changes in its services and supports in accordance with the conditions of the day.

Source: KOSGEB, 2018 Annual Report, p.1

Activities related to supporting SMEs and entrepreneurship have accelerated since 1990 in Turkey. This is the year when KOSGEB is founded. KOSGEB supports provided for SMEs are listed as follows. It should be remembered that KOSGEB supports cover entrepreneurship supports, R&D technological production and domestication supports, enterprise development, growth and internationalisation supports, SME finance supports, laboratory services, ISGEM/TEKMER Programme (KOSGEB, 2019). These all supports are specified by KOSGEB as professional, scientific and technical activities (law activities, accounting, bookkeeping and auditing activities; tax consultancy activities and veterinary activities not included), administrative and support service activities, culture, art, entertainment, vacation and sport (performing arts, supportive activities for performing arts, artistic creation activities, management of art facilities, gambling and betting activities, management of sport facilities, activities of sport clubs, fitness centres and body building centres and other sport activities, activities of theme/luna parks and funfairs, other entertainment and vacation activities not included), other service activities (activities of employment organizations, activities of professional organizations, trade union activities, activities of religious organizations, activities of political organizations, activities of organizations with membership not classified elsewhere, activities of bath, sauna, solarium saloon, massage saloon and similars not included). KOSGEB available and new supports are listed below (KOSGEB, 2019):

Entrepreneurship Support Programme

R&D and Innovation Support Programme

Industrial Implementation Support Programme

Strategic Product Support Programme

Cooperation - Collaboration Support Programme

Sme Technological Product Investment Support Programme

General Support Programme

Emerging Enterprises Market SME Support Programme

International Incubation Centre and Acceleration Support Programme

Loan Interest Support Programme

Kobigel-SME Development Support Programme

Technologic Product Promotion and Marketing
(Teknopazar) Support Programme

Laboratory Services

KOSGEB could access to only 4000 SMEs during the period 1990-2002. As a result of the restructuring process, the number of SMEs registered in the database has reached 1.150.000. KOSGEB which could provide 25 million USD support to SMEs until 2002, has reached 2 billion USD support volume between the years 2003-2016. SMEs have been able to utilize from bank credits at favorable conditions with the KOSGEB Credit Interest Support Programmes since 2003. The total credit volume of 8 billion USD has been created in 13 years with this support. On the other hand, TUBITAK, which is the leading institution implementing Research and Development supports, offers R&D supports for SMEs through its Directorate for Technology and Innovation Programs (TEYDEB) (KOSGEB, 2018).

CONCLUSION AND POLICY RECOMMENDATIONS

The importance of SMEs is indisputable in terms of national economies. SMEs handle the basic functions of the business such as management, production and marketing differently from large enterprises due to their structures. When the necessary importance is not given to the management function, some problems may occur in the business. SMEs should be prioritized and target-oriented support programs should be implemented in order to ensure that support for SMEs is converted into value-added for the country's economy. Studies should be carried out to spread the technology to the base, to strengthen the manufacturing industry, to support domestic and national production, to increase internationalization and to support large-scale business cooperation in order to supply imported goods from abroad. Activities aimed at increasing the effectiveness of information and promotion activities for SMEs and entrepreneurs should be carried out in order to promote the use of supports and increase their effectiveness. Efforts should be carried out to further more organizations such as KOSGEB with the expanding target audience in the media and national channels. Trainings should be organized according to the need by paying attention to in-service training in order to improve the knowledge and experience of the staff, the business processes and increase the motivation.

On the other hand, SME managers need to make long-term plans. These plans should basically include the following issues (Ece, 2019, p. 61):

- According to the human, financial and technical information of the business, which areas/activities should be concentrated in,
- The situation of the competitors in the target area or areas and how to be successful against them (cost advantage, quality, price, service etc.),
- Maximum loss that can be incurred in extraordinary situations during the period and compensations that can be made if such loss occurs,
- Minimum profit rate to be reached for the period and measures to be taken if such profit cannot be obtained,
- If the enterprise operates in domestic market, how it will be opened to foreign markets in the next one or two years,
- If the enterprise operates abroad, how to expand its scope of activities to existing countries and new countries in the next one or two years, and also how to enter the domestic market,
- Determining the managers/partners that will ensure the achievement of the above mentioned goals and how to obtain qualified human resources.

In light of this information, a number of policy recommendations for Turkey are listed in detail below.

Suggestions for an Efficient Public Policy Focusing on SMEs

Efforts should be carried out for Turkey to promote its institution and activities at international events in order to increase KOSGEB's international visibility. SMEs are driving force for sustainable economic growth and development. Here is located in a number of strategy and policy proposals for the problems faced by SMEs in Turkey. (Muftuoglu, 2009, p. 33-36; Nurrachmi, et al., 2012, p. 16-17):

1) Quota (allocating a share) application for SMEs can be included in the public contracts by examining the world examples in order to strengthen SMEs. Contracts can be made only for SMEs, depending on the content and size of the investment or business.

2) Increasing product safety, quality and branding are worthy to ensure that the goods and services produced by SMEs compete in foreign markets. Today, increasingly aggravated competitive conditions and changing consumption patterns encourage companies that want to take part in the international arena to create strong brands that mean more value-added and more market share. In this context, the Turkish Ministry of Commerce launched the world's first state-sponsored branding program on November 23, 2004. The name of this program is "TURQUALITY".

3) The most important difficulty faced by SMEs is informal employment. Shadow (unregistered) employment creates unfair competition, destroys competition and disrupts the balances in the economy. Its rate in Turkey constitutes approximately %33 of total employment. The labor intensity also increases as the size of the enterprises decreases. Low taxation of large investments are a deterrent to the development of SMEs when considering less taxation of large companies outside SMEs in Turkey. Investment incentives allocated to capital investments, create a crowding-out effect on employment generating areas. Taxation should be kept at

a very low level for SMEs in order to avoid the destruction of resources that create employment.

4) Legal arrangements and regulations should not be complicated, numerous and disincentive the competition for more entrepreneurs operating in the market, and to increase the number of young investors. Small enterprises, in particular, are more negatively affected by legal regulations and the existence of these regulations creates a deterrent factor for entrepreneurs.

5) It should be noted that some sectors or businesses that are not popular today may gain more economic value in the future, for this reason state aids, including tax incentives should be designed taking into account technological changes.

6) The burden and tax compliance costs created by other liabilities on businesses should be reduced. Sustainable energy consumption and environmental issues should be taken into account.

7) An information and database services similar to EU countries and tax privileges should be provided for businesses.

8) Support should be provided in the form of grants to encourage the establishment of new enterprises. In this context, education and consultancy networks and business development centers should be established.

9) Widespread use of the venture capital system should be ensured, by this way potential young entrepreneurs can be encouraged.

10) Businesses that have financial difficulties should be taken into consideration.

11) Public grants or subsidies for SMEs should be allocated based on efficient and productive use of public resources.

12) SMEs that are closed due to failures should be distinguished from others. It is not a valid economic argument to increase the number of SMEs by only extending the survival time of SMEs.

13) Tax regulations are an important area of SME policies. Tax policies need to be differentiated by size, region and sectors.

14) A necessary legal basis should be established to expand the microfinance mechanism.

15) Innovative credit guarantee tools should be put into practice.

16) The establishment of new SMEs should be encouraged. By this way, the competitive power and value-added of SMEs should be increased in a sustainable way.

17) It should be ensured that the young population receives adequate vocational, technical and entrepreneurship training. In this way, people can open their own businesses.

18) Legal arrangements should be made to reduce the negative impact of the informal economy on investments.

19) Strengthening economic and political stability and the rule of law will speed up the entry of many SMEs operating in foreign countries.

20) Technological infrastructure should be established to accelerate the entry of foreign capital into the country.

21) It is necessary to strengthen the supply chain of investors and entrepreneurs.

22) Decisions that will strengthen information communication technologies and innovation policies should be taken quickly.

23) Businesses should be supported to produce additional jobs, especially for disadvantaged groups.

24) A regional minimum wage system can be applied in the design of SME incentive policies to eliminate regional disparities and to develop priority regions. This wage system is applied in many countries such as USA, Japan, Canada, Mexico, China and India. The initiation of such a system in Turkey will provide many economic and social benefits.

25) Taxes as corporate taxes, etc. and insurance premiums may not be collected for a while to attract investments. This may bring a solution to the problem of regional disparities and unemployment.

26) Given the rising energy costs, removing taxes on energy in these regions for a certain period of time will have similar effects.

As a basic condition for public SME policies, the following can also be suggested:

- A clearly and narrowly defined SME policy should be developed. Country examples that divide SMEs into more than 10 segments can be considered in this regard.

- Finance, cooperation, R&D, university-industry cooperation, technoparks etc. should be increased that aim to support SMEs with high growth and value-added at individual, industry-based or regional levels.

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