# 2018 SBA Fact Sheet   Turkey

Key points

Past & future SME performance[1]: SMEs in Turkey account for half of the total value added and nearly three quarters of all jobs, compared to EU averages of 56% and 66% respectively. During 2010-2015, their value added grew by 31 %, their employment by 30 % and their number by 15 %. The main challenges for Turkish SMEs are catching up with European productivity levels and creating additional value by becoming more active in the medium– and high-technology segments.

Implementing the Small Business Act for Europe (SBA): Turkey's performance is above the EU average on entrepreneurship and comparable to the EU average for skills & innovation, environment, and 'responsive administration'. However, on access to finance, 'second chance' and internationalisation, Turkey still lags behind the EU. Compared to last year, Turkey's SBA performance profile has improved on 'responsive administration', skills & innovation and environment. For access to finance and especially internationalisation it deteriorated, and remained relatively stable in all other areas. The long-term observation since 2008 shows an overall stagnating performance, with an increasing gap over time in 'second chance' and access to finance.

SME policy priorities: Although restarters usually grow faster than newly established companies and show higher economic viability, the conditions to give entrepreneurs a second chance are not in place in Turkey. The time to resolve insolvency should be brought down and automatic discharge should be promoted for honest entrepreneurs after liquidation. Access to finance is another challenge for many SMEs. Here Turkey should improve its legislation on late payments and ensure enforcement. The low capacity of Turkish SMEs to adopt innovative means of production and related organisational measures hinders the commercialisation of R&D. Turkey should therefore consider financial and legislative initiatives to support the capacity of SMEs to implement innovative production processes.
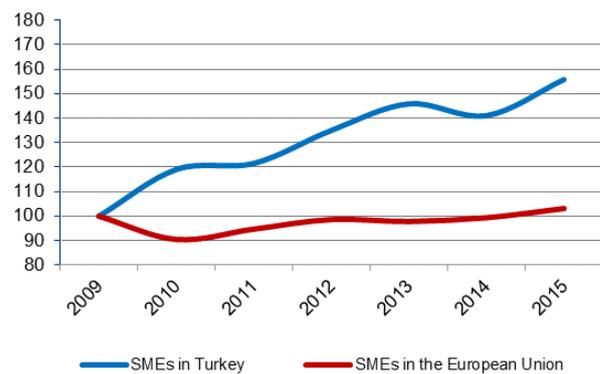
Number of persons employed in SMEs
(Index: 2009=100)

SMEs in Turkey   SMEs in the European Union
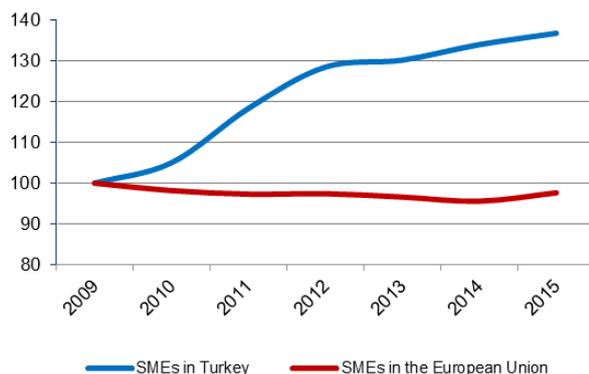
Value added of SMEs
(Index: 2009=100)

SMEs in Turkey   SMEs in the European Union

About the SBA fact sheets

The Small Business Act for Europe (SBA) is the EU's flagship policy initiative to support small and medium-sized enterprises (SMEs). It comprises a set of policy measures organised around 10 principles ranging from entrepreneurship and 'responsive administration' to internationalisation. To improve the governance of the SBA, the 2011 review of it called for better monitoring. The SBA fact sheets, published annually, aim to improve the understanding of recent trends and national policies affecting SMEs.

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1. SMEs — basic figures

Class size	Number of enterprises			Number of persons employed			Value added		
	Turkey		*EU28*	Turkey		*EU28*	Turkey		*EU28*
	Number	**Share**	*Share*	**Number**	**Share**	*Share*	**Million €**	**Share**	*Share*
Micro	2 380 885	96.4 %	*92.8 %*	5 112 590	39.2 %	*29.0 %*	30 075	15.3 %	*20.2 %*
Small	57 214	2.3 %	*6.0 %*	1 754 015	13.5 %	*20.2 %*	24 717	12.6 %	*17.7 %*
Medium-sized	25 948	1.1 %	*1.0 %*	2 582 542	19.8 %	*17.1 %*	44 596	22.6 %	*18.4 %*
SMEs	**2 464 047**	**99.8 %**	*99.8 %*	**9 449 147**	**72.5 %**	*66.3 %*	**99 388**	**50.5 %**	*56.3 %*
Large	4 694	0.2 %	*0.2 %*	3 583 058	27.5 %	*33.7 %*	97 539	49.5 %	*43.7 %*
Total	**2 468 741**	**100.0 %**	*100.0 %*	**13 032 205**	**100.0 %**	*100.0 %*	**196 927**	**100.0 %**	*100.0 %*

These are data for 2015 provided by the Turkish Statistical Institute and were processed by DIW Econ. The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities. Please note that the size class definition of the Turkish data differs from the Eurostat data as micro enterprises are defined as enterprsies with 1 to 19 persons employed (Eurostat: 0-9) and small enterprises as enterprises with 20 to 49 persons employed (Eurostat: 10-49). Therefore, comparability between the national and the Eurpoean data is limited regarding micro and small enterprises. However, the comparison between SMEs as a group and large enterprises is not affected.

Like in the EU, Turkish SMEs play an important role in the non-financial business economy, where they provide nearly three in four jobs and account for half of total value added (compared to EU averages of 66% and 56% respectively). Most SMEs (some 42 %) operate in the wholesale and retail trade sector, accounting for more than one fourth of SME employment and SME value added. Manufacturing is even more important in terms of value added, taking up 32 % of total value added, but with fewer companies (around 13 % of the total number). These shares for wholesale & retail and manufacturing are 5 to 10 pps higher than the EU averages, confirming that Turkish SMEs are more concentrated in these two sectors than is typical for the EU.

2. SBA profile[2]
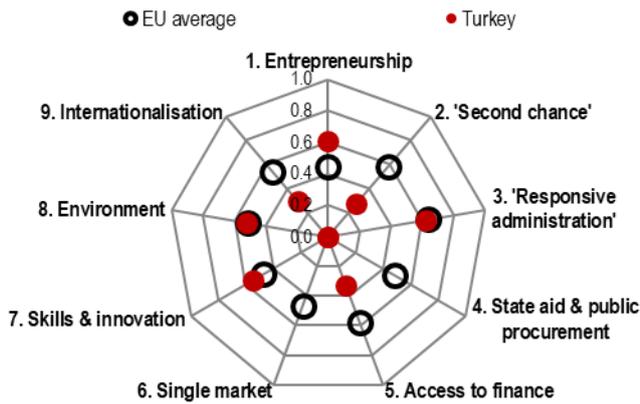
Turkey's performance is above the EU average on entrepreneurship and skills & innovation and comparable to the EU average for environment and 'responsive administration'. By contrast, on 'second chance', access to finance, and internationalisation, Turkey lags behind the EU. Compared to last year, Turkey's SBA performance profile has improved on 'responsive administration', skills & innovation and environment. For access to finance and especially internationalisation it deteriorated, and remained relatively stable in all other areas. Some data are lacking (state aid & procurement) and the methodology was changed compared to last year. Consequently the overall results need to be interpreted with caution.

Areas where Turkey scores significantly below the EU average are: access to finance, 'second chance' and internationalisation. Turkey is addressing the first through several initiatives (notably by greatly increasing funding made available through the existing Credit Guarantee Fund). However, improvements are needed in: the time it takes to get paid, managing bad debt loss and having accees to public financial suppport and guarantees. The issue of 'second chance' has been somewhat neglected in recent years, despite the introduction of "out-of-court" settlements. Improvements are especially needed on the strength of the insolvency framework and the time to resolve insolvency. With regard to internationalisation, there is clear room for improvement in trade facilitation (by requesting more trade information to be submitted in advance and by streamlining better border controls).

SBA performance of Turkey: state of play and development from 2008 to 2018[3]

Note: The scores presented in the chart above are not fully comparable to those displayed in previous versions of the fact sheet. This is due to a review of the framework of indicators used to assess performance across the SBA principles. Only the aspects with sufficient background data are presented. The value for progress over time was set to 0% in case of insufficient data and marked in the above chart by a diamond shape. For more details, please consult the methodological note on the webpage of the SME Performance Review: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/

3. SBA principles[4]

3.1 Entrepreneurship

Variation from the EU average
(measured in standard deviations, EU average=0)

Early stage entrepreneurial activity (%); 2016; Turkey: 16.14; EU avg: 8.28

Early stage entrepreneurial activity for female population (%); 2016; Turkey: 9.96; EU avg: 6.31

Established business ownership rate (%); 2016; Turkey: 9.4; EU avg: 7.09

Opportunity-driven entrepreneurial activity (%); 2016; Turkey: 32.79; EU avg: 50.27

Entrepreneurial intentions (percentage of adults who intend to start a business within 3 years); 2016; Turkey: 30.28; EU avg: 11.21

Entrepreneurship as a desirable career choice (%); 2016; Turkey: 80.8; EU avg: 58.58

High status given to successful entrepreneurship (%); 2016; Turkey: 72.1; EU avg: 67.04

Media attention given to entrepreneurship (%); 2016; Turkey: 55.84; EU avg: 55.63

Entrepreneurship education at basic school (1-5) ; 2016; Turkey: 1.68; EU avg: 2.05

Entrepreneurship education at post-secondary levels (1-5); 2016; Turkey: 2.9; EU avg: 2.86

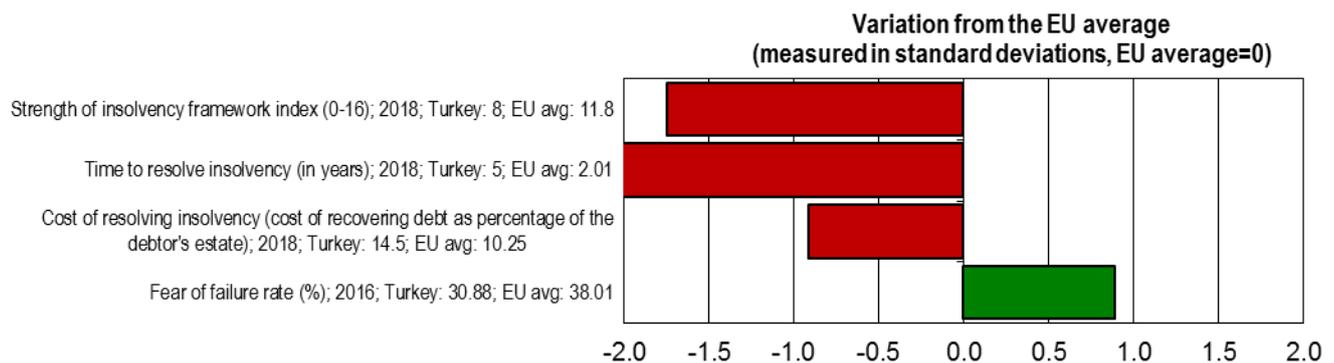-2.0 -1.5 -1.0 -0.5 0.0 0.5 1.0 1.5 2.0

Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Entrepreneurship is Turkey's strongest SBA area. Regrettably, for most indicators there are no new updates available compared to last year's edition. Using 2016 data, the country scores better than the EU average on most indicators. This is especially true for early-stage entrepreneurial activity (including for women), entrepreneurial intentions and entrepreneurship as a desirable career choice. Opportunity-driven entrepreneurial activity and entrepreneurship education at schools lag behind the EU average.

3.2 'Second chance'

Variation from the EU average
(measured in standard deviations, EU average=0)

Strength of insolvency framework index (0-16); 2018; Turkey: 8; EU avg: 11.8

Time to resolve insolvency (in years); 2018; Turkey: 5; EU avg: 2.01

Cost of resolving insolvency (cost of recovering debt as percentage of the debtor's estate); 2018; Turkey: 14.5; EU avg: 10.25

Fear of failure rate (%); 2016; Turkey: 30.88; EU avg: 38.01

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Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.
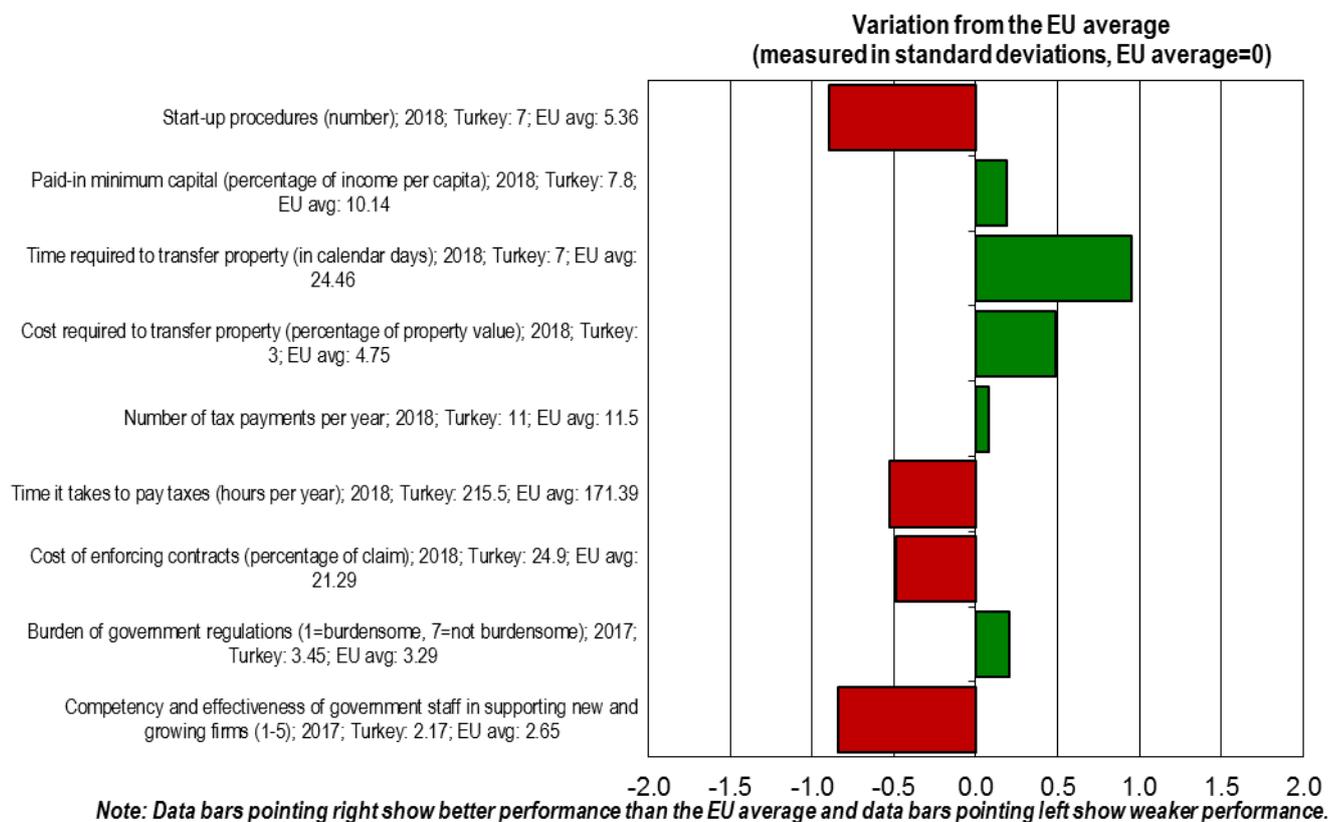
'Second chance' refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly.

Turkey scores below the EU average in this area, except for the fear of failure indicator, which reflects an optimistic business mentality. Compared to last year, Turkey's individual performance indicators have stayed the same.

Turkey has introduced newly "out-of-court" settlements.

Resolving bankrupt businesses takes a long time in Turkey. Closing a business is lengthy and costly in Turkey, complicating a restart for honest entrepreneurs.
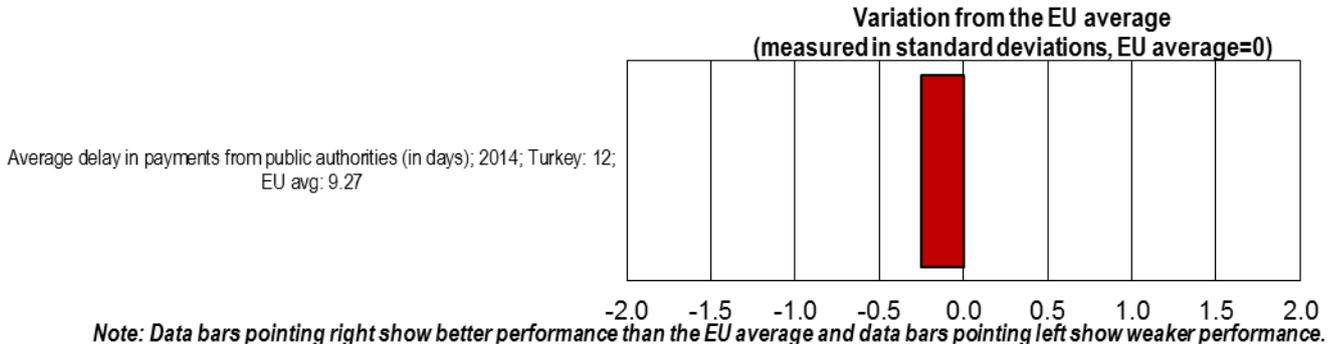
3.3 'Think Small First' and 'Responsive administration'

Variation from the EU average (measured in standard deviations, EU average=0)

Start-up procedures (number); 2018; Turkey: 7; EU avg: 5.36

Paid-in minimum capital (percentage of income per capita); 2018; Turkey: 7.8; EU avg: 10.14

Time required to transfer property (in calendar days); 2018; Turkey: 7; EU avg: 24.46

Cost required to transfer property (percentage of property value); 2018; Turkey: 3; EU avg: 4.75

Number of tax payments per year; 2018; Turkey: 11; EU avg: 11.5

Time it takes to pay taxes (hours per year); 2018; Turkey: 215.5; EU avg: 171.39

Cost of enforcing contracts (percentage of claim); 2018; Turkey: 24.9; EU avg: 21.29

Burden of government regulations (1=burdensome, 7=not burdensome); 2017; Turkey: 3.45; EU avg: 3.29

Competency and effectiveness of government staff in supporting new and growing firms (1-5); 2017; Turkey: 2.17; EU avg: 2.65

-2.0   -1.5   -1.0   -0.5   0.0   0.5   1.0   1.5   2.0

Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

The 'think small first' principle is meant to be a guiding principle for all policy- and law-making activities. It requires policymakers to consider SME interests at the early stages of the policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply. 'Responsive administration' refers to public administration being responsive to the needs of SMEs.

In this area, Turkey performs in line with the EU average. Its score is dragged down mainly by lower scores on start-up procedures and competency and effectiveness of government staff in supporting new and growing firms. Most of the indicators remain unchanged compared to last year.
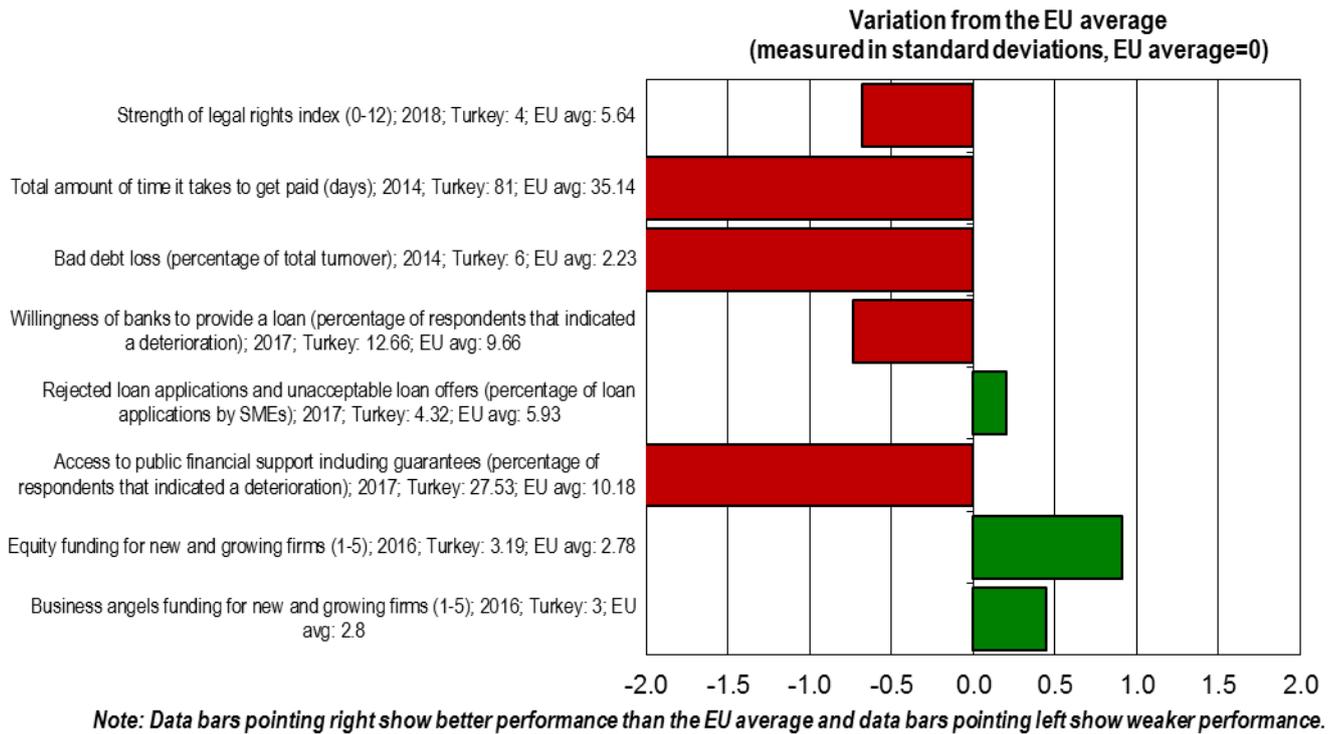
3.4 State aid & public procurement

Variation from the EU average
(measured in standard deviations, EU average=0)

Average delay in payments from public authorities (in days); 2014; Turkey: 12; EU avg: 9.27

-2.0   -1.5   -1.0   -0.5   0.0   0.5   1.0   1.5   2.0

Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

As there is no sufficient data available for Turkey in this domain, no general conclusions can be drawn on its performance.

However, the average delay in payments from public authorities is more than the EU average.
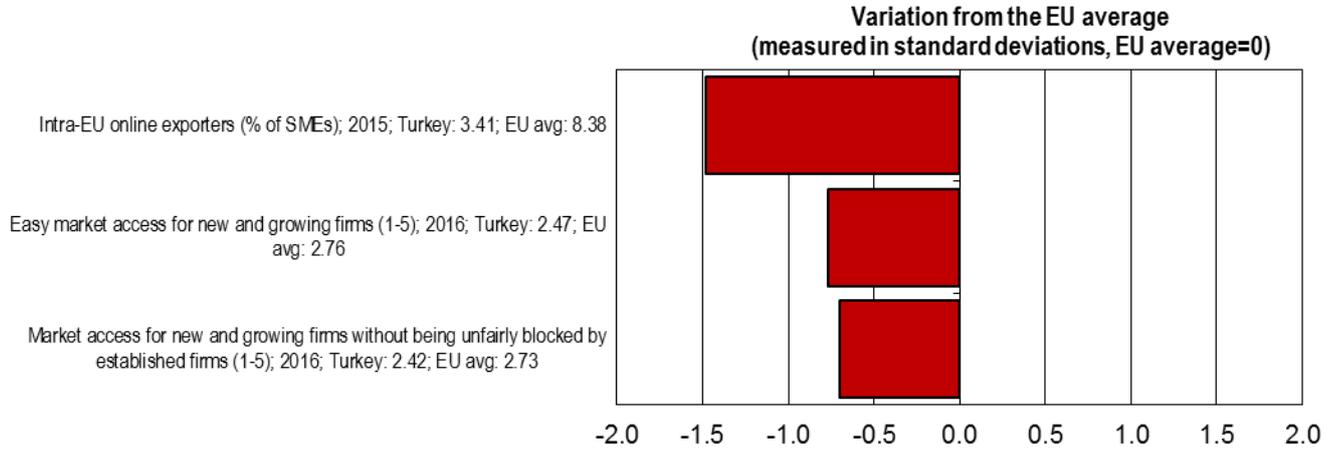
3.5 Access to finance

Variation from the EU average
(measured in standard deviations, EU average=0)

Strength of legal rights index (0-12); 2018; Turkey: 4; EU avg: 5.64

Total amount of time it takes to get paid (days); 2014; Turkey: 81; EU avg: 35.14

Bad debt loss (percentage of total turnover); 2014; Turkey: 6; EU avg: 2.23

Willingness of banks to provide a loan (percentage of respondents that indicated a deterioration); 2017; Turkey: 12.66; EU avg: 9.66

Rejected loan applications and unacceptable loan offers (percentage of loan applications by SMEs); 2017; Turkey: 4.32; EU avg: 5.93

Access to public financial support including guarantees (percentage of respondents that indicated a deterioration); 2017; Turkey: 27.53; EU avg: 10.18

Equity funding for new and growing firms (1-5); 2016; Turkey: 3.19; EU avg: 2.78

Business angels funding for new and growing firms (1-5); 2016; Turkey: 3; EU avg: 2.8

-2.0   -1.5   -1.0   -0.5   0.0   0.5   1.0   1.5   2.0

Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Overall, in this area Turkey scores below the EU average. Nevertheless, since last year the indicator on rejected loan applications as well as the legal framework, measured by the World Bank's 'strength of legal rights index,' have improved (with the latter still weaker than the EU average). Access to public financial support including guarantees deteriorated. For the other indicators no new data was available. The Turkish Government has greatly increased the funding made available for SMEs through the existing Credit Guarantee Fund (KGF).

3.6 Single market

Variation from the EU average
(measured in standard deviations, EU average=0)

Intra-EU online exporters (% of SMEs); 2015; Turkey: 3.41; EU avg: 8.38

Easy market access for new and growing firms (1-5); 2016; Turkey: 2.47; EU avg: 2.76

Market access for new and growing firms without being unfairly blocked by established firms (1-5); 2016; Turkey: 2.42; EU avg: 2.73

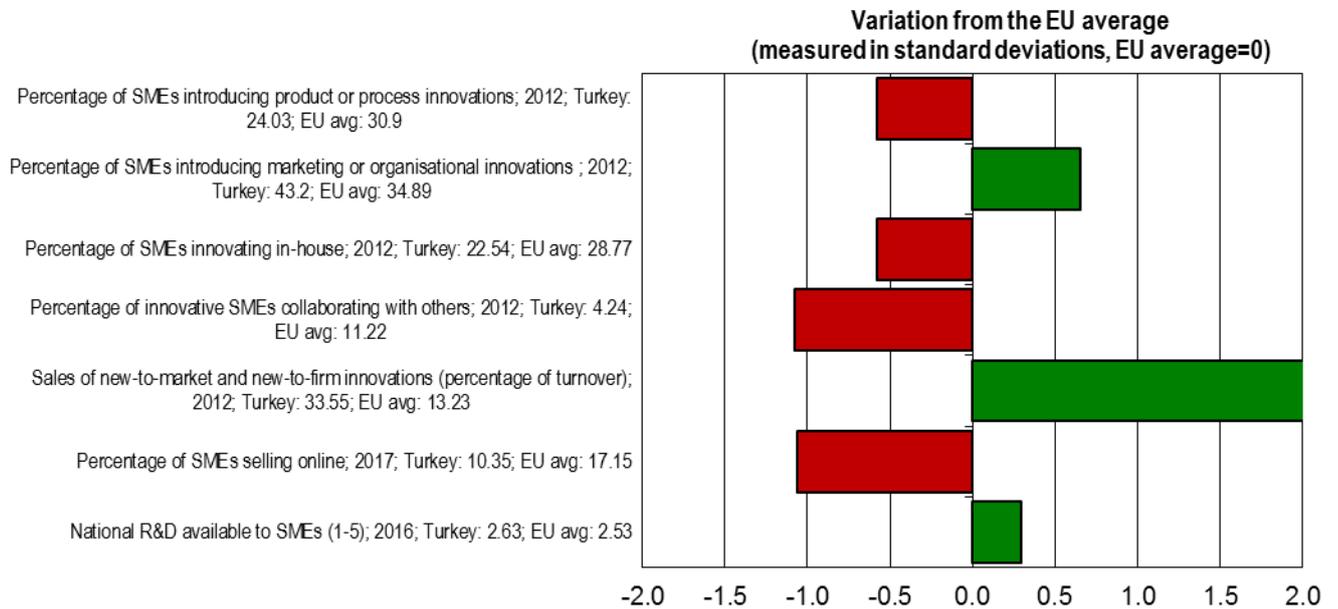-2.0   -1.5   -1.0   -0.5   0.0   0.5   1.0   1.5   2.0

Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

As Turkey is not an EU Member State, no relevant comparable data on EU legislation transposition and trade within the single market is available.

There are fewer intra-EU online exporters as a percentage of all SMEs, there is weaker market access for new and growing firms.

3.7 Skills & innovation

Variation from the EU average
(measured in standard deviations, EU average=0)

Percentage of SMEs introducing product or process innovations; 2012; Turkey: 24.03; EU avg: 30.9

Percentage of SMEs introducing marketing or organisational innovations ; 2012; Turkey: 43.2; EU avg: 34.89

Percentage of SMEs innovating in-house; 2012; Turkey: 22.54; EU avg: 28.77

Percentage of innovative SMEs collaborating with others; 2012; Turkey: 4.24; EU avg: 11.22

Sales of new-to-market and new-to-firm innovations (percentage of turnover); 2012; Turkey: 33.55; EU avg: 13.23

Percentage of SMEs selling online; 2017; Turkey: 10.35; EU avg: 17.15

National R&D available to SMEs (1-5); 2016; Turkey: 2.63; EU avg: 2.53

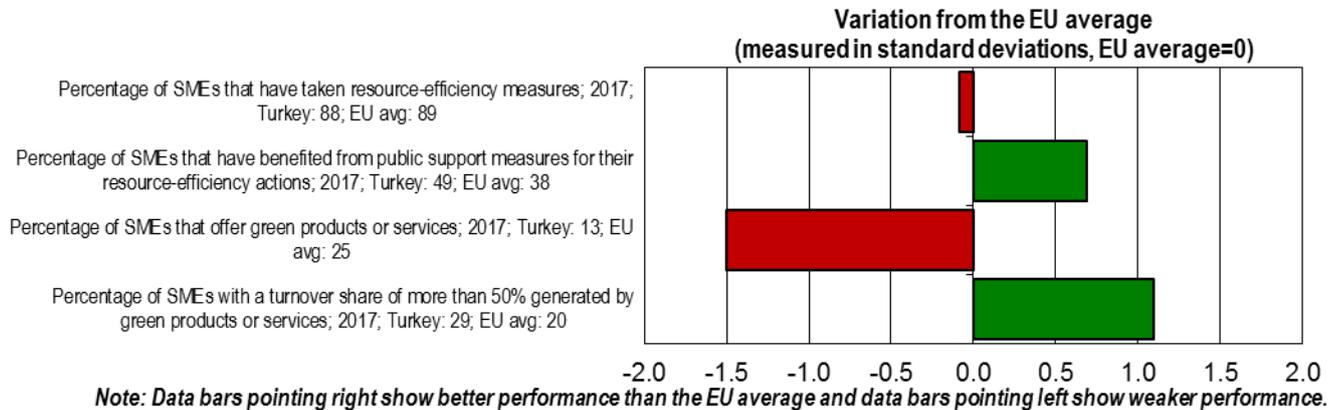-2.0   -1.5   -1.0   -0.5   0.0   0.5   1.0   1.5   2.0

Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Turkey's performance in this area is line with the EU average. However, for most indicators there are no updates available compared to last year's edition. The percentage of SMEs selling online has increased significantly but remains low relative to the EU average.
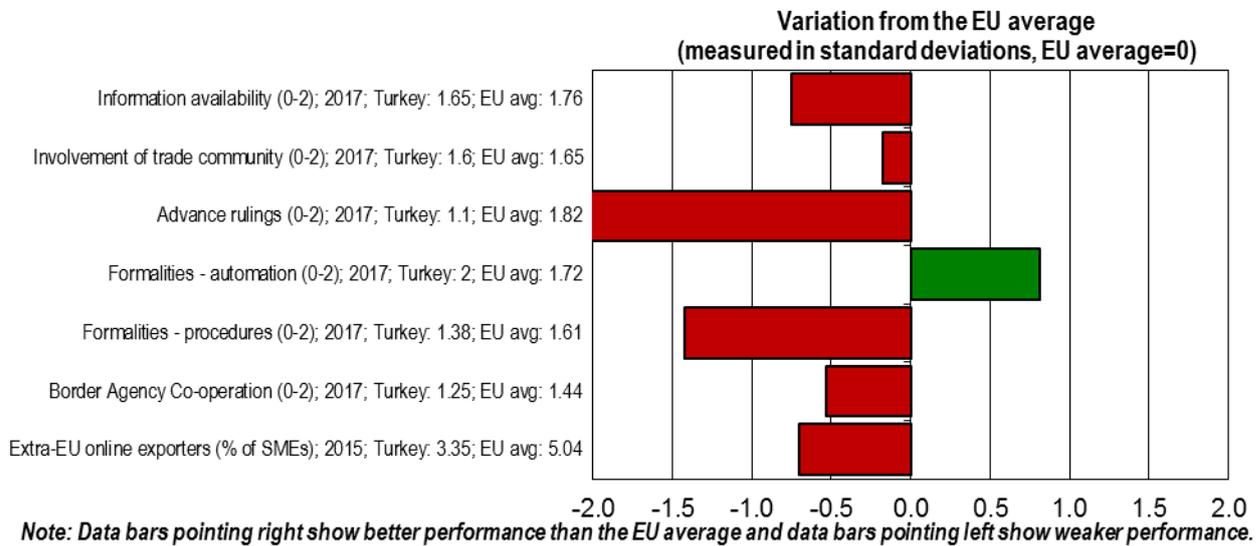
3.8 Environment

Variation from the EU average
(measured in standard deviations, EU average=0)

Percentage of SMEs that have taken resource-efficiency measures; 2017; Turkey: 88; EU avg: 89

Percentage of SMEs that have benefited from public support measures for their resource-efficiency actions; 2017; Turkey: 49; EU avg: 38

Percentage of SMEs that offer green products or services; 2017; Turkey: 13; EU avg: 25

Percentage of SMEs with a turnover share of more than 50% generated by green products or services; 2017; Turkey: 29; EU avg: 20

-2.0 -1.5 -1.0 -0.5 0.0 0.5 1.0 1.5 2.0

Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Overall, Turkey's performance in this area is comparable to the EU average. There was a decline in the share of SMEs that took resource-efficiency measures and received public support for them (even though the latter is still above EU average). In addition, the number of SMEs offering 'green' products or services decreased by 5 pps in the reference period. In contrast, the share of SMES which generated more than half of their turnover from green products or services more than doubled from 2015 to 2017.

3.9 Internationalisation

Variation from the EU average
(measured in standard deviations, EU average=0)

Information availability (0-2); 2017; Turkey: 1.65; EU avg: 1.76

Involvement of trade community (0-2); 2017; Turkey: 1.6; EU avg: 1.65

Advance rulings (0-2); 2017; Turkey: 1.1; EU avg: 1.82

Formalities - automation (0-2); 2017; Turkey: 2; EU avg: 1.72

Formalities - procedures (0-2); 2017; Turkey: 1.38; EU avg: 1.61

Border Agency Co-operation (0-2); 2017; Turkey: 1.25; EU avg: 1.44

Extra-EU online exporters (% of SMEs); 2015; Turkey: 3.35; EU avg: 5.04

-2.0 -1.5 -1.0 -0.5 0.0 0.5 1.0 1.5 2.0

Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Overall, Turkey scores below than the EU average in this area[5]. In formalities – automation, Turkey achieved the maximum score (above the EU average). Compared to last year, Turkey advanced on most sub dimensions and therefore there are areas where the gap decreased (availability of information and involvement of the trade community). However, on (formalities – procedures) the gap widened compared to EU average. The score on advance rulings decreased substantially.

4. Interesting initiative

Below is an example of an initiative from Turkey to show what governments can do to support SMEs:

Public sector support to boost Business Angel activity in Turkey

Through a variety of policies, from tax incentives to the passing of a dedicated law, the Turkish government has been successful in significantly increasing Business Angel activity, almost quadrupling Business Angel investment volumes within four years (2014-2017), and ranking in 5th position in Europe.

The increase is commonly attributed to a number of policies:

Firstly, Turkey became the third country in the world (after the United Kingdom and the United States) to pass a dedicated angel investor law in 2013. Secondly, the Turkish Treasury provides a tax incentive of 75 per cent on qualifying investments, even 100 per cent on investments in projects previously supported by specific government bodies such as the Scientific and Technological Research Council of Turkey (TÜBİTAK). However, it is worth noting that such schemes primarily target the short term market development and should, over the medium term, be phased out to support more commercially sustainable solutions, such as the dedicated fund that TÜBİTAK announced and pledged to contribute USD 25 million, too.

As a result of the various support schemes, Turkey is now one of the largest Business Angel markets in Europe, with 16 angel networks and a total investment volume of EUR 52 million in 2017. While it is too early to showcase exits from this recent investment growth, Turkish start-ups and VC funds have made headlines with large-scale exits, with multiple acquisitions in 2017 and 2018 exceeding the USD 100 million mark.

The Turkish case highlights the importance of a clear, reliable and dedicated legal framework, as well as the role that government incentive schemes can play in getting financing opportunities off the ground and broadening the access to finance for SMEs. While early results look very promising, the Turkish example will be an interesting one to follow as it matures and transitions to more sustainable, market-driven mechanisms.

References: http://www.hurriyetdailynews.com/turkey-becoming-a-haven-for-angel-investment-127878 ;
https://melekyatirimcilardernegi.org/business-angels-law-of-turkey/ ;
http://www.eban.org/2017-annual-eban-statistics-compendium

Important remarks

The European Commission produces the SBA fact sheets, which combine the latest available statistical and policy information. Produced annually, they help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of national policies. Rather, they should be regarded as an additional source of information to improve evidence-based policy-making. For example, they cite only policy measures considered relevant. They do not and cannot reflect all measures the government has taken over the reference period.

SME Performance Review:

http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/

grow-spr@ec.europa.eu

Small Business Act:

http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm

Entrepreneurship and SMEs:

https://ec.europa.eu/growth/smes

Endnotes

[1] The two graphs below present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2016, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2015 figures from Eurostat's Structural Business Statistics Database. The data cover the 'non-financial business economy', which includes industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N). They do not cover enterprises in agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/

[2] The 2018 SBA fact sheets benefited substantially from input from the European Commission's Joint Research Centre (JRC) in Ispra, Italy. The JRC made major improvements to the methodological approach, statistical work on the dataset and the visual presentation of the data.

[3] The quadrant chart combines two sets of information. Firstly, it shows current performance based on data for the latest available years. This information is plotted along the X-axis measured in standard deviations of the simple, non-weighted arithmetical average for the EU-28. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2018. These are measured against the individual indicators which make up the SBA area averages. Hence, the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the EU average at a given point in time, but also about the extent of progress made between 2008 and 2018. All SBA principles, with the exception of the 'Think Small First' principle for which there is not enough statistical data available, are calculated as composite indicators following the OECD/JRC Handbook guide. A detailed methodology can be consulted at: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/

[4] The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2017 and the first quarter of 2018. Only those measures were selected which are expected to have the highest impact in the SBA area in question.

[5] Important methodological changes were introduced for this principle in 2017. All World Bank indicators were replaced by six OECD trade-facilitation indicators (following a scale on which 0 is the worst and 2 is the best score). Therefore, the overall performance in this area cannot be compared to that of 2016 and earlier.