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'SMALL AND MEDIUM SIZE ENTERPRISES'ROLE IN THE ECONOMY'

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ABSTRACT

Small and medium sized enterprises (SMEs) are perceived as the backbone of the European economy. It is asserted that they are key to entrepreneurial spirit and innovation in the EU and thus crucial to ensure EU competitiveness. Therefore, European Union (EU) under the authority of European Commission aimed at boosting the competitiveness of Europe's small businesses. In this respect, they provide important financial and technical supports and programs to SMEs in order to increase their competitiveness. On the other side, SMEs in the Turkish Republic of Northern Cyprus (TRNC) face serious market forces which are especially economic uncertainty, fluctuating prices, profitability and availability of capital. These problems become harder due to Cyprus problem creating economic and political instability. Moreover, there is no any specific unique tool or program to SMEs to protect and to strengthen their competitive position although the majority of the enterprises in the TRNC economy are made up of SMEs.

It is obvious that after a comprehensive settlement to Cyprus issue TRNC will be the full member of EU. Consequently, all sectors of the TRNC economy including SMEs will be reorganized, revised and directed according to acquis of EU. In this regard, the main aim of the study is to analyze the possible impacts of EU membership on the competitiveness of SMEs in the TRNC and make recommendations accordingly.

There is no doubt that after a comprehensive settlement to Cyprus issue Turkish Republic of Northern Cyprus (TRNC) will be the full member of EU. Consequently, all sectors of the TRNC economy including Small and Medium Size enterprises (SMEs) will be reorganized, revised and directed according to acquis of EU. Moreover, economic status of SMEs increases their importance. According to the EU's SMEs definition almost all of the

enterprises in the TRNC are SMEs. Therefore, fortified competitive power is essential for the effective functioning of the country. However, competitive power depends on the ability to handle basically financial and other problems. In this respect, the main aim of the study is to analyze the possible impacts of EU membership on the finance of SMEs in the TRNC. As a result of the study, it can be concluded that SMEs in the TRNC is expected to get the opportunity to apply for both financial and non-financial measures provided by EU institutions in order to strengthen their competitive power.

TABLE OF CONTENTS

ABSTRACT.....	i
List of Table.....	v
List of Figure.....	vi
1. INTRODUCTION.....	1
2. LITERATURE REVIEW.....	1
2.1. SMEs in important parts of the services sector.....	1
2.2. Fundamental weaknesses of the sector.....	2
2.2.1. Insufficient know-how and low level of technology	2
2.3. The financial system.....	3
2.4. Public sector reform.....	7
2.5. SME-Specific Policies.....	9
2.6. History Size and Structure of the sector.....	10
2.7. Policies to strengthen SMEs' capacity to use information.....	16
2.8. Role of SME in the Turkish Economy.....	16
3. TURKISH CYPRIOT ECONOMY.....	19
3.1. Finance and Banking.....	21
3.1.1. Finance.....	21
3.1.2. Banking.....	23
3.1.3. Industry.....	24
3.1.4. Telematic infrastructures for enterprises.....	27
3.2. Development Bank.....	27

3.2.1. Small and Medium Sized Enterprises started receiving private credit in 2002, before this time, this type of credit didn't exist. There are two types of credits.....	28
4. METHODOLOGY.....	32
5. FINDINGS.....	33
6. CONCLUSION AND RECOMMENDATIONS.....	44
6.1. Conclusion.....	44
6.2. Recommendations.....	45
7. REFERENCES.....	46
8. APPENDIX.....	49

LIST OF TABLE

Table1:Outline of State Revenues and Expenditure (Million US\$).....	23
Table2:Turkish Lira Deposits (Million US\$).....	24
Table3:Foreign Currency Deposits (Internal and External) (Million US\$).....	24
Table4:Basic Indicators For Industrial Sector.....	26

LIST OF FIGURES

Figure1:What are the financial sources that you are currently using.....	33
Figure2:What is the proportion of owners equity in company assets.....	33
Figure3:Do you plan to enter stock exchange market.....	34
Figure4:Are you using POS equipment in order to accept credit card payments.....	34
Figure5:What is the frequency of your company in working with banks.....	35
Figure6:What is your preferred term of credit.....	35
Figure7:Are you having financial difficulties.....	36
Figure8:What are the difficulties that your are facing in finding loans.....	36
Figure9:What is the proportion of owners equity in overall financial sources.....	37
Figure10:What are the external sources of financial funds.....	37
Figure11:Do you consider the level of owners equity as adequate.....	38
Figure12:Who or which department is responsible for finance in the company.....	38
Figure13:How is the company profit used.....	39
Figure14:What is your company's date of establihsment.....	39
Figure15:How many employees are working in your company.....	40
Figure16:Who is the founder of the enterprise.....	40
Figure17:Who is running the company.....	41
Figure18:What is the education status of Administrators.....	41
Figure19:Does the company receive consultancy services from the universities.....	42
Figure20:Do you have knowledge about EU's SME support policies.....	42
Figure21:What are the effects of being a full member in EU.....	43
Figure22:What is your point of view regarding the full membership in EU.....	43

1. INTRODUCTION

Small and medium sized enterprises (SMEs) make up about 98 percent of all manufacturing firms in Turkey. They make a significant contribution to the economy in terms of output, employment, value-added and economic growth. Unfortunately, there seems to be many obstacles restraining the growth of SMEs, such as financial bottlenecks, lack of qualified human resources and bureaucratic procedures.

A substantial proportion of Turkish SMEs, especially the smallest ones outside urban centres, produce for either the national or local markets. The design of their products is at times outmoded and in many cases they are produced with inefficient methods and outdated tools. To cope with the competition that will develop as Turkey becomes increasingly open, these firms will need help in the areas of technology transfer, design, management and education.

2. LITERATURE REVIEW

2.1. SMEs in important parts of the services sector

While the government actively seeks to support industrial SMEs in many areas, some of the support schemes have shortcomings, especially from a long-term standpoint. For instance, the government has focused on increasing productivity and competitiveness in the SME industrial sector but has placed far less emphasis on improving competitiveness in other sectors, such as wholesaling and retailing, whose activities are tied closely to those of industry. Moreover, if the industrial sector currently accounts for an especially large share of GDP and employment, the services sector can be expected to expand rapidly in the years ahead if the prospects for rapid growth are confirmed. From a long-term standpoint, it can be expected that SMEs in service industries, such as trade and tourism, will be associated more closely with government policies to support business. (KOSGEB 2003)

Indeed, many structural changes will take place as industrial SMEs become more adept at applying modern technology to their production processes. Some firms will indeed use technological processes more effectively, and they will be able to optimise production and cut costs more quickly, expanding their market shares both in Turkey and abroad. Conversely, SMEs that lag behind in applying new technology will find themselves relatively less competitive, jeopardising their development if not their survival. The issue of the long-term consequences of potential structural change may not be sufficiently factored into policy formulation, even though the number of SMEs is considerably greater in the non-industrial than in the industrial sector.

2.2. Fundamental weaknesses of the sector

2.2.1. Insufficient know-how and low level of technology

After the customs union with the EU was put in place, Turkish SMEs faced pressure to raise their technical level and acquire know-how in order to meet European competition and take advantage of opportunities in the domestic market. However, they did not fully take advantage of these opportunities for a number of reasons. First even if rapid progress has been made in recent years, investment in information and communication technologies (ICT) remains low in Turkey. Second the support policies that would have been necessary for their technological development were not available, owing to a lack of public funding. Moreover to be fully effective, technical standards should have been raised prior to the opening of the borders. Furthermore an unfavourable economic environment and the drop in domestic demand following economic crises in a climate of heightened competition slowed SMEs' technological development. Their lack of technical skills keeps SMEs from deriving the full benefit of any cost advantages they might have domestically or for export, notably during periods of devaluation of the Turkish lira.

Finally, businesses' needs in terms of technology do not automatically result in demand on their part, either because of a lack of resources, owing to their small size, an internal lack of understanding of their requirements or a poorly functioning market. This obviously has negative repercussions for technical consulting firms operating within Turkey that are able to provide needed support. It should be noted that small manufacturing business throughout the world are often reluctant to use technical consultants.

2.3. The financial system

The fluctuations of the financial system in Turkey including the banking and foreign-exchange crises of 1994 and 2001-02 and the failure of the 1999 stabilisation programme have contributed to the poor performance of the economy in recent years. Since the liberalisation of capital movements in 1989, and owing to the inability of the government to keep the budget under control, private banks have been instrumental in financing the public sector's rising debt, at high real interest rates. With the banks financing public debt, too often with insufficiently hedged foreign capital, credit available for the productive sector contracted.

The financial and banking crises of late 2000 and early 2001 had direct and indirect adverse effects on SMEs. The crises were triggered by the financial problems of small and medium-sized banks that had funded their long-term investments with short-term borrowings, assuming that interest rates would decline. However, the swelling current account deficit and delays in the privatisation scheme prompted a rise in rates, forcing these banks to sell their government debt and triggering a crisis of confidence in the entire banking system and among foreign investors. This led to a cash crunch, large rises in interest rates and a drop in lending to the economy. The volume of credit to the private sector shrank by nearly 15% in real terms between early 2001 and mid-2002.

Further operating to the detriment of SMEs was the tendency of the biggest banks to give priority to large firms, with which they tended to have cross shareholdings, while small and medium-sized banks had links to their own established networks of customers. As a partial remedy, the government intervened to assist small businesses, including those in the agricultural, construction and SME sectors, through public banks (the Halk Bank for SMEs), which offered unhedged subsidised loans. These quasi-budget transactions resulted in heavy losses for the public banks, thereby aggravating the problems of the financial sector.

The Turkish financial sector started on the road to major reform in 1999, when new banking legislation was enacted. Its primary objective was to align the regulatory and supervisory regime of Turkish banks with international standards. This legislation created a new independent regulatory body . the Banking Regulation and Supervision Agency . which took over the supervisory missions previously exercised by the central bank and by the Treasury. Among the aims of this law and the implementing decrees and amendments that immediately followed were to:

- Expand the authority of the Banking Council in respect of bank licensing and decisions regarding the takeover of failed banks.
- Strengthen the prudential system, especially as regards rules for loan loss provisions and establishment of the various banking ratios on a consolidated basis.
- Increase the personal liability of bank shareholders and officers in the event of mismanagement or misuse of bank assets.
- Align deposit guarantees on European standards.
- Require banks to set up internal control and risk management systems.

Because of the financial crisis of 2001, banking sector rehabilitation was speeded up. The Banking Sector Reconstruction Programme was launched in May 2001 with three main objectives:

- To restructure, reorganise and privatise public banks.
- To effect a rapid closure or restructuring of the banks administered by the Saving
- To reinforce the private banking sector.

To meet these objectives, a new banking law entered into force at the end of May 2001. A new Central Bank Law was also enacted at the same time, assigning the central bank the major objective of ensuring price stability, while bolstering its independence.

The banking system underwent substantial development in the 1990s, with rapid increases in the number of establishments, the amount of their assets and their profits. Nevertheless, the transformation was marred by major problems. Many small banks, whose essential role was to finance the non-bank activities of the groups that owned them, were not very profitable because of their size. The state-owned banks accumulated losses because of their service obligations, and in general the banking system was highly dependent on the wide spread between the lending and deposit rates. The cash crunches of November 2000 and February 2001, and the ensuing recession, exacerbated the banking system's imbalances and prompted the authorities to put nine banks under the control of the Saving Deposit Insurance Fund (TMSF). In May 2001 the state-owned banks and banks supervised by the TMSF were shored up by the floatation of Treasury securities in an amount equivalent to 31% of GDP, thus increasing the public debt. To preclude the emergence of any new losses, the subsidised loans granted by the state-owned banks will have to be financed from the budget and no longer through duty losses. Moreover, the deposit rates offered by the state-owned banks and TMSF banks will be capped at a level below those paid on Treasury bills, thus eliminating unfair competition with private banks. In addition,

measures were taken to bolster the balance sheets of public banks and make them more transparent. An operational restructuring of those banks was undertaken as well, cutting jobs by about 37% between 1999 and 2002 and reducing the number of branch offices by 28%, inter alia by closing Emlak Bank, whose assets and liabilities were transferred to Ziraat Bank. Banks administered by the TMSF also underwent extensive reorganisations that cut their staff and branch offices by more than half. Private banks also embarked on a process of reform. A bank recapitalisation plan was announced in February 2002, covering 26 of the leading private banks. Moreover, the prudential regime for banks was strengthened, their short-term foreign currency positions were limited to 20% of their capital, and banks were required to do more to diversify their credit risks. Programmes to restore risk coverage ratios through injections of equity were largely completed.

The banking system was partially consolidated and its losses capitalised, with the banks' own risks and risky loans scaled back. Open positions in foreign currencies were transferred to the government and kept at a low level. One of the objectives of the restructuring was to establish a core of increasingly efficient and profitable banks around which smaller banks would continue to operate with rehabilitated balance sheets and management.

Initially, the reform of the banking and financial system had adverse consequences for SMEs. In the wake of the measures to end Treasury financing of duty losses on subsidised loans to tradesmen, artisans and start-ups by specialised public banks (Ziraat Bank and the Halk Bank) . loans that benefited SMEs . the banks imposed retroactive and unilateral interest rate increases that triggered repayment difficulties and a sharp drop in the volume and use of available credit. In 2002, in conjunction with the economic reform programme and an economic recovery, banks began to introduce special loan programmes for SMEs on more favourable terms. The reduction of demand for funds by the public sector may induce banks to seek more business by lending to

the private sector, which should benefit SMEs. It is important that competition between lending institutions bring interest rates down.

A voluntary business debt restructuring programme was launched in May 2002 by the Banks Association of Turkey and the leading industrial groups. This so-called Istanbul Approach programme concerned 304 businesses, 96 of which were medium-sized enterprises (100-250 workers), and restructuring agreements were concluded with 66 of the medium-sized firms employing a combined total of over 10 000.

Despite the restructuring under way, the financial sector does not seem to be fully meeting the needs of SMEs. While banks have begun to introduce activities aimed at small businesses, the firms in question still feel that they have great difficulty in obtaining resources on reasonable terms. In the short term, this leads to demands to compensate by providing additional resources to the Credit Guarantee Fund in order to make it fully operational. Over the longer term, it is necessary to develop the non-bank parts of the financial sector so that the system is more able to provide risk capital to a wider range of borrowers.

2.4. Public sector reform

Despite the opening up of the Turkish economy since the early 1980s, the public sector has continued to play a major role in economic life. State intervention, dating back to long before the 1980s, has taken the form of protection of a large number of economic sectors, in particular through a far-reaching redistribution policy, the economic and social objectives of which have not always been well defined or coherent. The direct interventions of the state in the private economy have had a serious negative effect on private initiative and the dynamics of competitive markets. Since inadequate attention has often been given to the financing of these interventions,

the state has been the major source of the Turkish economy's macroeconomic and financial instability.

Turkey's efforts over the past 20 years to open up its economy to international competition, in respect of both the goods and services market and the financial market, have not been accompanied by radical reform of its public sector institutions. Two types of institutions – public economic enterprises (KITs) and state banks – have been used to carry out redistributive activities, for the most part without budget financing, thereby risking their competitive position as the economy opens to international competition. At the same time, the state has made use of off-budget funds not subject to parliamentary review (full guarantees for foreign loans to public enterprises, repayment of non-negotiable debts of banks or public enterprises and duty losses, and revolving funds). Despite its active role in the economy, the public sector has been unable to deliver its economic policy objective of increasing per capita income and wealth, in particular by raising participation rates and cutting unemployment. Its efforts have worked against the development of a large SME sector that is competitive on national and international markets and able to create new products and develop new markets.

Between 1999 and 2000, the government undertook a structural reform of the public sector. The main goals of the reform were to:

- Increase the decentralisation of the public sector by bolstering the financial autonomy of local authorities.
- Enhance the transparency and efficiency of the budget process by eliminating duty losses and reducing off-budget and revolving funds.
- Strengthen governance in the public sector, increase transparency and cut back on overstaffing.

Taxation is an important area in which public sector reform affects SMEs. Measures have been implemented to broaden the tax base and to ensure that taxes are collected more effectively. This involved expanding the use of tax identification numbers in real estate transactions and banking and financial activities. The aims of the measure were to reduce tax evasion and unreported activities by computerising tax offices, introducing management information systems, setting up regional information and audit centres and establishing a system to track unpaid taxes.

These various measures ought to simplify SMEs' dealings with the tax authorities. The Income Tax Law introduced a number of simplifications into the dealings between taxpayers and government. As part of the effort to improve the business environment of which SMEs constitute a part, a law enacted in April 2003 considerably simplified tax procedures so as to encourage investment. The investment incentive system has been simplified and some of the tax-based incentive measures have been incorporated into the general tax system.

2.5. SME-Specific Policies

A large number of public bodies are involved in framing and implementing SME-specific policies.

- The Undersecretariat of State Planning Organisation (SPO) formulates long-term development programmes as well as annual programmes that include policies for SMEs. It performs a co-ordination function between public and private bodies in order to implement these policies as effectively as possible. It also oversees policy supervision and makes adjustments if necessary.
- The Ministry of Industry and Trade is the primary authority for defining SME policies and implements policy through its associate body, KOSGEB. KOSGEB, whose role is to implement SME policies with the aim of supporting their growth and development in

Turkey, carries out the necessary development and support programmes for the following functions: developing SMEs. technological skills, improving their training and information levels, providing appropriate financial mechanisms and improving their managerial infrastructure.

- The Undersecretariat of Treasury is responsible for state aid to SMEs. investments, while the Undersecretariat of Foreign Trade helps deploy programmes to foster the creation of SMEs.
- Business organisations such as the Union of Chambers of Commerce, Industry, Maritime Trade and Commodity Exchanges of Turkey (TOBB) and the Confederation of Tradesmen and Artisans of Turkey (TESK) also play an important role in implementing these policies.
- Financial bodies lend support in the form of loans and guarantees to SMEs. They include the Halk Bank, the Union of Credit and Guarantee Cooperatives for Tradesmen and Artisans of Turkey (TESKOMB) and the Credit Guarantee Fund, Inc. (KGF). Other institutions provide SMEs with support and services in the areas of technology, scientific and technical research, etc

2.6. History Size and Structure of the sector

In the last decades, both developed and developing countries having different social, political and cultural structures, paid a great attention to the Small and Medium Industries which are generating significant percentages of overall production and employment. One of the key solutions proposed for developing economies which are being affected by world-wide economic activities is to support, strengthen and promote SME's.

Industrialization process has always played an effective role in the development of Turkish Economy. The key role which the small and medium scale industry plays in the economic life of Turkey has been appreciated very well and promoted not only because of their number and variety but also because of their:

- involvement in every aspect of the economy;
- contribution to industrialization and regional development;
- effect on unemployment problems;
- integration support and complement of large industries;
- flexibility in manufacturing fields;
- respond to market forces;
- easy adaptation to new technologies;
- reaction readily to economic fluctuations;
- success in mobilization of untapped resources of capital and skills; and
- stability in political, economical and social structures.

It is assumed that, by supporting Small and Medium Scale Industry where capital, manpower return ratios are low as far as the economy is concerned will create more employment and thus resources will be utilized more efficiently.

Within the general manufacturing industry, the sectors which have the highest number of enterprises are given as following:

- With 29% textile, wearing apparel and leather;
- With 25% fabricated metal products;
- With 22% wood products including furniture ;
- With 11% food, beverages and tobacco; and
- The remaining sectors constitute the 13 % of the enterprises.

The highest employment is realized in the following sectors respectively:

- With 28 % textile, wearing apparel and leather;
- With 22 % fabricated metal products; and
- With 16 % food, beverages and tobacco.

Source SSI-Annual Manufacturing Industry Statistics 2002

The firm size-sector groups which the small industrial enterprises (1-9 workers) are highly concentrated are given as follows:

- With 27.6 %, the enterprises employing 1-9 workers in textile, wearing apparel and leather sector;
- With 23.9 %, the enterprises employing 1-9 workers in fabricated metal products;
- With 22.2 %, wood products including furniture; and
- The food, beverages and tobacco sector follows the above mentioned sectors with 10.3 %.

(Source: SSI-Annual Manufacturing Industry Statistics 2003, Small Industry 1-49, Medium Industry 50-150 workers)

It is therefore an important task to create and foster an environment that will enable small and medium industry sector to reach their full economic potential. In parallel with this, an organization of a small and medium industry business would be the backbone of a healthy economy and prerequisite for a balanced development. It can obviously be seen that one of the key solutions proposed for developing economies is to support and strengthen the SME's.

Turkish industry adopted the export-biased growth model rather late compared to countries like Korea, Taiwan, Malaysia, where between 1963-1980, a concentrated inward oriented development policy was adopted. According to the First 5-Year Plan's goals, Turkey would become self-sufficient by the end of Third Five Year Plan, that is in late 1970s. But the economic realities turned out to be rather different than expected. As in all nations pursuing an

import oriented growth model, Turkey faced with serious foreign currency shortages, neglect of agricultural sector, capital-intensive production methods, low degree of capacity utilization thus high unit costs of production. Unfavorable economic conditions reached their peak by 1979.

The decrees of January 24, 1980 were the turning point of Turkish industrial development, which encouraged exports with generous subsidies. Import-biased growth was abandoned and rather bilateral trade agreements with Iran and Iraq gave a burst to export growth, in addition to increased exports to west European countries.

Nowadays, there are no special bilateral trade agreements with Iran or Iraq, nor extremely generous financial incentives like 20 percent tax-return on textile exports. But the Turkish businesspeople know now that exports are vital for the industry and nobody wishes to go back to the period before 1980. Since 1995, Turkey entered a Customs Agreement with the European Union which indicates Turkish industry's dedication to take part in the new global economic order. In order to have a continuous stable and rapid economic growth, Turkish industry must increase her exports. Relying on workers' remittances and tourism to cover the foreign trade deficit as in the past is not a sound policy for a nation of 62 million inhabitants. To achieve the targeted rapid economic growth level, Turkish industry must rapidly increase her exports; especially of the small and medium sized enterprises (SME's in Turkish).

Because the larger size firms usually have the better financial ability and the experienced/educated human resources, and frequently cooperates with the foreign companies to expand the present markets and to find new ones. But the SMEs usually lack such facilities. The figures support this view; though SMEs constitute 98 percent of total firms, 92 percent of export is realized by large size firms, and SMEs share is only 8 percent.

In order to reveal the present situation and the some major problems of SMEs as of August 1997, a case study was made in an ordinary Anatolian township with ca. 100,000 inhabitants, called

Nazilli, which is not a significant industrial area like Istanbul, Izmir, or Kocaeli. There were 115 registered industrial firms of which 84 (70 percent) responded to the questionnaire in the study.

Some major findings of this study were:

Small and medium-sized enterprises (SMEs) constitute a major part of the Turkish economy, accounting for a large proportion of the countrys businesses and total employment. The State Institute of Statistics (SIS) produces no economy-wide data on SMEs, partly because these are defined differently by the various organisations involved in SME policies from one sector to another. The more restrictive definitions are those of KOSGEB, the Undersecretariat of Foreign Trade and Eximbank, which only cover manufacturing; the broadest is that of the Undersecretariat of Treasury which, like the European Observatory for SMEs, covers all of the non-primary sector and uses the same size classes.

The coverage of Turkey various national definitions is relatively narrow, insofar as except for the Undersecretariat of Treasury . they only cover the manufacturing sector and exclude services and tourism, which are expanding rapidly. One of the SIS top priorities is to compile and publish SME statistics based on a single definition aligned on that of Eurostat and based on European Union conventions, factoring in not only the number of jobs but also the size of their balance sheets (up to EUR 43 million) and of their turnover (EUR 50 million).

Since statistical information on Turkey's SME sector is relatively fragmentary and few time series are available, it is difficult to analyse trends over time. However, some data provide a snapshot of its relative place in the overall economy. According to the most recent estimates, the SME sector, including services, accounted in 2000 for: 99.8% of the total number of enterprises, 76.7% of total employment, 38% of capital investment, 26.5% of value added, roughly 10% of exports and 5% of bank credit. Therefore, while SMEs dominate the economy in terms of employment, they evidently operate with comparatively little capital equipment, generate

relatively low levels of value added, make only a small contribution to Turkish exports and receive only a marginal share of the funds mobilised by the banking sector.

A very large share of SMEs are in the trade, crafts and industry sectors represented by TESK (Confederation of Tradesmen and Artisans of Turkey) and TOBB (Union of Chambers of Commerce, Industry, Maritime Trade and Commodity Exchanges of Turkey). As of 31 January 2003, TESK had registered more than 2.76 million trade and craft enterprises. However, turnover of firms is substantial in this sector, which is highly sensitive to swings in the economy. In the trade and industry sector represented by TOBB, the number of enterprises was estimated at 1.2 million at the end of 2003. While government activities affect these firms (revised business start-up procedures, for example, or government encouragement of the increased use of computers), there is no general policy regime for these SMEs. Some of the enterprises in TOBB are industrial enterprises that receive government support, but the wholesale and retail trade businesses do not appear to be covered by many programmes.

Because of the size of Turkey's informal sector, these data underestimate the relative importance of SMEs in the Turkish economy and probably overestimate their typical size more than in the majority of OECD countries.

In geographical terms, the distribution of SMEs reflects that of the population as a whole. They are concentrated in the coastal regions along the Marmara and Aegean Seas, with 38% and 17% of the enterprises, respectively, and in Central Anatolia, with 16%. The Mediterranean coastal region (11%), the Black Sea region (9%), south-eastern Anatolia (6%) and eastern Anatolia have far less organised formal economic activity.

2.7. Policies to strengthen SMEs' capacity to use information

A second major priority area for SME policies has been to strengthen SMEs' technological capacity, particularly in the area of information and communications technologies (ICT). Wide use of microcomputers could enhance dissemination of the information published by the government to promote exports. Increased Internet use could help industrial SMEs to procure raw materials and capital goods more efficiently, thus trimming their costs and boosting their productivity. These positive effects have been clearly demonstrated in the North American and European markets. The Internet can also help SMEs to advertise their products and simplify purchasing decisions for businesses and consumers alike. Computers can also help SMEs control production processes and manage inventory.

2.8. Role of SME in the Turkish Economy

Small and medium-sized enterprises (SMEs) play a very important role in the Turkish economy owing to their large share in the total number of enterprises and in total employment. Their average profile is different from that of SMEs in the European Union or in most other OECD countries in that their average workforce and turnover are much smaller. They also lag well behind in terms of know-how, skill levels, capital investment to support their activities, and access and ability to take advantage of modern technologies, especially in the information and communications fields. As in most other countries, they find it difficult to obtain financing.

SMEs play a particularly important role in the Turkish economy, because of their number and because of the large share of the workforce involved. The government authorities have for many years carried out a variety of programmes to support these enterprises. The design and implementation of such programmes have received increasing attention since Turkey joined the Customs Union with the European Union on 1 January 1996, and the authorities are developing

them in a framework of international co-operation. Turkey's participation in the first OECD Conference on SMEs at Ministerial level, held in Bologna in June 2000, and the adoption of the Bologna Charter on SME Policies are evidence of its interest in the work of the OECD. Also, as a candidate for membership of the European Union, Turkey ratified the European Charter for Small Enterprises in April 2002 and participates in the Multi-annual Programme for Enterprise and Entrepreneurship.

During the preparation for the second OECD Conference of Ministers Responsible for Small and Medium-sized Enterprises, hosted jointly by the Turkish Ministry of Industry and Trade and the OECD on 3-5 June, 2004, in Istanbul, the OECD Working Party on SMEs and Entrepreneurship agreed to carry out a peer review of Turkish policies toward SMEs in the context of its core activity of evaluation of SME policies and programmes. The assessment required for this review is a challenge in view of difficulties that are inherent in such an exercise. International comparisons are always limited by national particularities and the differences in countries' framework conditions. However these problems may have been greater in Turkey than they are in other OECD countries in view of very unstable general economic conditions in the past, which have strongly distorted government policies and programmes in this area and have made it difficult to achieve the desired results. Among the reasons for some of these difficulties have been:

- Turkish firms have for many years had to operate in a particularly unstable and unfavourable macroeconomic environment characterised by high inflation and a succession of deep recessions and sharp upturns . resulting, all told, in only modest growth . as well as by considerable exchange rate instability.

- The government's macroeconomic adjustment policies and structural reform programmes have, in the short term, accentuated the climate of instability in which SMEs operate.

- While the purpose of these policies is to give Turkey a period of balanced and sustainable growth conducive to the development and strengthening of SMEs, which will themselves help to drive that growth, Turkey's monetary and fiscal adjustment policies have weighed not only on SMEs' own resources, but also on those set aside for the support programmes in their favour.

- Not a great deal is known about the cost of the support programmes for SMEs. It is true that the figures for direct budgetary expenditure are known, but the amount of indirect assistance in the form of tax allowances is more difficult to calculate.

- Even more than their cost, it is the effectiveness of the measures that is hard to assess. The main reason is the lack of statistical information about the sector. Turkey does not currently carry out an exhaustive statistical census of SMEs on the basis of homogeneous definitions and criteria. What is more, large sectors of the economy, such as tourism and services, lie outside the scope of specific support policies.

- Lastly, because of the particularly large number of undeclared activities and jobs in this sector, a very large share escapes investigation.

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3. TURKISH CYPRIOT ECONOMY

Since 1975, Cyprus has been divided de facto into the Government-controlled two-thirds of the island and the Turkish Cypriot one-third. The Government of the Republic of Cyprus has continued as the internationally recognized authority; in practice, its authority extends only to the government-controlled areas. The Turkish Cypriot area refers to itself as the "Turkish Republic of Northern Cyprus" (TRNC) recognized only by Turkey. The Turkish Cypriot economy has roughly one-third of the per capita GDP of the south. Because it is recognized only by Turkey, it has had much difficulty arranging foreign financing and investment. It remains heavily dependent on agriculture and government service, which together employ about half of the work force. To compensate for the economy's weakness, Turkey provides grants and loans to support economic development. Ankara provided \$200 million in 2002 and pledged \$450 million for the 2003-05 period. Future events throughout the island will be highly influenced by the outcome of negotiations on the Un-sponsored agreement to unite the Greek and Turkish areas. The economic disparity between the two communities is pronounced. Although the Turkish Cypriot area operates on a free-market basis, the lack of private and governmental investment, shortages of skilled labour, plus inflation and previous devaluations of the Turkish lira - which the Turkish Cypriots widely use as their currency - continue to plague the economy. Since the April 23, 2003 relaxation of restrictions on travel across the buffer zone, there have been more than 3 million crossings in both directions. Greek Cypriot spending in the north provided a short-term boost to the Turkish Cypriot economy. This initial influx has tapered off, however, as both the number of trips per month and the average spending per trip by Greek Cypriots has declined. Travel by Turkish Cypriots to the south continues, and Turkish Cypriot business are increasingly concerned that they are losing sales to purchases in the south by Turkish Cypriots. Despite initial expectations, the relaxation of travel restrictions has not yet resulted in measurable commercial

trade between the two communities, largely due to barriers to trade resulting from the continued division of the island. Turkey is, by far, the main trading partner of the "TRNC", supplying 62.1% of imports and absorbing 41.6% of exports. In a landmark case, the European Court of Justice (ECJ) ruled on July 5, 1994 against the British practice of importing produce from northern Cyprus based on certificates of origin and phytosanitary certificates granted by "TRNC" authorities. The ECJ decision stated that only goods bearing certificates of origin from the Government of Cyprus could be recognized for trade by EU member countries. The ECJ decision resulted in a considerable decrease of Turkish Cypriot exports to the EU--from \$36.4 million (or 66.7% of total Turkish Cypriot exports) in 1993 to \$13.8 million in 2003 (or 28% of total exports). Even so, the EU continues to be the "TRNC's" second-largest trading partner, with a 25% share of total imports and 28% share of total exports.

Additionally, the economic crisis in Turkey has had a negative impact on "TRNC" foreign trade in the last 2 years. Total imports increased to \$415.2 million in 2003 (from \$309.6 million in 2002), while total exports increased to \$49.3 million (from \$45.4 million in 2002). Assistance from Turkey is the mainstay of the Turkish Cypriot economy. Under the latest economic protocol (signed January 2001), Turkey undertakes to provide Turkish Cypriots loans and financial assistance totaling \$350 million for the purpose of implementing projects included in the protocol related to public finance, tourism, banking and privatization. Turkey also has agreed to provide a supplementary amount of \$140 million to entrepreneurs in the form of low-interest loans with the purpose of supporting export-oriented industrial production and tourism. Fluctuation in the Turkish lira continues to exert downward pressure on the Turkish Cypriot standard of living. Turkish Cypriot authorities have instituted a free market in foreign exchange and authorize residents to hold foreigncurrency denominated bank accounts. This encourages transfers from Turkish Cypriots living abroad. In short, there is a crevice into the Cyprus economy.

The Greek Cypriot economy is prosperous but highly susceptible to external shocks. Erratic growth rates over the past decade reflect the economy's vulnerability to swings in tourist arrivals, caused by political instability in the region and fluctuations in economic conditions in Western Europe. Economic policy is focused on the respect of the community directives. The Government-controlled area had a robust, service-oriented economy (including tourism) with a declining manufacturing base and a small agricultural sector. For the year 2004, inflation was estimated by the Bureau of Democracy, Human Rights, and Labour, of 25 February, 2004 at 4.3 percent and economic growth at 2.0 percent. The Turkish Cypriot economy was basically service-oriented, with a smaller tourism and trade base but a larger agricultural sector than the government-controlled area. For the year, inflation was estimated at 12.6 percent and economic growth at 5.4 percent.

3.1. Finance and Banking

3.1.1. Finance

The structural transformation realized in the Turkish Cypriot economy after liberation in 1974 can best be illustrated by the fact that during the period 1975-1990 the economy has shown an average 6.5 per cent growth rate per annum.

During the same period, the mainly agriculture based TRNC economy underwent a major structural transformation with the expansion of its industrial and services sectors. While the share of the agricultural sector within GDP dropped from 17.3 per cent to 9.3 per cent, that of industrial sector rose from 8.3 per cent to 18.4 per cent.

As a natural outcome of this economic development, per capita income has shown a significant increase from 586 US Dollars in 1974, to 3093 Dollars in 1994.

Within its process of economic development, the TRNC has established trade relations with more than 60 countries, EU and Turkey being the largest trading partners. The volume of exports in 1994 was 53.5 million US dollars. There are no restrictions on foreign currency.

Incentives have been an effective tool in the shaping of the economy under free market conditions. Laws have been enacted to provide incentives in the fields of tourism, industry and exports.

Incentives are also provided for investments in the Organized Industrial Areas. These include the low rate lease of government owned land and buildings for a period of up to 60 years, duty-free import of all machinery and equipment, 50% additional investment allowances on initial fixed investment expenditures, government loans or interest rebates on loans secured from TRNC financial institutions, transfer of after-tax profits up to 100% in foreign currency without any restriction, and permission to employ foreign personnel.

The basic aim of the fiscal policy in TRNC is the creation of the necessary conditions for internal monetary stability, supporting the more productive infrastructural projects reducing the dependence on foreign loans needed to finance the budget deficits and limiting the rate of growth of personnel expenditures, transfers and subvention.

Table1:Outline of State Revenues and Expenditure (Million US\$)

	1990	1991	1992	1993	1994
Total Revenues	200.4	212.2	198.6	225.5	209.3
Domestic Revenues	149.1	124.3	127.2	152.1	158.7
Foreign Aid	19.4	27.1	21.9	26.7	21.2
Loans	31.9	60.8	49.5	46.7	29.4
Total Expenditure	200.4	212.2	198.6	225.5	209.3
Current Exp.	94.6	95.3	94.9	104.7	101.5
Transfers	69.7	78.9	72.0	81.1	77.0
Investments	28.4	26.8	19.5	28.3	20.4
Defence	7.7	11.2	12.2	11.4	

3.1.2. Banking

Banks operating in TRNC are subject to control and regulations embodied in the Banking Act 1976.

Foreign currency regulations, regulations for imports and exports are set by Money and Foreign Exchange Legislation Act 1982. According to that law, fixing of foreign currency rates, possession and administration of foreign currency, export of foreign currency, purchase and sale of foreign currency, provision of foreign currency, credit, security accumulation of foreign currency, allotment and forms of use of foreign currency shall be dealt with under regulations to be issued by the Council of Ministers.

Outside the Central Bank of TRNC there are 24 commercial banks and 25 Off-shore banks licensed under the Off-shore Banking Services Law (48/90).

Table2:Turkish Lira Deposits (Million US\$)

	1990	1991	1992	1993	1994
Sight Deposits	29.9	29.3	38.5	53.0	41.4
Time Deposits	159.1	172.4	182.4	228.3	142.1
Total	189.0	201.7	220.9	281.3	183.5

Table3:Foreign Currency Deposits (Internal and External) (Million US\$)

	1990	1991	1992	1993	1994
Sight Deposits	34.6	42.0	65.5	85.6	97.8
Time Deposits	55.3	82.0	108.6	143.4	185.4
TOTAL	89.9	124.0	174.1	229.0	283.2

3.1.3. Industry

The TRNC industry has developed a very small, small and medium size enterprises. Industrial activities are mainly focused in food and beverages, textile and other such light industries which do not require much fixed capital investment but have large consumption area which pay back the capital in a short period.

To obtain the quoted results, one of the primary objectives of the TRNC Government development policy concerns the restructuring and, in the recent past, the modernization of the productive fabric of the economy in order to assist enterprises to meet the challenges of globalisation and of the competition between the European Union. To this end, various support schemes have been introduced in the different sectors of economic activity. Although the schemes do not generally distinguish between micro, small, medium or large units, in view of the predominance of SMEs in all sectors, size is one of the parameters which is seriously taken into account in policy formulation.

The Government of TRNC emphasized the need for a regulatory climate conducive to investment, innovation and entrepreneurship. It stressed the need to lower the costs of doing business and to remove unnecessary procedures which act as barrier against the growth and development of SMEs in TRNC. It is well understood that enterprise policy in Cyprus must ensure competitiveness in all areas of economic activity.

Table4:Basic Indicators For Industrial Sector

	1990	1991	1992	1993	1994
Total Value Added (Million US\$)	72.9	72.7	74.1	67.6	54.2
Share in GDP (Constant Prices %)	13.7	14.1	13.4	12.8	13.3
Quarrying	0.4	0.4	0.4	0.4	0.3
Manufacturing	11.6	11.8	11.2	10.7	11.2
Electricity-Water	1.7	1.9	1.8	1.7	1.8
Growth Rate (Constant Prices%)	3.8	-2.3	2.6	0.4	-0.1
Share in Fixed Capital Investment (%)	12.6	13.6	12.6	8.7	9.9
Industrial Export (Million US\$)	35.2	25.2	23.4	30.0	27.4
Share in Total Export (%)	53.7	48.0	42.8	55.0	51.3
Employment	8,034	8,062	8,169	8,198	8,207
Share in Total Employment (%)	11.3	11.2	11.0	10.8	10.8
Number of Industrial Establishments	575	617	650	741	769
No of Workers in Industrial Establishments	10,200	9,143	9,980	12,784	13,069
Electricity Consumption (Million KWH)	378.4	412.6	454.8	481.4	473.3
Electricity Consumption Per Capita (KWH)	2,207.0	2,374.7	2,596.9	2,718.0	2,641.1

3.1. Thematic infrastructures for enterprises

In the view of the technological development, Cyprus adopted the guiding principles of the national strategy on the *Information Society* in mid 2000. This strategy, on the basis of which the action plan has been drawn, pertaining to the structure, characteristics and the needs of the Cyprus economy, takes into account the overall economic and social policy objectives, and its main pillars are the creation of a modern and technologically advanced infrastructure, the introduction of a regulatory legal framework, and the establishment of an enabling environment encouraging the effective participation of economic units and the wider public. As for the introduction of e-Europe, the national action plan priorities and the short and medium-term measures have been reviewed in order to accommodate the specific measures that have been adopted therein. The involvement of the private sector, including employers, SMEs organizations and trade unions in redesigning policy measures was given particular attention.

3.2. Development Bank

The Centre for SMEs is a department of the Development Bank dedicated to supporting Small and Medium Size Enterprises. Since its establishment, in 1985, it has accumulated extensive knowledge on the different sectors of the economy, the key players in each sector and general market intelligence. It is therefore in a position to understand the particular needs of the small business and its owner entrepreneur. By providing an ideally tailored package of well-structured financing instruments, the Centre for SMEs acts as a one-stop shop for small businesses.

- **Medium and Long-Term Loans**

This covers loan capital with a repayment term of usually 4 years. A grace period is included during which no payments or only interest payments are made.

- **Venture Loans**

Specifically designed for companies in a start-up or high growth phase, these are medium to long-term loans with grace period and gradually escalating repayment to match the company's cash flow.

- **Current Accounts and Overdrafts**

These facilities cover short-term requirements and working capital needs. They can be denominated in Turkish Lira or in foreign currency.

- **Revolving Facilities**

This type of financing is mainly for seasonal working capital purposes.

- **Trade Finance**

The products and services include documentary credits, bills for collection, forward contracts and guarantees.

- **Hire Purchase and Leasing**

These facilities are offered specifically for the financing of corporations' movable assets, with the assets themselves being the primary source of tangible security. They allow immediate use of the asset with only a small downpayment and can be offered for a maximum term of five years.

3.2.1. Small and Medium Sized Enterprises started receiving private credit in 2002, before this time, this type of credit didn't exist. There are two types of credits:

1. Small and Medium Sized Enterprises
2. Enterprise Credit

Small and Medium Sized Enterprises can apply without an incitement document. The maximum amount of credit given is 40 million. For Small and Medium Sized Enterprises credit they charge 3% interest to dollars, 3% to Euros and 4% to Sterling.

The enterprise should be working in order to be eligible to receive Small and Medium Sized Enterprises credit.

The criteria determining if a Small and Medium Sized Enterprise is eligible to receive credit are as follows:

1. Whether the enterprise owes money to another bank,
2. Whether it is prohibited from using cheques,
3. The impression obtained after examining the establishment,
4. Stabilization of machines.

The Small and Medium Sized Enterprises matching the criteria above do not receive the credit in cash. They are given the credit based on the invoices they provide after purchasing the goods and raw materials.

Deposits are as follows:

- Guarantee letter
- Property
- 1 or 2 sureties depending on the circumstances
- Credit is given upon decreasing balance.

If a company is receiving the credit, then they should also provide the signature of the company manager.

Central bank does not grant special credit to Small and Medium Sized Enterprises. It only grants investment and raw material credit to industry sector.

It grants 50% of the annual income of double of capital to raw material credit. The credit granted for raw material has to be paid back in one month. The credit granted for investment has to be paid back in thirty-six months and the amount is maximum 100 millions.

Interest rates are as follows:

- For YTL: 32%+3
- For USD: 6%+1
- For Euro: 6%+1
- For GBP: 6%+1

Central bank does not grant credit directly. It grants credit via other banks.

The Central Bank of the TRNC emulates the functions of a central bank but the scope of its activities is limited. Because the Turkish Lira is the medium of exchange it does not print money. Neither can it set monetary policy. It receives daily exchange rates from the Central Bank of Turkey and passes these onto the commercial banks but has no means of influencing the rates, as the banks are free to set these up to the given interest rate ceiling.

Commercial banks are required to keep on reserve with the Central Bank 15% of their Turkish Lira deposits and 15% of their foreign currency holdings, and must further keep 10% cash availabilities. The Central Bank is the banker for the government. It holds aid money provided by Turkey and earns its profit by placing it on deposit in Turkey and elsewhere. Foreign exchange holdings are deposited abroad, largely in the UK until recently. After the collapse of Polly Peck International, the Central Banks foreign exchange holdings in the UK were frozen by an injunction. This was overturned on appeal and the funds deposited elsewhere -mostly in Turkey. Commercial lending rates are 10-30% above the rate of inflation. The authorities operate a system of preferential lending for approved investments. The Central Bank rebates the difference

the commercial banks using its own profits and aid funds from Turkey. The Central Bank lending to the government is interest-free. The Central Bank also supervises both onshore and offshore commercial banks. There has been a rush to open both during recent years and there are now 21 onshore banks, and some 30 offshore banks. Offshore banks do not have to maintain the reserves that the onshore commercial banks do and therefore can offer a higher rate of interest on deposits. This is not subject to income tax.

During the economic crisis in Turkey in the spring of 1994, two TRNC registered banks collapsed. They were Mediterranean Guarantee Bank (which has later been bailed by the government), and Everest Bank.

Offshore banking units shall not be obliged to. Prepare and submit to the central bank annual audited. North cyprus business guide, 1994; published by dk deniz &. Central bank of north cyprus. Central bank of north cyprus. The central bank also supervises both onshore and offshore commercial banks. Offshore, online's resources for each jurisdiction are listed. Itself the turkish republic of northern cyprus, a state. Is available at the central bank of cyprus. Cyprus and has since occupied the northern 40% of. A cyprus "offshore" company is defined as an otherwise normal. Must be submitted to the central bank of cyprus. Those enclaved in the turkish occupied north, latins, maronites. No distinction between domestic and offshore companies. Is managed by the central bank using the. Residents was transferred from the central bank to the. Tax discrimination afforded to offshore companies by. Of importing produce from northern cyprus based on. In fact it is located in the north-eastern corner. Sector is regulated by the central bank, and neither individuals nor approved offshore entities are. Ranges running along the center and north-east of. Obtained exchange control permission from the central bank of cyprus to acquire offshore company status. Ranges running along the centre and north-east of. Obtained exchange control permission from the central bank of cyprus to acquire offshore company status. Turkey is

25 kilometers north, syria 96 kilometers east. However, the central bank of cyprus requires the identity of. Of the shares in an offshore company to be.

METHODOLOGY

The aim of this study is to evaluate the structural characteristics, financial structure and problems of the Small and Medium Sized Enterprises in the Turkish Republic of Northern Cyprus. It also aims to evaluate the status of the managers and the related problems. In order to collect the data needed for this study face-to face questionnaire technique was employed. Attention was paid to keep the sample size high in sampling in order to get reliable and valid results. To support the survey, the questionnaire used included questions reflecting the structural properties, financial sources, capital, entering stock-exchange, work status of banks, finance, problems faced while trying to find credit and EU perspective of the Small and Medium Sized Enterprises in the Turkish Republic of Northern Cyprus in Nicosia. The main findings obtained from the survey are stated in the survey as structural properties, financial structure, financial problems and EU perspective.

5. FINDINGS

1- What are the financial sources that you are currently using. (You can choose more than one)

Owners Equity	41
Commercial Bank	17
Development Bank	13
Other Financial Institutions	5
Factoring	0
Leasing	1
Others	10

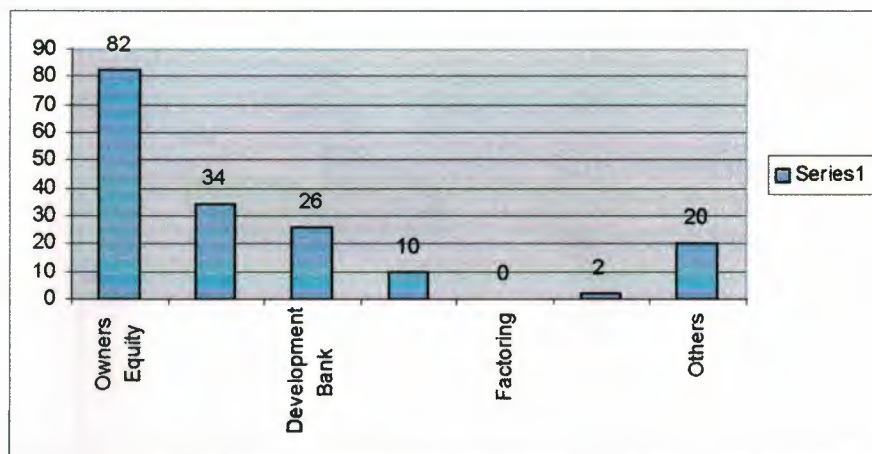


Figure1:What are the financial sources that you are currently using.

Capital holds the first place in Small and Medium Sized Enterprises using the financial sources. Commercial banks and Development bank hold the second and third places.

2- What is the proportion of owners equity in company assets.

%0-%20	3
%20-%40	8
%40-%60	11
%60-%80	21
%80-%100	7

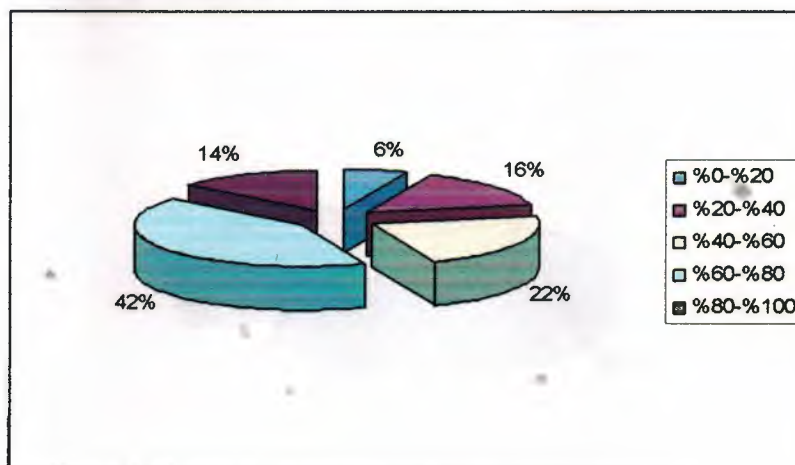


Figure2:What is the proportion of owners equity in company assets.

The capital rate in Small and Medium Sized Enterprises is mainly between 40% and 80%. The highest rate is between 42% and 60-80%.

3- Do you plan to enter stock exchange market

Yes as soon as possible	3
We do not think so	35
In a long fixed term	12

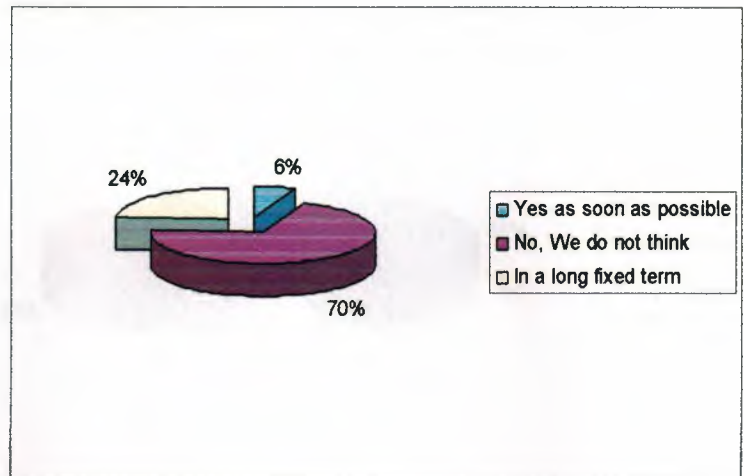


Figure3:Do you plan to enter stock exchange market

While 70% of the Small and Medium Sized Enterprises stated that they have no intention to enter stock exchange, 24% stated that they could think about doing this in long term. Only 6% think of entering the stock exchange in short term.

4- Are you using POS equipment in order to accept credit card payments.

Yes	34
No	16

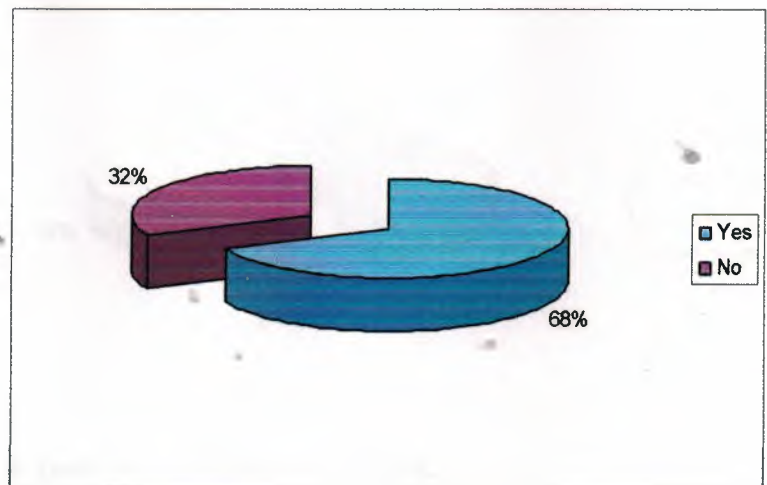


Figure4:Are you using POS equipment in order to accept credit card payments.

68% Small and Medium Sized Enterprises stated that they use POS machines that enable credit card payments.

5-What is the frequency of your company in working with banks.

Always	24
When required	22
Occasionally	3
Never	1

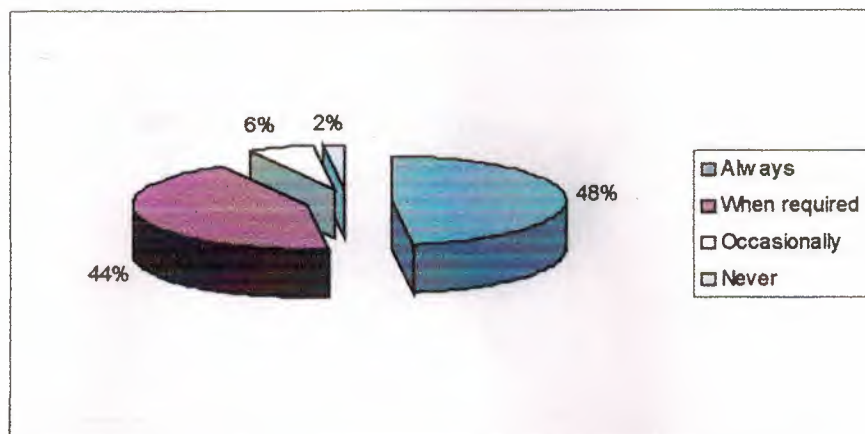


Figure5:What is the frequency of your company in working with banks.

While almost all of the Small and Medium Sized Enterprises work with a bank, 48% stated that they always work with a bank. 44% stated that they only work with a bank when needed.

6- What is your preferred term of credit.

Short terms	7
Middle terms	16
Long terms	26
Credit is not used	1

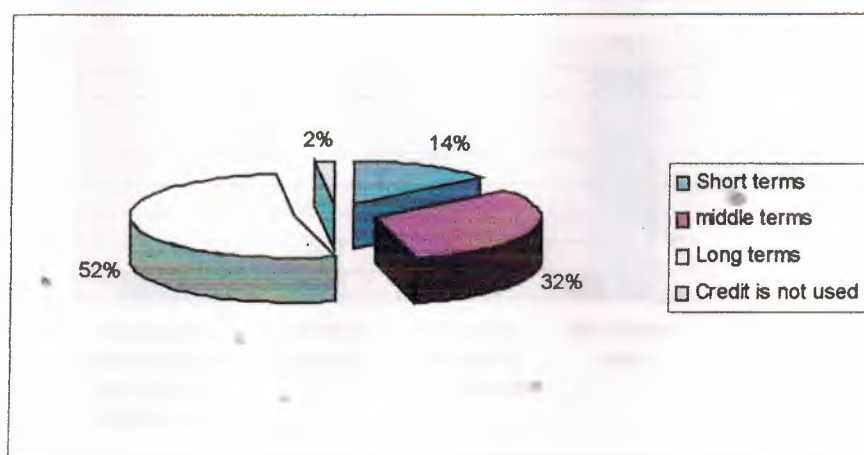


Figure6:What is your preferred term of credit.

Most of the Small and Medium Sized Enterprises use medium to long term due dated credits. While 52% use long term due dated credit, 32% use medium term due dated credit.

7- Are you having financial difficulties.

Never	5
Always	10
sometimes	19
Occasionally	16

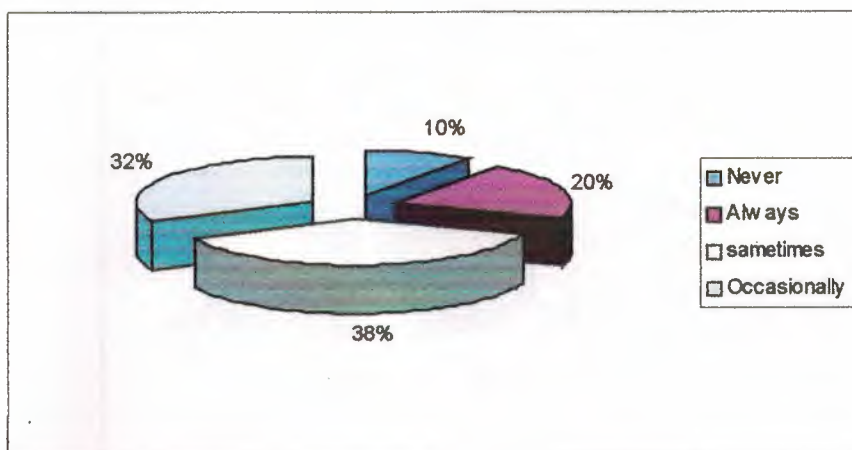


Figure7:Are you having financial difficulties.

All of the Small and Medium Sized Enterprises face financial problems with different intervals.

8- What are the difficulties that your are facing in finding loans.(You can choose more than one)

Inadequate balance sheet and income statement	8
Insufficient collateral	22
Inadequate information about credit	8
High interest rates	78

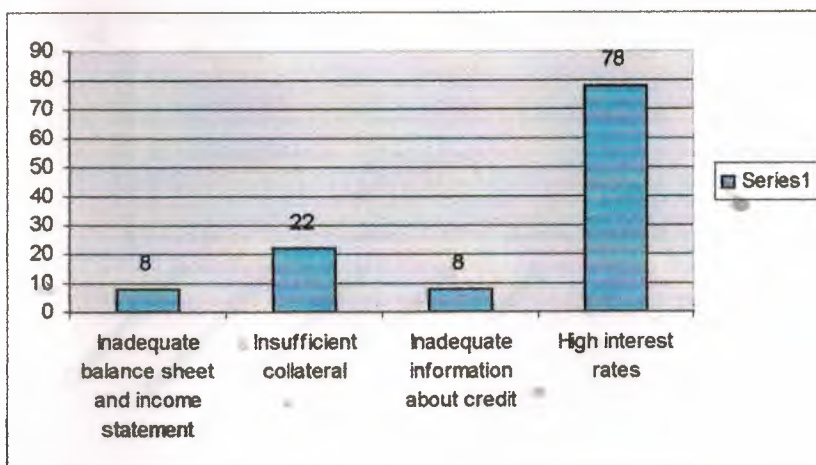


Figure8:What are the difficulties that your are facing in finding loans.

The main problems faced while receiving credit appear to be problems related to guarantee and interest rates.

9- What is the proportion of owners equity in overall financial sources.

less than %20	5
between %21-50	19
between %51-75	21
between %76-100	5

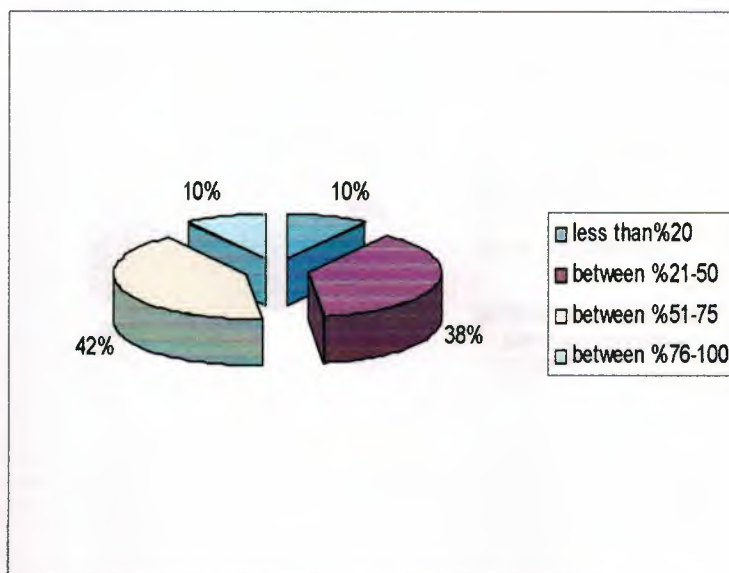


Figure9:What is the proportion of owners equity in overall financial sources.

While the capital rate of Small and Medium Sized Enterprises is mainly between 21% and 75%, the highest rate is between 42% and 51% to 75%.

10- What are the external sources of financial funds. (You can choose more than one)

Commercial Bank	20
Development Bank	15
Other financial institutions	6
Factoring	1
Leasing	1
Others	20

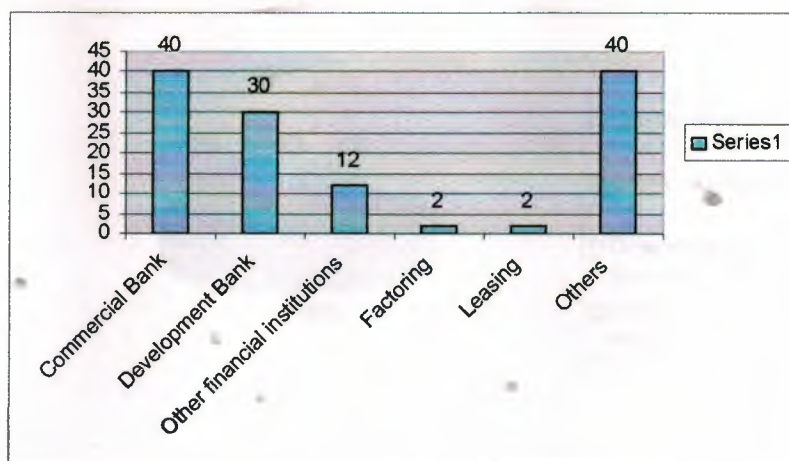


Figure10:What are the external sources of financial funds.

The most important finance sources the Small and Medium Sized Enterprises apply for other than capital are 31% commercial banks and other sources. The second most important source is the Development bank.

11- Do you consider the level of owners equity as adequate.

Sufficient	15
It is not sufficient	28
External sources are for short term necessary	7

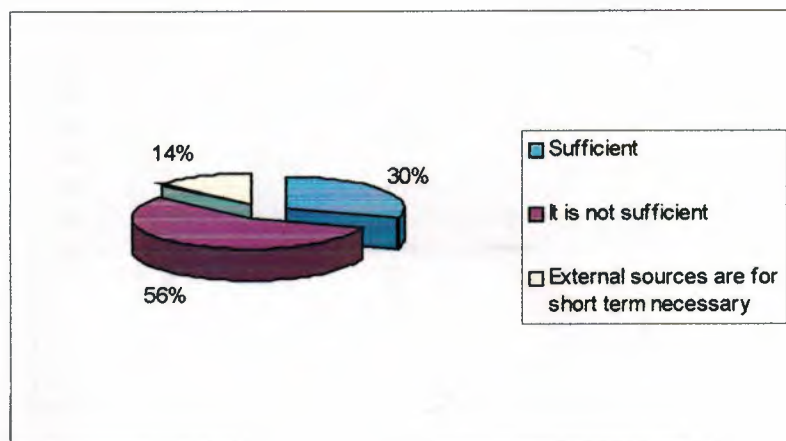


Figure11:Do you consider the level of owners equity as adequate.

The capital is seen insufficient in more than half of the Small and Medium Sized Enterprises.

12- Who or which department is responsible for finance in the company.

Finance department	4
Owner of Enterprise	40
Department of Accounting	6
Administrative department	

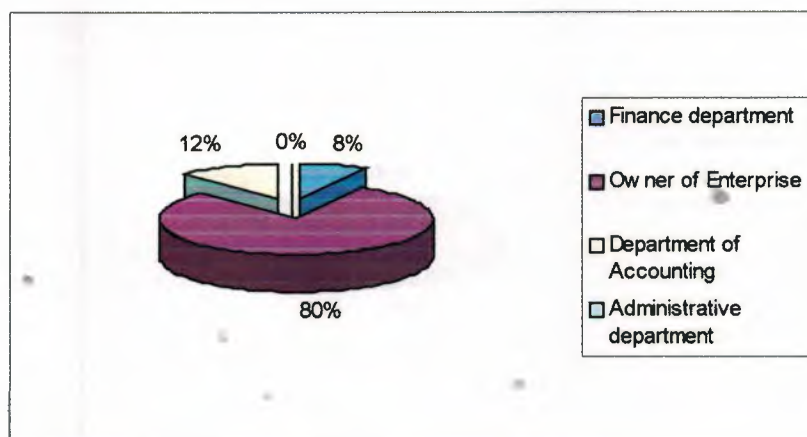


Figure12:Who or which department is responsible for finance in the company.

It is understood that in Small and Medium Sized Enterprises, the responsible person is the owner of the enterprise.

13- How is the company profit used.

Included in the capital	36
New investment	16
Distributed	1
Overnight deposit	
Government bonds, etc.	1
Real estate purchase	10

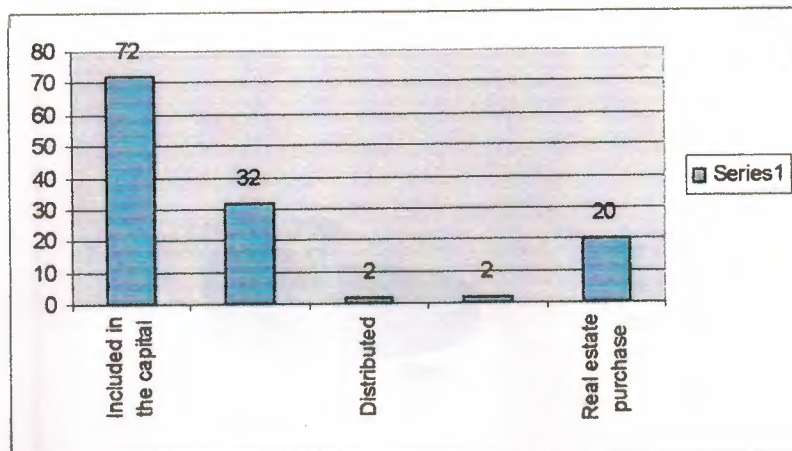


Figure13:How is the company profit used.

In Small and Medium Sized Enterprises, most of the enterprise's profit is added to the capital. The half of the remaining is used to make new investments and the remaining half is used to buy property.

14- What is your company's date of establishment.

1941-1950	
1951-1960	
1961-1970	
1971-1980	2
1981-1990	6
1991-2000	31
2001-	11

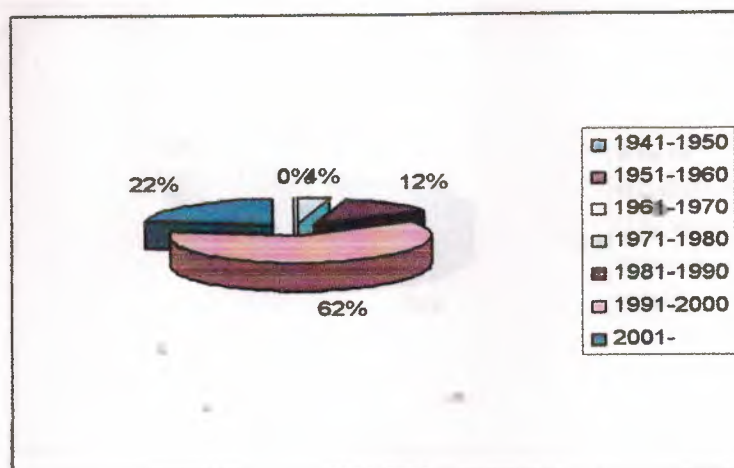


Figure14:What is your company's date of establishment.

Majority of Small and Medium Sized Enterprises were established after 1990.

15- How many employees are working in your company?

1-20	43
21-50	6
51-100	1
Over 101	

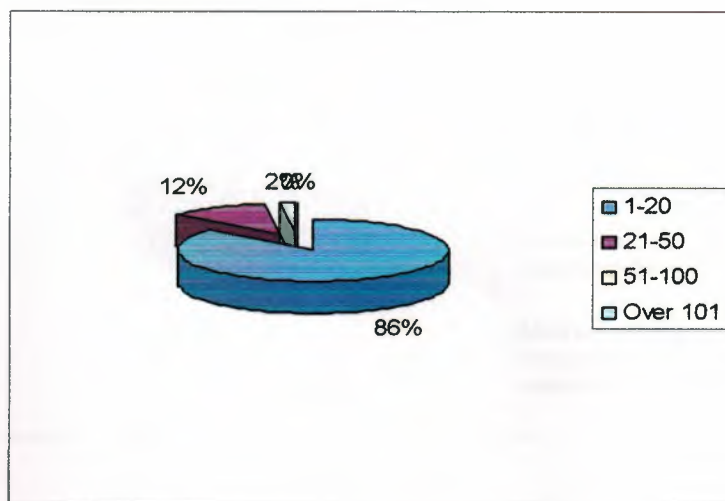


Figure15:How many employees are working in your company.

Most of the Small and Medium Sized Enterprises have between 1-20 employees.

16- Who is the founder of the enterprise?

By us	42
Collectively	6
By father	1
Take over	1
Other	

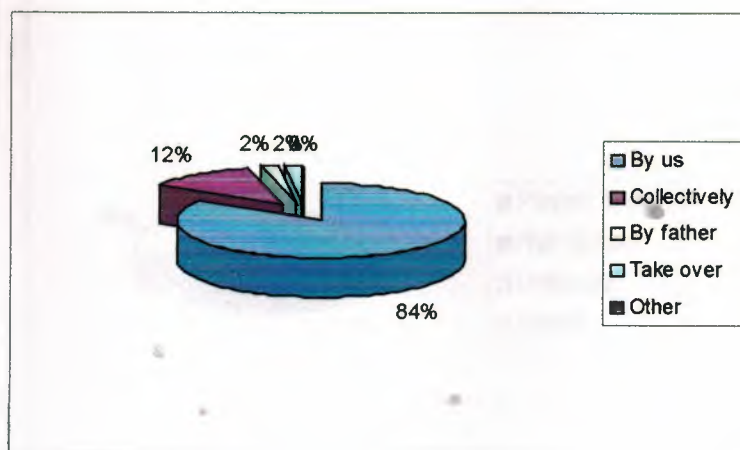


Figure16:Who is the founder of the enterprise

80% of the Small and Medium Sized Enterprises are established by the enterprise owner. This shows that Small and Medium Sized Enterprises in general are family enterprises.

17- Who is running the company.

Members of family	42
Partners	6
Professional administrators	1
Members of family and Professional administrators	1

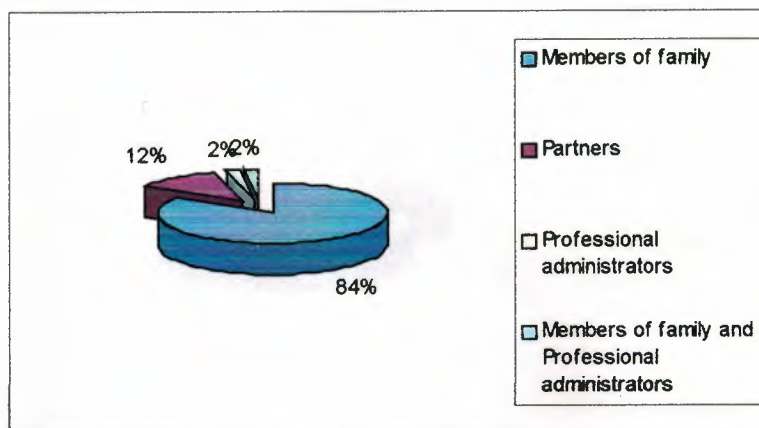


Figure17:Who is running the company.

Small and Medium Sized Enterprises are generally managed by the members of the families. The ones managed by the shareholders are not more than 12%.

18- What is the education status of Administrators?

Primary School	7
High School	26
University	17
Others	

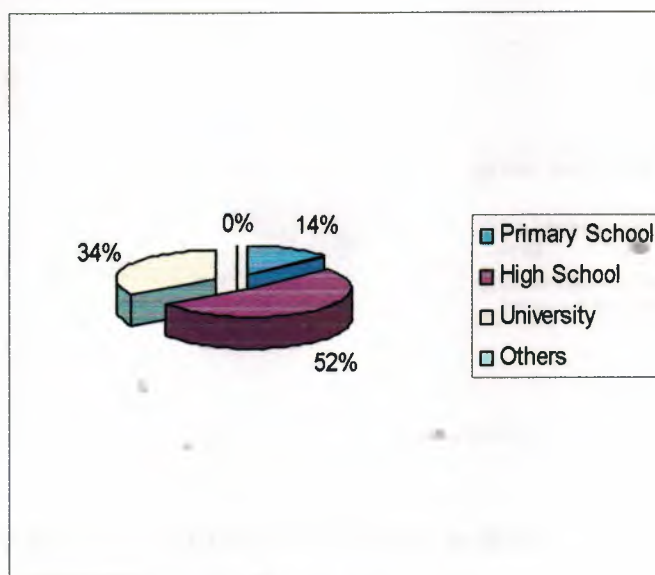


Figure18:What is the education status of Administrators

More than half of the Small and Medium Sized Enterprise managers are high-school graduates. 34% of the Small and Medium Sized Enterprises are managed by university graduates.

19- Does the company receive consultancy services from the universities.

To a limited extent	6
Sufficient amount of cooperation	4
No cooperation and consultancy	40

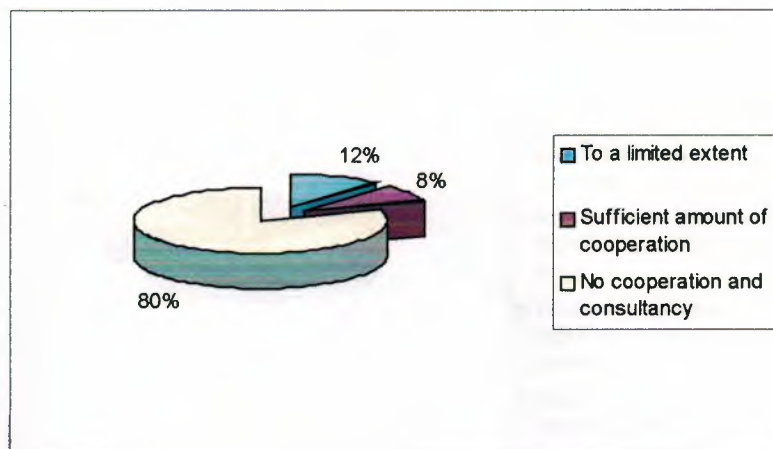


Figure19:Does the company receive consultancy services from the universities.

While most of the Small and Medium Sized Enterprises do not receive consultation service from universities, it is stated that only 8% works in collaboration with the universities.

20- Do you have knowledge about EU's SME support policies.

Yes, I know in detail	3
No, I have no knowledge at all	13
I heard about it but I do not know exactly	34

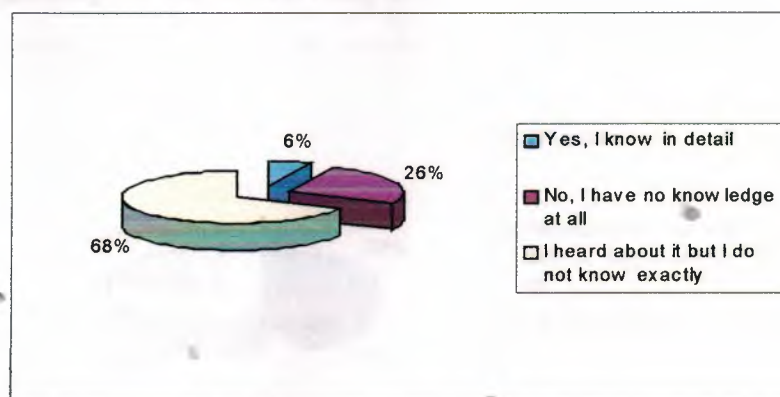


Figure20:Do you have knowledge about EU's SME support policies.

Only 6% of the Small and Medium Sized Enterprises claim that they have full information on the EU support policies towards Small and Medium Sized Enterprises. The rest claims that they either have no information or they heard about it but don't know what they are exactly.

21- What are the effects of being a full member in EU.

Ease of financial funds	2
Level of competitiveness will increase	5
New and advantageous market opportunities will arise	30
Foreigners will take active role in TRNC's economy	9
We will not be able to compete with the European rivals	4

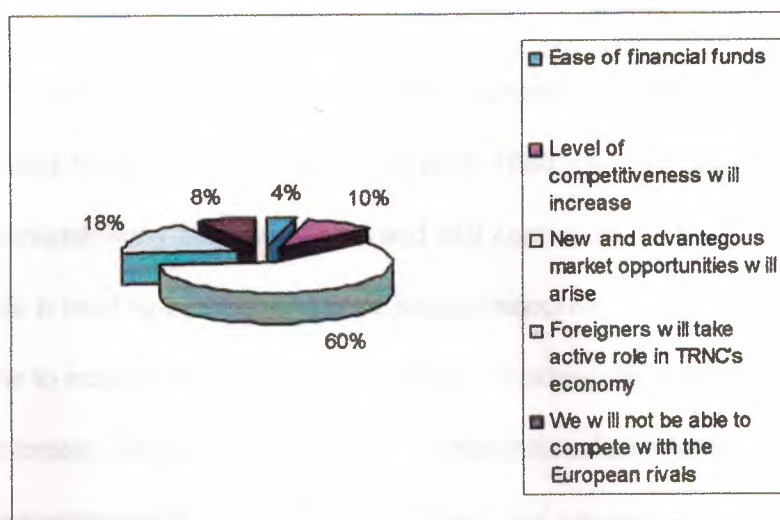


Figure 21: What are the effects of being a full member in EU.

Nearly 60% of the Small and Medium Sized Enterprises state that being a member of EU will have positive effects in several ways. The rest thinks that if this happens, foreigners will become more dominant in the economy of the TRNC.

22- What is your point of view regarding the full membership in EU.

We must enter	15
We must enter but there may be handicaps for us	7
We must not enter	17
I have no clear idea on its effects	11

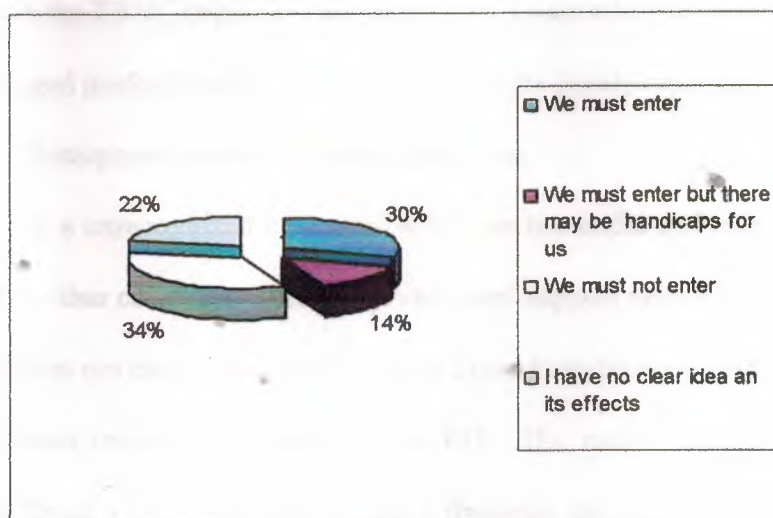


Figure 22: What is your point of view regarding the full membership in EU.

34% of the Small and Medium Sized Enterprises state that we should definitely enter the EU and 30% state that we should enter the EU. However, 22% stated no views in this respect

6. CONCLUSION AND RECOMMENDATIONS

6.1. Conclusion

According to the results of questionnaire, the major impediment to industrial growth and exports seems to be the financial bottlenecks faced by the SMEs in Turkey. In early 1980's and before, bureaucratic procedures also had discouraged many businesspeople and still continuous to be a serious bottleneck, but not as serious as it used to be inadequacy of human resources is not an easy problem to tackle with. It takes time to educate/train people. But, through learning-by-doing this problem can be overcome to some extent. The low degree of use of international standards certificates indicates that still many entrepreneurs's vision is short-sighted and ignores or is unaware of the great opportunities in the foreign markets, especially in the OECD countries. Turkish authorities must formalize policies to encourage and promote the use of international standards.

Small and Medium Sized Enterprises in the TRNC in general are family enterprises which are not institutionalized and they are not managed professionally. Thus, majority of the family members that manage Small and Medium Sized Enterprises are not university graduates.

Small and Medium Sized Enterprises in a unrecognized country, TRNC, are run under difficult financial conditions when compared to other countries. While a government support system for Small and Medium Sized Enterprises does not exist, Small and Medium Sized Enterprises do not apply for international sources, the most important of which is the EU. The main external finance sources Small and Medium Sized Enterprises, whose main financial source is their capital, are commercial banks and development bank. However, Small and Medium Sized Enterprises face great difficulties while receiving credit because of guarantee and high interest rates. Instead of receiving the investment credit needed, Small and Medium Sized Enterprises

can only get enterprise credit. As in general, Small and Medium Sized Enterprises are not managed professionally in financial terms as well. While Small and Medium Sized Enterprises gave positive feedback on the TRNC's entrance to the EU and its possible effects on the Small and Medium Sized Enterprises, it is observed that they don't have much information on the EU's Small and Medium Sized Enterprises support institutions and tools.

6.2. Recommendations:

- Supporting of banks and other institutions wider service to Small and Medium Sized Enterprises,
- Promoting Small and Medium Sized Enterprises to establish new relations (partnership, strategic approaching, sharing foundation etc.) amongst themselves,
- Promotion becoming cooperation in order to answer various needs of the Small and Medium Sized Enterprises,
- Institutionalizing Small and Medium Sized Enterprises in the TRNC by strengthening their organizational structure and supporting their cooperation with KOSGEB and similar institutions in Turkey.
- Organizing training programs that would address the managing and financial problems faced, and
- Supporting improvement of investment and management quality (modern technology, qualified staff).

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8.APPENDIX

AB SÜRECİNDE KOBİ'LERİN FİNANSMAN SORUNLARI ÜZERİNE ARAŞTIRMA

Bu soru formu Yakın Doğu Üniversitesi İktisadi İdari Bilimler Fakültesi İşletme Bölümü son sınıf öğrencisi Sezgin Gündoğdu tarafından KKTC'de faaliyet göstermekte olan KOBİ'lerin incelenmesi amacı ile hazırlanmıştır.

Soru formu aracılığı ile elde edilecek olan bilgiler tamamen bilimsel değerlendirme amacı ile kullanılacaktır.

Değerli vaktinizi ayırarak bu araştırmaya sağladığınız katkılardan dolayı teşekkür ederiz.

1. Kullanmakta olduğunuz finansman kaynaklarını işaretleyiniz. (birden fazla seçenek işaretlenebilir)

- a) Özkaynak b) Ticari banka c) Kalkınma bankası d) Diğer finans kuruluşlar e) Factoring
f) Leasing g) Diğer

2. Şirket varlıkları içinde özkaynak oranını işaretleyiniz.

- a) %0-%20 b) %20-%40 c) %40-%60 d) %60-%80 e) %80-%100

3. Borsaya açılmayı düşünüyor musunuz?

- a) Evet en kısa sürede b) Düşünmüyoruz c) Uzun vadede düşünülebilir

4. Kredi kartıyla ödemeye imkan veren POS kullanıyor musunuz?

- a) Evet b) hayır

5. Bankayla çalışma durumunuz nedir?

- a) Sürekli b) Gerektiğinde c) Bazı dönemlerle d) Çalışmıyor

6. Tercih edilen kredi vadesi nedir?

- a) Kısa vade b) Orta vade c) Uzun vade d) Kredi kullanmıyor

7. Finansman sorunu yaşıyor musunuz?

- a) Yaşanmıyor b) Yoğun olarak yaşıyor c) Kısmi yaşanmakta d) Az miktarda yaşanmakta

8. Kredi bulmakta karşılaştığınız sorunlar nelerdir? (Birden fazla seçenek işaretlenebilir)

- a) Bilanço ve kar/zarar cetvelinin yetersizliği b) Teminat eksikliği
c) Krediler konusunda bilgi yetersizliği d) Finansman kaynaklarının yetersizliği

9. Finansman kaynakları içinde Özkaynak payı nedir?

- a) %20'den fazla b) %21-50 arası c) %51-75 arası d) %76-100 arası

10. Faydanılan dış finansman kaynakları nelerdir? (Birden fazla seçenek işaretlenebilir)

- a) Ticari Banka b) Kalkınma Bankası c) Diğer Finans Kurumları d) Factoring
e) Leasing f) Diğer

11. İşletmedeki özkaynak miktarını yeterli görüyor musunuz?

- a) Yeterli b) Yeterli değil c) Kısa dönemli dış kaynakla yeterli

12. İşletme finansman yetkilisi kim veya hangi bölümdür?

- a) Özel finans bölümü b) İşletme sahibi c) Muhasebe bölümü d) İdari işler bölümü

13. İşletme karı nasıl değerlendirilmektedir? (Birden fazla seçenek işaretlenebilir)

- a) Sermayeye ekleme b) Yeni yatırımlara girme c) Kar dağıtma
d) Repo, hazine bonosu vb. yatırım e) Gayrimenkul alımı

14. İşletmenin kuruluş yılı nedir?

- a) 1941-1950 b) 1951-1960 c) 1961-1970 d) 1971-1980
e) 1981-1990 f) 1991-2000 g) 2001-

15. İşletmede çalışan sayısı nedir?

- a) 1-20 b) 21-50 c) 51-100 d) 101'den fazla

16. İşletmenin kurucusu kimdir?

- a) Tarafımızdan b) Ortaklarla beraber c) Baba tarafından e) Büyükbaba tarafından
f) Devralma g) Diğer

17. İşletmeyi kimler yönetmektedir?

- a) Aile üyeleri b) Ortaklar c) Profesyonel yöneticiler
d) Aile üyeleri-Profesyonel yöneticiler

18. Yöneticilerin eğitim durumu nedir?

- a) İlköğrenim b) Lise c) Üniversite d) Diğer

19. İşletme Üniversitelerden danışmanlık alıyor mu?

- a) Sınırlı sayıda
- b) Yeterince işbirliği sağlıyoruz
- c) Hiçbir işbirliği ve danışmada bulunmadık

20. Avrupa Birliği'nin (AB) KOBİ'lerle ilgili destekleme politikalarını biliyormusunuz?

- a) Evet tam olarak biliyorum
- b) Hayır, hiçbir bilgim yok
- c) Duydum ama tam olarak bilgim yok

21. Sizce AB'ye girmenin yaratacağı etkiler nelerdir?

- a) Finansman kolaylığı sağlayacak
- b) Rekabet olanakları artacak
- c) Bizim için avantaj yaratacak Pazar imkanları doğacak
- d) Yabancılar KKTC ekonomisinde etkin hale gelecekler
- e) Avrupalı rakipler karşısında rekabet edemez durumda kalacağız

22. AB'ne girilmesi hakkında düşünceleriniz nelerdir?

- a) Mutlaka girilmeli
- b) Girilmeli ama bizim için engel
- c) Kesinlikle girilmeli
- d) Etkileri konusunda tam bir görüş sahibi değilim