



SCREENING CHAPTER 20  
ENTERPRISE AND INDUSTRIAL POLICY

**AGENDA ITEM VI: BANKING AND FINANCE**

**Country Session: The Republic of TURKEY**  
**04-05 May 2006**



# CONTENT

- **Policy Documents**
- **Consultation Mechanism**
- **Institutions Involved**
- **Financing Methods**
  - **Equity Finance**
  - **Bank Lending**
  - **Public Support Programmes**

## POLICY DOCUMENTS

### 8<sup>th</sup> Five Year Development Plan

#### Development of SMEs

##### Objectives, Principles and Policies:

- To provide necessary facilities to increase the share of the SMEs within the overall credit volume of the banking system.
- To back up SMEs by modern financing instruments and institutions, which is in harmony with the capital and financial markets.
- To improve financing facilities such as credit guarantee funds, risk capital, financing investment partnerships.

##### Legal and Institutional Arrangements:

- To enable SMEs to offer stocks and bonds within the capital market
- To strengthen the credit guarantee fund, ensure its widespread use and increase contribution of the state.
- To take measures for improvement of the risk capital system.



## **POLICY DOCUMENTS (CONT'D)**

### **Medium Term Programme (2006-2008)**

#### **Developing the Competitiveness of Enterprises:**

- Access to finance by entrepreneurs and enterprises will be facilitated by diversification of financial instruments.

### **Annual Programme 2006**

#### **Improvement of Competitiveness**

- More extensive use of venture capital model will be ensured,
- Intermediation and specialisation of investment and commercial banks for SME support will be encouraged.



## **POLICY DOCUMENTS (CONT'D)**

### **SME Strategy and Action Plan (under revision)**

#### Improvement of Taxation and Financial Matters:

- Strengthening the capital structure of Credit Guarantee Fund and expanding its activities.
- Increasing the resources of SME financing system including the funds from relevant EU programmes.
- Bringing those with project ideas and capital together.
- Carrying out research on SMEs' financial structure and financing facilities and developing appropriate financing models.
- Improving public support to SME investments.
- Encouraging young and women entrepreneurs in their employment generating activities with special projects and credit programmes.

## CONSULTATION MECHANISMS

### Coordination Council for Improvement of Investment Environment

- SME Technical Committee (2002)

Among other issues “access to finance for SMEs” was given special emphasis by the Committee and “Finance Sub Working Group” was established.

- Corporate Governance Technical Committee (2006)

Enabling SMEs’ better access to finance by enhancing the corporate governance is among the major objectives of the Committee.



## INSTITUTIONS INVOLVED

Institutions	Functions
Capital Market Board	Regulating the establishment and operations of markets in which SMEs can obtain funds, regulating venture capital investment trusts.
Undersecretariat of Treasury	Encouraging investments of SMEs, obtaining credits from international financial institutions for onlending to investment and development banks and providing reimbursement guarantees for foreign debt taken from international financial institutions.
Technology Development Foundation	Supporting technology development projects, providing venture capital and start-up support for technology projects.
Halkbank	Providing credit for SMEs.
Credit Gurantee Fund	Providing guarantees for credits of SMEs.
KOSGEB	Providing support to SMEs.



## FINANCING METHODS

### Equity finance

- Venture Capital Investment Trusts
- Growing Enterprises Market
- Istanbul Stock Exchange's Markets for SMEs





## Venture Capital Investment Trusts (VCITs)

### Communiqué on Principles Regarding VCITs Serial : VI No : 15 (Capital Market Board, January 2004)

Purpose of the regulation is to set the principles regarding;

- the founders and formation procedures of VCITs,
- registration to the Capital Market Board (CMB) and public offering of venture capital investment trusts' shares,
- management and the required qualifications of the managers,
- scope of activities,
- portfolio restrictions,
- disclosure requirements of venture capital investment trusts.



## Venture Capital Investment Trusts (CONT'D)

- Incorporated as a registered capital company,
- Invest in venture capital investments such as venture firms that were established or will be established in Turkey and have potential for growth and need resources,
- Initial capital must be at least € 3,000,000 (*If the shares of VCITs are sold only to sophisticated investors, initial capital must be at least € 600,000.*),
- VCITs cannot invest more than 50% of their portfolio value on securities other than the ones issued by venture firm,
- Shares of VCITs are traded on exchanges,
- VCITs are authorised for the establishment and portfolio management by the CMB and its shares must be registered by the CMB,
- The shares may either be sold to individual or sophisticated investors, for sophisticated investors some requirements in the Communiqué may be waived.



## Venture Capital Investment Trusts (CONT'D)

### Tax Advantages

- Exempt from corporate tax.
- Portfolio administration gains are not subject to withholding tax.
- Capital gains are subject to 15% withholding tax at investor level. If the shares of the VCITs are held for more than 1 year, they will not be subject to 15% withholding tax.



## Venture Capital Investment Trusts (CONT'D)

### VCIT Markets In Turkey

- Two companies whose shares are currently traded at Istanbul Stock Exchange (ISE) : Is Risk VCIT and Vakif Risk VCIT.
- The total portfolio value of these VCITs are € 69 million (March 2006).
- KOBI A.S. VCIT has obtained establishment license but its shares are not being traded on ISE yet.



# Venture Capital Funds

## Technology Development Foundation of Turkey (TTGV)

### • Venture Capital Funds

(TTGV) is one of the leading investors in establishment of two private venture capital funds. It was instrumental in attracting other partners and launching the funds.

- ✓ Is Risk VCIT : invested in 6 promising firms (€ 23 million)
- ✓ Turkish Private Equity Fund: invested in 5 promising firms (€ 36 million, 2006 target)

### • Own start-up fund: (TTGV Venture Fund)

- ✓ A seed venture capital fund investing in early stage start-up technology companies.
- ✓ Investment areas: Information, Communications Technology, Life Sciences (Biotechnology and Healthcare), Advanced Microelectronics, Advanced Material (Polymers, Semi-Conductors, Composite Materials, etc.)



## Growing Enterprises Market

CMB is authorised to make regulations regarding the establishment of markets that will give the opportunity to SMEs for raising funds from the capital markets;

### **By-law on the Establishment and Working Principles of Off-exchange Organised Securities Markets (2003)**

- The aim is to provide liquidity for the issued capital market instruments in an organised market,
- A market dedicated solely to SMEs,
- Matching local investors and local companies.



## Growing Enterprises Market (CONT'D)

- Organised over the counter market,
- Nasdaq Model,
- An electronic trading platform,
- Market making system in order to solve the problem of insufficient liquidity,
- A joint stock corporation managing and operating the market, to ensure fair and orderly functioning,
- More flexible listing requirements compared to Istanbul Stock Exchange,
- Shares, corporate bonds and other capital market instruments are tradable.

## Growing Enterprises Market (CONT'D)

- The establishment of the “*Growing Enterprises Market Joint Stock Corporation*” to manage and operate the market was approved on 13 August 2005 and final procedures of the establishment was completed on 30 December 2005.
- The capital of the corporation is € 6 million.
- The shareholders :
  - ✓ Association of Capital Market Intermediary Institutions (5.00%)
  - ✓ Union of Chambers and Commodity Exchanges (5.00%)
  - ✓ KOSGEB (5.00%)
  - ✓ Takasbank (Turkish Clearing and Settlement Org.) (2.75%)
  - ✓ 7 banks and 44 brokerage houses (82.25%)



## Growing Enterprises Market (CONT'D)

- The Growing Enterprises Market Joint Stock Corporation has to apply to the CMB at the latest in one year in order to get an *operating permit*. When necessary, this period can be extended up to one year,
- At the time of application the necessary arrangements for the technical infrastructure and the rules and regulations of the market have to be prepared,
- The Growing Enterprises Market should begin to operate in one year after the operating permit.

## **Istanbul Stock Exchange's Markets For SMEs**

To encourage the SMEs' access to the equity markets, quantitative listing requirements of the market have been abolished in 2001. After fulfilling all disclosure requirements, the companies, which are considered eligible in terms of potential trading volume, are listed on the market by the decision of the ISE Board of Directors.

- **Second National Market**

- ✓ Currently the number of listed companies is 16.

- **New Economy Market**

- ✓ Currently the number of listed companies is 3.

- ✓ The market is designed for the telecommunication, information technologies, electronic, internet, computer manufacturing, software and hardware, media and technology companies with growth potential.



## FINANCING METHODS

### Bank Lending

- Subsidised Credits via Halkbank
- International Credit Facilities
- Credit Guarantee Fund (CGF) and Central Union of Turkish Tradesmen and Craftsmen Credit Guarantee Cooperatives (TESKOMB)



## **Subsidised Credits via Halkbank**

Almost all banks offer credits for SMEs at market rates, but Halkbank is established as a specialized bank in SME Credits.

## **Cooperative Credits**

For craftsmen as defined in Law on Craftsmen and Artisans Professional Organisations (No. 5362) who are members and obtain the guarantee of the Craftsmen Credit and Guarantee Cooperatives.

- Interest rate is 65% of the commercial interest rate.
- The difference is subsidized by Treasury.
- Exempt from banking and insurance transactions tax.
- A guarantee limit is determined for each cooperative and members can borrow up to that limit.



## **Subsidised Credits via Halkbank (CONT'D)**

### **SME Credits**

- Medium and long-term credit for fixed asset investments and working capital needs of SMEs operating in the manufacturing industry.
- Interest rate equals to the commercial rate.
- Exempt from banking and insurance transactions tax.
- Minimum 2, maximum 5 years maturity for investment credits, and 4 years maturity for working capital credits.
- 1 year grace period.

## Subsidised Credits via Halkbank (CONT'D)

### Entrepreneur Credits

- Maximum maturity 24 months, maximum amount € 3,000.
- Interest rate equals to the commercial rate.
- Sub-programmes:
  - ✓ Young Entrepreneurs Loans,
  - ✓ Post Military Service Loans,
  - ✓ Disabled Entrepreneurs Loans,
  - ✓ Martyrial Families Loans,
  - ✓ Disabled Ex-Officer Loans.

# International Credit Facilities

## Legal Framework

Law No 4749, on Regulating Public Finance and Debt Management (2002)

- **Onlending of Foreign Credit**

Foreign financing obtained from any source by the Undersecretariat of Treasury, and onlent to the public agencies and establishments not included in the general budget and to investment and development banks without being bound by the terms and conditions of the related agreement, in order to promote development in various sectors of the economy and/or to meet the financial requirement.

- **Treasury Reimbursement Guarantee**

Guarantees provided for reimbursement of foreign debts taken from foreign financing facility by state economic enterprises, establishments subject to provisions of private law with more than 50% their capital belonging to the state, funds, state banks, investment and development banks, municipalities and establishments affiliated to municipalities, and other local government agencies.



**TOTAL SME CREDITS GRANTED BY MAJOR INTERNATIONAL FINANCIAL INSTITUTIONS (IFIs) TO BANKS UNDER TREASURY GUARANTEE OR BY ONLENDING (1960-2005)**

<b>Major IFI's</b>	<b>Total Credit Amount* (Mio Euro)</b>	<b>Share (%)</b>
<b>European Investment Bank (EIB)</b>	<b>1,578.2</b>	<b>33.1</b>
Council of Europe Development Bank (CEB)	297.7	6.3
<b>World Bank (WB)</b>	<b>2,467.2</b>	<b>51.8</b>
Japan Bank for International Cooperation (JBIC)	200.0	4.2
German Development Bank (KfW)	219.2	4.6
<b>TOTAL</b>	<b>4,762.3</b>	<b>100.0</b>

(\* ) As of 31 December 2005.

Source: Treasury





**TOTAL SME CREDITS GRANTED BY MAJOR INTERNATIONAL FINANCIAL INSTITUTIONS (IFIs) TO BANKS UNDER TREASURY GUARANTEE OR BY ONLENDING (2000-2005)**

<b>Major IFI's</b>	<b>Total Credit Amount (Mio Euro)</b>	<b>Share (%)</b>
<b>European Investment Bank (EIB)</b>	<b>1,089.6</b>	<b>45</b>
Council of Europe Development Bank (CEB)	203.3	8.4
<b>World Bank (WB)</b>	<b>951.7</b>	<b>39.3</b>
Japan Bank for International Cooperation (JBIC)	150.8	6.2
German Development Bank (KfW)	25.9	1.1
<b>TOTAL</b>	<b>2,421.3</b>	<b>100.0</b>

Source: Treasury

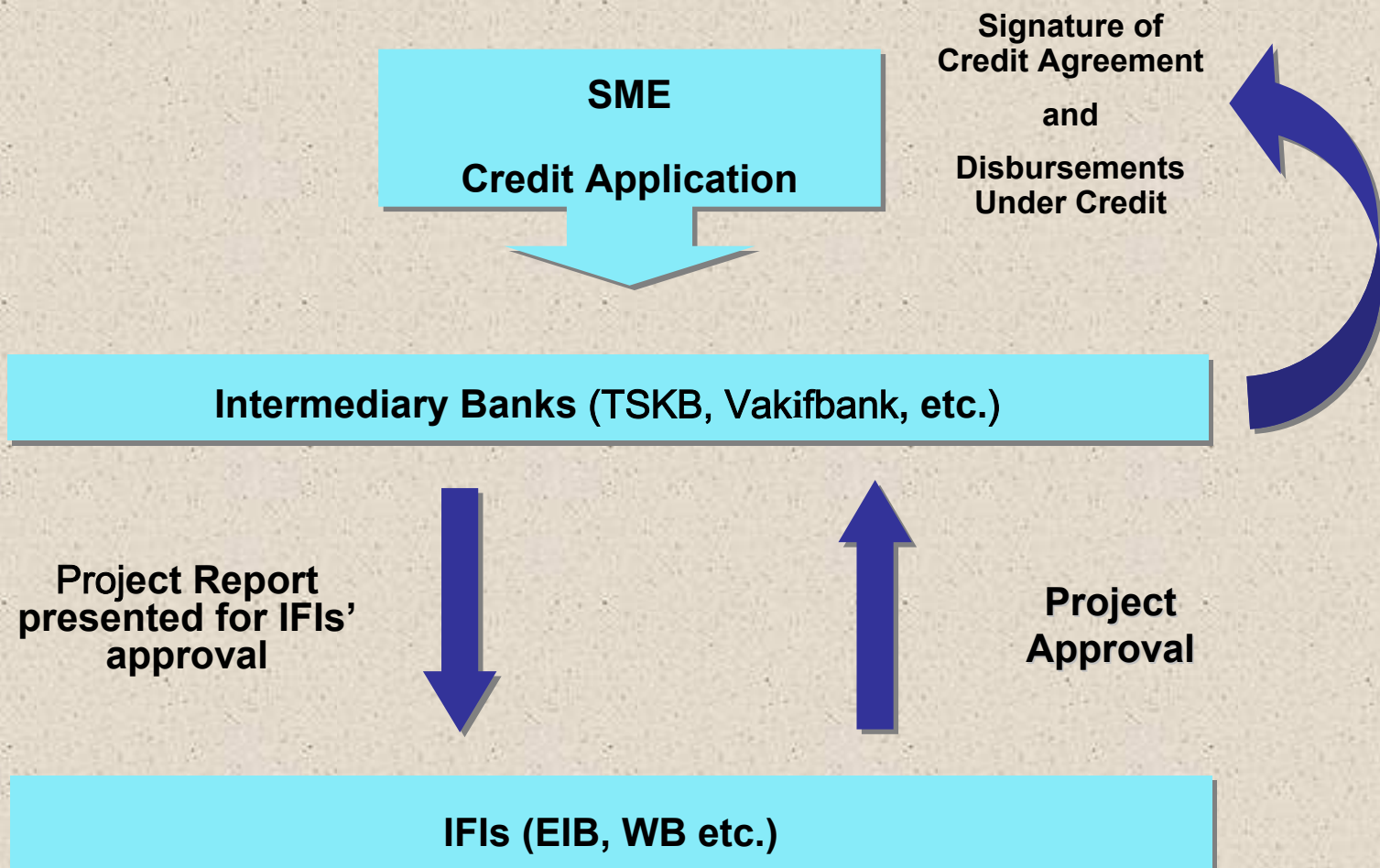


## International Credit Facilities (CONT'D)

### Two Major Types of SME Loans

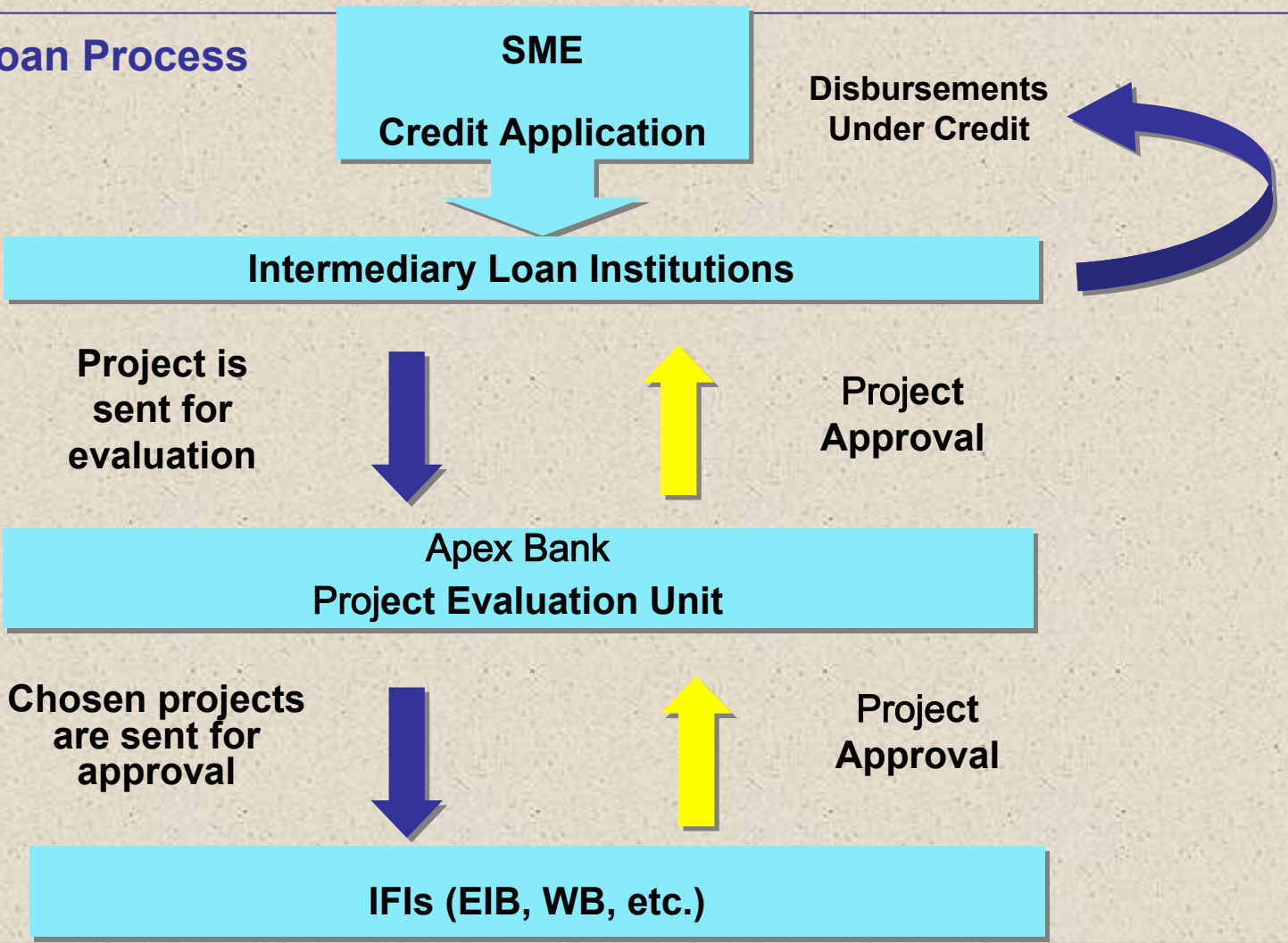
- SME Intermediary Loans
- SME APEX Loans

## SME Intermediary Loans Process





### SME Apex Loan Process



## Credit Guarantee Fund

- Credit Guarantee Fund (CGF) is a joint stock company established in 1991 to provide guarantees to any kind of SME credits,
- CGF works with financial intermediaries: Eleven banks and two financial leasing corporations.

### Conditions:

- CGF gives guarantees up to 80% of the credit.
- For the guarantee demands which exceed 200,000 Euro, up to 70%.
- Guarantee limit is 400,000 Euro per enterprise.
- The maximum maturity of the guarantee is 8 years.

## Credit Guarantee Fund (Cont'd)

### State and European Investment Fund (EIF) Support for CGF:

- Funds provided from KOSGEB to the Liability Fund.
- Undersecretariat of Treasury provides counter-guarantee support in 50% for SME Incentive Loans.
- CGF is exempt from Corporation Tax.
- CGF operations are exempt from VAT and Stamp Duty.
- CGF guarantees are counter-guaranteed by EIF, up to 50%.



## Central Union of Turkish Tradesmen and Craftsmen Credit Guarantee Cooperatives (TESKOMB)

- Founded to find effective and continuous solutions for tradesmen and craftsmen's financial problems,
- Currently TESKOMB has 32 regional unions and 899 cooperatives,
- Guarantees 100% of the credits allocated by Halkbank for cooperative members,
- Credit limit for this programme is € 15.000 and maturity period changes between 1-60 months.



## **FINANCING METHODS**

### **Public Support Programmes for Financing SMEs**

- Undersecretariat of Treasury Support Programme
- KOSGEB Support Programme





## **Undersecretariat of Treasury Support Programme**

### **Title of the programme**

Aids Granted to SMEs' Investments

### **Legislation related to the programme**

Decree for State Aids in Investments of SMEs (December, 2000)

### **Objective of the programme**

To encourage the investments of SMEs, increase production and improve quality standards, increase employment and competitiveness.

## Undersecretariat of Treasury Support Programme (CONT'D)

### Credit allocation

Maximum amount of credit as a percentage of fixed investment cost in the manufacturing and agro-industry sectors :

	Priority Development Region	Normal Region	Developed Region
Micro-size companies	60%	50%	40%
Small-size companies	50%	40%	30%
Medium-size companies	40%	30%	20%

#### Maximum amounts:

€ 288,000 for investment credits,  
€ 45,000 for working capital credits,  
€ 288,000 for investment credits and € 115,000 for  
working capital credits when both types of credit  
are allocated together.

#### Maximum maturity period:

4 years for investment credits (one  
year grace period),  
2 years for working capital credits.



## Undersecretariat of Treasury Support Programme (CONT'D)

### Partial Compensation of the Losses of “Credit Guarantee Companies” by Treasury:

- to help develop and widespread the credit guarantee mechanism to SMEs' loans.
- 50% of the total losses incurred by credit guarantee companies in a calendar year regarding the credits in connection with investment projects having an “Investment Incentive Certificate” can be compensated by Treasury.
- Compansated amount can not exceed 10% of the guarantees supplied by the credit guarantee company in that year.



## **KOSGEB Support Instruments**

### **New entrepreneur support**

Provision of support to new entrepreneurs who have established their enterprises in the previous year,

- the non-reimbursable support that will be provided for initial expenses in establishing a business is € 2,400.
- for the fixed expenses of the new entrepreneurs; the maximum amount of support for the machinery-equipment and office hardware is € 24,000, which is collected in 24 months in 6-months periods, with 12 months grace period. If the machinery-equipment are purchased by means of financial leasing, the maximum amount of support is € 6,000.
- New entrepreneurs can benefit from this support for one enterprise only.



## KOSGEB Support Instruments (CONT'D)

### Credit Support Programme:

- Since 2003 within the context of protocols signed between KOSGEB and 3 public banks (Halkbank, Vakıfbank and Ziraat Bank), KOSGEB supports SMEs by subsidizing interest rate of credits given by the intermediary banks.
- Credit is provided by the banks from their own sources, but interest expenses are financed partially or fully by the budgetary sources of KOSGEB.
- The programme covers SMEs' investment, working capital and export credits.



**THANK YOU FOR YOUR ATTENTION**