

İSTANBUL BİLGİ UNIVERSITY

INSTITUTE OF SOCIAL SCIENCES

**Export Incentives Provided to the Small and Medium Sized
Enterprises: Evidence on KOSGEB**

**SUBMITTED by
Tülay Buğur
104664030**

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Approved by:

**Oral Erdoğan
Head of Department**

**Oral Erdoğan
Dissertation Supervisor**

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TÜLAY BUĞUR
104664030

Tez Danışmanının Adı Soyadı (İMZASI) : Prof.Dr.Oral ERDOĞAN

Jüri Üyelerinin Adı Soyadı (İMZASI) : Prof.Dr.Ahmet SÜERDEM

Jüri Üyelerinin Adı Soyadı (İMZASI) : Okan AYBAR

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Statement of Originality

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Name: TÜLAY BUĞUR

Signed: _____

Date: 20.06.2007

ABSTRACT

EXPORT INCENTIVES PROVIDED TO THE SMALL AND MEDIUM SIZED ENTERPRISES: EVIDENCE ON KOSGEB

Tülay Buğur
Istanbul Bilgi University, 2007
Supervisor: Prof. Dr. Oral Erdoğan

The small and medium-sized entrepreneurs play a critical role the economy of Turkey. They have significant contributions to the GDP and employment. The government's support for small and medium sized enterprises dates back to 1970s and has intensified in the last decade. The major goal of the incentives is to increase the contribution of SME's to overall output, employment and exports.

The objective of this paper was to study the export incentives provided to SMEs in Turkey with a specific focus on supports of KOSGEB. First, general export incentives granted to businesses were introduced, then the case of SMEs was studied and supports provided by KOSGEB were analyzed. Finally, to have a better understanding of the process of KOSGEB's supports, a company called DOĞA BİTKİSEL ÜRÜNLER SANAYİ ve TİCARET A.Ş.'s performans have been analysed before and after supported by KOSGEB. We found that supports of KOSGEB increased the performans of the company for producing a new product and penetrating into a big market in abroad.

ÖZET

KÜÇÜK-ORTA BOY SANAYİCİLERE SAĞLANAN İHRACAT TEŞVİKLERİ: KOSGEB ÜZERİNE BİR ÇALIŞMA

Tülay (Özdemir) Buğur
Istanbul Bilgi University, 2007
Supervisor: Prof. Dr. Oral Erdoğan

Küçük ve orta boy işletmeler Türk Ekonomisi'nde kritik bir rol oynarlar. Gayrisafi Milli Hasılaya ve istihdama önemli katkıları vardır. Devletin küçük ve orta boy işletmelere desteği 1970'li yıllara kadar uzanır ve son on yılda yoğunlaşmıştır. Teşviklerin temel amacı KOBİ'lerin toplam üretime, istihdama ve ihracata katkısını artırmaktır.

Bu çalışmanın amacı, KOSGEB'in sağlamış olduğu desteklere özel vurgu yaparak, Türkiye'de KOBİ'lere sağlanan ihracat teşviklerini incelemektir. Öncelikle işletmelere sağlanan genel ihracat teşviklerine değinildi, sonra KOBİ'lerin durumu incelendi ve KOSGEB tarafından sağlanan destekler analiz edildi. Son olarak, KOSGEB desteklerinde izlenen sürecin daha iyi anlaşılabilmesi için KOSGEB tarafından desteklenen bir şirket olan DOĞA BİTKİSEL ÜRÜNLER SANAYİ ve TİCARET A.Ş.'nin destek öncesi ve sonrası performansı incelendi. KOSGEB'den aldığı finansal destek sonrasında, firma yepyeni bir ürün piyasaya çıkarmış ve yurtdışındaki büyük bir pazara girmiştir.

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ABBREVIATIONS

GDP :Gross Domestic Product

SME :Small and Medium Enterprises

SPO :State Planing Organisations

VAT :Value Added Tax

IPR :Inward Precessing Regime

UFT :Undersecretariat of Foreign Trade

GNP :Gross National Product

GSEU:General Secretariat of Exporters Union

TSE :Türk Standartları Enstitüsü

KGF :Kredi Garanti Fonu

TPE :Türkiye Patent Enstitüsü

DTM :Dış Ticaret Müsteşarlığı

TTGV :Türk Teknoloji Geliştirme Vakfı

İGEME:İhracatı Geliştirme Merkezi

KOSGEB:Küçük ve Orta Ölçekli Sanayicileri Geliştirme Birliği

1. INTRODUCTION

Export subsidies are a means of government intervention into foreign trade. The major objective of this kind of intervention is to improve the balance of payments **account** of a country. Balance of payments systems of many developing, countries are problematic widely due to imports higher than exports. Countries, which seek to avoid experiencing economic problems based on deficits in foreign trade **account**, pursue policies to strengthen competitive power of their national industries so that the gap between exports and imports become positive.

Developed countries dominate the majority of the international goods and services markets, which require capital-intensive production and service systems and high technology. When compared to firms of developing countries, those of developed countries are competitively stronger because of higher R&D investments, more patent and license rights, strategic and complex marketing techniques that require rich financial resources, advanced communication technologies, modern transportation means, depth of financial markets, and know-how. Thanks to competitively stronger companies, developed countries control two-third of overall world trade.

To increase competitive power of their industries and to have higher shares in international trade, governments of developing **and emerging economies** implement various measures. One of these measures is to support their industries which export goods and services. Export subsidies and incentives are not only applied by developing countries but also by developed ones. But since balances of payments of developing nations are worse than that of developed nations, such policies are commonly used by the former group of economies.

The principal goal of this study was to generally investigate major export incentives and to specifically analyze export incentives provided by the Small and Medium Industries Development Organization (KOSGEB) in Turkey. The secondary objectives, methodology and limitations of the research were explained in the following sections. The units following these parts constitute the main body of the paper, which introduced

general state incentives for exporters and case study of a Turkish companies enjoying supports of KOSGEB for her exporting efforts.

1.1. Research Objectives

The general objective of this study was to investigate primary export incentives most commonly provided by governments to promote exports. The literature had been reviewed and basic export incentives were shortly introduced. The specific goal of the study, on the other hand, was to examine export incentives granted by KOSGEB (Small and Medium Industry Development Organization) in Turkey. Thus, KOSGEB was studied and its structure, incentives and activities were introduced.

The importance of the role of KOSGEB in supporting small and medium sized enterprises has rapidly increased in recent years and the range of supports the organization providing has broadened in favor of enterprises aiming at launching exports or increasing their exports. The enterprises who indicate their short-term objectives as starting exporting or increasing their exports are granted with a larger portfolio of supports when compared to those which do not aim at exporting. In other words, many incentives and supports of KOSGEB are given to organizations and entrepreneurs whose objective is to start exporting or to increase exporting. In this regard, supports provided by KOSGEB can be evaluated as direct or indirect incentives for exports.

1.2. Research Methodology

To attain the general objective of the research, which is to identify major state incentives, many written documents and materials including recently published books and articles were reviewed and summarized. Furthermore, relevant web pages, usually official Web Pages of State Organizations such as the Undersecretariat of Foreign Trade and the Small and the Medium Industry Development Organization (KOSGEB), were examined to draw a theoretical frame. Based on these efforts, general state incentives for exports, such as quotas, tariffs, and marketing incentives and so on, were introduced in the second part of the study.

After studying state incentives for exports in a general sense, the part introducing KOSGEB was prepared. To explain the establishment, the structure and main incentives of KOSGEB, the written documents and the Web Page of the organization were reviewed. Many of the documents available were in Turkish, so they were translated into English. The goals and organizational structure of KOSGEB were explained based on official data drawn from the WEB Page in question and laws and regulations regarding to KOSGEB.

To help the reader in having a deeper and clearer understanding of incentives and processes of receiving incentives of KOSGEB case of a Turkish company, which has recently been granted with some supports of KOSGEB was studied. The company was chosen according to advices and reference of Mustafa Kaplan, who is the manager in charge in İkitelli Branch of KOSGEB. Mustafa Kaplan guided to establish contact with the nearest KOSGEB Branch, which is located in Bogaziçi University, and the manager of KOSGEB Branch in Boğaziçi University helped the researcher in choosing a company that is a good representative of industrialists supported by KOSGEB and in establishing initial contact with the company under research.

To prepare a case study of the company, various company documents such as brochure and catalog were reviewed. The history of the company and its situation before the supports were studied based on the information collected via the sources mentioned above. Furthermore, an in-depth interview with open-ended questions was applied to the marketing manager of the company and the situation before and after the application to KOSGEB was investigated under the lights of her answers. Notes taken from the interview and information collected from written company resources were brought together and the case study of the company was completed.

There have been some valuable sources of information and guidance for case study methodologies. Hamel (Hamel et al., 1993), Stake (1995), and Yin (1984, 1989a, 1994) in particular have provided specific guidelines for the development of the design and execution of a case study. This researcher examines the proposed methodology for the development of survey instruments. This aspect is an important element of the data gathering function in the study.

Case study is a valuable method of research, with distinctive characteristics that make it ideal for many types of investigations. It can also be used in combination with other methods. Its use and reliability should make it a more widely used methodology, once its features are better understood by potential researchers.

A frequent criticism of case study methodology is that its dependence on a single case renders it incapable of providing a generalizing conclusion. [Yin](#) (1993) presented Giddens' view that considered case methodology "microscopic" because it "lacked a sufficient number" of cases. The goal of the study should establish the parameters, and then should be applied to all research. In this way, even a single case could be considered acceptable, provided it met the established objective.

In our case study, how and why the company needed to apply for KOSGEB's supports and how their request was processed and to what extent their request was met by the Organization was explained. Furthermore, the Musli Bar Project of the company, which was initiated after receiving the supports demanded was introduced and the internationalization process of the company and its first export experience were analyzed. As a result, the single case study of the company in question provided some useful insights into the general process of KOSGEB's supports and how a Turkish industrialist company may overcome the problem of raising funds for its investments and/or AR-GE activities via the state incentives granted by KOSGEB.

1.3. The Scope of the Research

The scope of the state incentives for exporters is defined according to these available resources. The resources related to development of state supports for exporters are usually out-of-date. This is one limitation of the study. The researcher sought to overcome this limitation by introducing most recent incentives presented in current web pages of state bodies in charge of incentives for exporters.

Another limitation of the study was occurred in the case study of the company supported by KOSGEB. The company is a corporation operates in Turkish healthy food industry. To be a manufacturing company is a must to receive incentives of KOSGEB.

KOSGEB does not support service companies. The only exception is software companies which were regarded as high technology producing enterprises. The case of company selected for this study gives an idea about how the process of granting incentives operates in KOSGEB supports. Even though the company under question was considered as to be a good representative and the processes of applying, receiving and utilizing KOSGEB's supports are similar to each other in different supports, still some incentives are out of consideration in the case study and need further examples to remove imperfections in understanding.

2. EXPORT INCENTIVES IN GENERAL

Rise in exports is a very desirable development in an economy, because it fastens economic growth and raise per capita income. Many countries seek to increase their exports via a number of foreign trade policies. Export subsidies are most commonly used foreign trade policies aiming at increasing exports. Export incentives can be grouped under five major categories even though they show some differences depending on conditions of countries implementing them (Kemer, 2003, p. 39):

1. Tariffs and Quotas
2. Export Premiums
3. Fiscal Incentives
4. Financial Incentives
5. Marketing Incentives

2.1 Tariffs and Quotas

The objectives of tariffs and quotas usually are to protect infant domestic industries from fierce international competition. Tariffs are taxes charged for imported goods. Tariffs can be calculated based on two methods; *ad valorem* (a certain percentage of value of imported goods) or *specific value* (a certain amount per unit). *Customs tariffs* are a list of tariff rates with respect to particular goods.

Tariffs are usually charged for imported consumption goods. In many developing countries, tariffs are also used as a source of public finance. Tariffs cause rises in prices of imported goods. As a result, domestic producers have an opportunity of price competition.

Quota is a government-imposed restriction on quantity, or sometimes on total value. An *import quota* indicates maximum amount of an import per year, typically administered with import licenses that may be sold or directly allocated, to individuals or firms, domestic or foreign. Quotas may be *global*, *bilateral* or by *country*.

A *global quota* is an import quota that shows the permitted quantity of imports from all sources combined. This may be without regard to country of origin, and thus available on a first-come-first served basis, or it may be allocated to specific suppliers. A *bilateral quota* is an import (or export) quota applied to trade with a single trading partner, specifying the amount of a good that can be imported from (exported to) that single country only. Finally, a *quota by country* is a quota that specifies the total amount to be imported (or exported) and also assigns specific amounts to each exporting (or importing) country.

2.2 Export Premiums

Export premium system is commonly implemented when national currency overvalues and import limitations and tariffs are available. Exports premiums are payments made to encourage and protect domestic exporters. Such premiums are usually paid to manufacturer-exporters. But, non-manufacturer exporters and non-exporter manufacturers can also receive export premiums. Export premiums allow exporters to sell lower-priced goods (even lower than costs in some cases) in international markets (Kemer, 2003, p. 40).

2.2.1 Right to Keep Foreign Exchange

In some developing countries exporters are required to convert the foreign exchange they gain as a result of their exports into national currency. In this way, foreign exchange reserves of overall economy are accumulated. In some developing and developed economies, on the other hand, the exporters are granted with a right of keeping a particular proportion of their foreign trade gains as foreign exchange in their account. If the exporter bought imported raw materials and/or intermediate goods, such a right would eliminate transaction and commission costs that would occur in converting currencies. In Turkey, exporters are allowed to keep 30% of their export income in foreign currency if they transfer their income into the country within 90 days after the export.

2.2.2 Foreign Exchange Allocation

In this kind of the export premium system, which is also called “Special Imports License System”, exporters are allowed to import raw materials and intermediate goods as specific percentage of their export income. In this way, the exporter has a chance of rapid and economical imports of inputs that are used in production.

2.2.3 Multiple Foreign Exchange Rate System

In this system, the government determines different foreign exchange rates for different foreign trade transactions. In imports of raw materials and intermediate goods, low foreign exchange rates are implemented whereas in imports of luxury goods and goods that are produced by an infant domestic industry relatively higher foreign exchange rates are implemented.

2.2.4 Exports Bonds and Certificates

Export bonds and certificates are documents granted to the exporters for their export income official registered. Exporters are able to sell these bonds and certificates to other companies. The value of the documents increase parallel to an increase in contribution of the exporter to value chain of the product exported and volume of export income brought to the country. As result, value of an export bond or certificate exceeds its face value and makes a premium. The premium generated in this way is regarded as an export incentive.

2.3 Fiscal Incentives

Bonded warehouses or free zone and tax discount, tax exemption, and tax refunds are two main groups of fiscal incentives provided for exporters (Kemer, 2003, p. 42).

2.3.1 Bonded Warehouse or Free Zone

Free Zones are defined as special sites within the country but deemed to be outside of the customs territory and they are the regions where the valid regulations related to foreign trade and other financial and economic areas are not applicable, are partly applicable or new regulations are tested in. Free Zones are also the regions where more convenient business climate is offered in order to increase trade volume and export for some industrial and commercial activities as compared to the other parts of country. Goods brought to free zones from abroad are not regarded as “imports”. No custom tax is charged for these goods. Furthermore, no trade-restriction measures such as anti-dumping tax, quota etc. can be applied in these regions. Boundaries of free zones are well-defined and inflows and outflows of goods are strictly controlled in these areas. Goods sold to domestic markets of country hosting free zones are registered as “imports” whereas goods sold to foreign markets are identified as “exports”.

Even though there are some common features such as “being deemed to be outside of the customs territory” and “being places where some special incentives are applied”, there are differences in free zone implementations according to the countries’ economic and trade policies, social and political situations. As a result of these differences there is diversity in the terminology of free zones. There are approximately 20 terms that are used to define free zones. Some of these terms are: Free zone, free port, customs free zone, export processing zone, foreign trade zone, free economic zone, free production zone, free trade zone, industrial free zone, maquiladora, special economic zone, tax free zone, customs free airport, foreign access zone (<http://www.dtm.gov.tr>).

2.3.2 Tax refunds, tax discounts and tax exemptions for Exports

This group of incentives is widely provided for goods with high export potential. Tax paid by exporters for exports are partially or entirely repaid by the government to support exporters and encourage further exports. Another way of supporting exporters is to provide tax exemptions, tax exceptions and tax discount. Export incomes are partially or completely exempted from corporate taxation in many countries and investment

incentives and opportunity of fast depreciation are provided to promote exports. The success of this system depends on price elasticity of demand for goods supported.

2.4 Financial Incentives

A government can grant many financial incentives for various reasons. It may grant financial aids for expenditures of exporters in fields of investment, R&D activities, new employment, purchasing capital goods, building brand awareness in foreign markets etc. Such financial aids are usually granted with no repayments or repaid with zero interest rates within medium term.

In addition to the financial incentives stated above, there are some other financial incentives usually in the form of export credits or insurance payments. Subsidized export credits and insurance for export credits are two basic instruments used as financial incentives in many economies.

2.4.1 Subsidized Export Credits

In this system, export credits with low or no interest rates are provided for exporters. The credits may have long or short repayment periods. The primary objective of export credits is to decrease financing costs of exporters (Kemer, 2003, p. 46). Export credits are very valuable incentives if tight monetary policy is implemented and interest rates are high in an economy. Because the cost of financing is quite high in such cases.

2.4.2 Insurance for Export Credits

In this incentive system, the government provides exporters with low-cost export credits and insurance of the credits at the same time. This system, which is based on credit insurance, is widely used in developed countries (Kemer, 2003, p. 46).

2.5 Marketing Incentives

Exporters of developing countries allocate a significant proportion of their financial resources for operation of their business and production and are not able to allocate budgets for core marketing and advertising activities. To deal with this problem, the government provides incentives for promotion activities of goods with export potential. In this sense, the government grants incentives for participation in international fairs, advertising in foreign media, registration of trademark in foreign countries, opening new branch or shops in abroad, and so on.

3. EXPORT INCENTIVES IN TURKEY

One of the most significant economic events of the last few decades has been the shift in the development strategies of many countries from import-substitution to export-oriented industrialization. After many years of experiences with protectionist import-substitution growth strategies which were unsuccessful for the most part, many developing countries are following the examples of Japan and the newly industrializing countries (South Korea, Hong Kong, Singapore and Taiwan) by adopting export-led industrialization strategies. Turkey is one of the countries which have replaced its traditional inward-oriented import substitution strategy with outward-oriented export substitution strategy.

3.1 Shifts from Import Substitution to Export Promotion

The inward-oriented import substitution strategies of many developing countries, adopted after the Second World War, gradually became the source of deficient practices and frustration. With few exceptions, such strategies and policies were not too helpful to developing countries in reducing their dependence on industrialized countries for imports. The strict and time-consuming licensing procedures for imports of manufactured producer goods, overvalued exchange rates, wide range of high tariffs imposed upon different products, and import prohibitions were only some of the undesirable consequences of import substitution policies. For example, high tariffs, a cost-raising factor, negatively affected export attempts, which were based on processing of imported raw materials and intermediate goods. Consequently, considerable pressure on the balance of payments was created (Basile and Germidis, 1984; Krueger, 1985).

The failure of import substitution growth strategies eventually led to the adoption of outward-oriented export promotion strategies and policies. Japan's success with export promotion strategy after the War was one of the significant factors in the shift from import substitution towards export-oriented strategies. An outward-oriented export promotion strategy is one which provides incentives favoring exports and production for exports. It usually allows imports of raw materials, and intermediate and capital goods needed for production of exports. It is based on realistic exchange rates, and avoids

quantitative restrictions and use of high tariff barriers (Krueger, 1985; Onursal, 1991). In 1975, 51 out of 144 developing countries had already adopted export-led industrialization policies (Basile and Germidis, 1984).

Turkey's major development strategy during the 1930s and 1940s was *étatiste* in nature. The early Turkish governments established a large number of state economic enterprises for meeting consumers' need for non-durable consumer goods. The economic difficulties of the 1950s necessitated the adoption of an inward-oriented import substitution development strategy which was a key component in the country's five-year development plans of the 1960s and 1970s. During these periods, the government policies were designed to protect the import substituting industries, and replace imported consumer durables and intermediate goods by domestic production. Domestic investments were encouraged through incentives such as import tax exemptions, tariff and tax deductions on capital goods, low cost credits, and investment allowances. The major instruments of protection for domestic companies serving the goal of import substitution were high tariffs, quotas, and overvalued exchange rates.

The import substitution strategy was quite effective in achieving the early goals of industrial growth. However, it gradually led to an increase in bureaucratic formalities. Lack of exports and the need to finance domestic investments caused the external debt to rise immensely. Even during the periods of fast growth in international trade, Turkey maintained its inward protectionist policies and did not seem to be interested in exporting manufactured industrial goods. The rate of exports to GNP dropped from an average of 4.56 per cent for 1965-69 period to an average of 4.04 per cent for the 1975-79 period. The rate of imports to GNP, on the other hand, increased from 6.35 per cent to 11.13 per cent for the same period (Tekin, 1983).

During the 1963-1980 period, the foreign currency needed to pay for increasing imports and rising oil prices was mostly obtained through the remittances of Turkish workers abroad. Such remittances, however, had come to a standstill due to a slowdown in emigration as a result of the economic difficulties faced in Europe. The expansionary policies and gradual deterioration of public finance, the growing imports over stagnant exports, heavy external borrowing and rising foreign debt, and widening current account deficit finally led to the financial crisis of 1977. As a consequence of this, the country

was not able to import the necessary capital goods, pay back foreign debt, and obtain new credit. It was this crisis which led the governments to introduce a number of stabilization and liberalization packages. The policy measures of 1978 and 1979 were important as they set the stage for the more comprehensive liberalization programmes of 1980 and 1984.

The stabilization and liberalization programme introduced in January, 1980 was a major breakaway from the traditional interventionist import-substitution strategy. The goal was to reverse the deteriorating economic conditions of the country. With this in mind, new policy measures were aimed at activating market forces, liberalizing foreign exchange and foreign trade policies, and reducing hyperinflation and balance of payments deficit. In addition to measures such as tightening monetary policies, reducing budget deficit, improving efficiency and financial positions of the state economic enterprises, freezing prices and interest rates, increasing the effectiveness of tax and financial systems, and freezing wages and public investments, other measures to increase the remittances of migrant workers, upgrade tourism, and boost exports were also introduced (Dicle and Dicle, 1987).

Another stabilization and liberalization package aimed at achieving a more liberal foreign trade and foreign exchange systems was introduced in early 1984. The major goal of this programme was to integrate the Turkish economy with the world economy and make Turkey an important partner in world trade. To attain this objective, a new set of policies were directed towards eliminating quotas, suspending quantitative restrictions on imports, and removing controls over foreign exchange (Togan et al, 1988).

3.2 Export Incentives as a Major Export Promotion Instrument during the 1980s

Throughout the 1980s, the Turkish government consistently provided the exporters with attractive incentives, mostly in the form of tax rebates, rebates from the Support and Price Stabilization Fund, export credits, foreign exchange allocations, retained foreign exchange earnings, duty free imports, tax exemptions, and technical and administrative

support. Because of the large number of laws, by-laws and government decrees involved and the frequent changes, the export incentives have become quite complicated (Carikci, 1991; Hatipoglu 1991; Togan et al. 1988). The following list of export incentives were provided in throughout the 1980s and the early 1990s:

- Exemption from transaction tax and stamp duties
- Customs tax free imports
- Temporary tax free imports
- Exemption of sales, deliveries, foreign exchange earning services and activities from customs, transaction taxes and stamp duties
- Exemption from payments into the Housing Fund
- Retained foreign exchange earnings for administrative expenses abroad
- Payments from the Support and Price Stabilization Fund
- Export trading companies rediscount credits
- Export credits
- Short-term export credit insurance
- Specific export credit insurance
- Country credits
- Rebate of value-added tax

Some of the export incentives granted were direct monetary incentives. They included the tax rebates and payments from the Support and Price Stabilization Fund. As a result of the complaints and the pressures from certain countries and international organizations, both of these subsidies were eliminated. The tax rebates were eliminated by 1 January 1989, and the payments from the Support and Stabilization Fund were stopped on 20 August 1991.

The incentive of export rebates to provided to improve the competitiveness of the Turkish exporters in international markets by reimbursing all indirect taxes on the inputs of exported products. Thus, the tax burden and the cost of the exported products were reduced. The tax rebate rates first increased from 8.9 per cent in 1980 to 22.3 per cent of total exports in 1983, but were then cut back and stabilized around 10.2 per cent in 1986. The average rate of tax rebates throughout the 1980-1987 period was roughly 16 per cent of the total exports.

The practice of paying premiums from the Support and Price Stability Fund for the exported goods was started in 1986. The rates of payments from the fund (around 10-20 per cent) were determined for each of the 89 categories of goods (approximately 400 items) mostly on the basis of their export potential. In order to receive such premiums, the exporters needed to submit the necessary export documents within one year of bringing the foreign currency into the country. The exported goods could not be imported in the same or modified form unless the paid premiums were returned to the Central Bank. Further premium payments from this fund were made to encourage the exporters to make use of the Turkish transportation companies. Finally, because of the quota limitations on exports to Europe and North America as well as offset agreements with the ex-Eastern Block countries, which together accounted for about 75 per cent of the total exports, the payments from this fund have been reduced significantly. The total payments from this fund have been reduced significantly. The total payments from the fund for the year 1989 were about \$ 429.5 million. Moreover, the payments were made to subsidize only about 400 products out approximately 4.000 exported items (Carikci, 1991).

A second primary group of export incentives are those provided by the Turkish Export Credit Bank (Turk Eximbank). They include different types of export credits, country credits, and export insurances. Turk Eximbank was established in 1987 and became operational in 1988. The pre-export and post-export credits provided by Eximbank were combined in December 1989. Since 2 January 1991, export credits are granted to exporters and manufacturer-exporters for their exports of certain categories of goods (manufactured, agricultural and animal products, apparel) by commercial banks. Depending on the category of the products, the credits provided are around 35-70 per cent of the total FOB value of the exports. The interest rates are determined by the Turk Eximbank. The credit term is a maximum of 180 days.

A third category of export incentives consists of tax exemptions. All services provided and transactions completed by commercial banks, insurance companies and other financial institutions in relation to export credits are exempted from the financial transaction tax and stamp duties.

3.3. Export Regime of Turkey Since 1980

Turkey has implemented an export-oriented strategy since the early 1980s. The primary target of this strategy is to develop an outward oriented economic structure in sphere of free market economy and to be integrated with world markets. With this new strategy, export intensive measures including various supportive components, arrangements directed to the foreign trade liberalization. In addition to liberal arrangements made to improve exports, some support programs have been implemented. The major incentives for the exporters were usually as follows: corporation tax exemption, tax refund, premium to the Resource Utilization and Support Fund, subsidies obtained from the Support and Price Stabilization Fund. However, the above mentioned supports have been gradually eliminated parallel to Turkey's international commitments since the second half of 1980s (<http://www.dtm.gov.tr>). On the other hand, with the establishment of the Turk Eximbank in 1987, supporting exports gained a new dimension. In this respect, in order to increase the competitive strength of the Turkish exporters in foreign markets, some credits and guarantee programs under the international commitments began to be applied to the sectors with high export potentials.

Related to particularly support of exports, policies of the foreign trade strategy that was set up under the conditions of 1980s have been reviewed and modified in view of the developments taken place in the world and Turkey in the 1990s. In this respect, State Aids prepared in compliance chiefly with the World Trade Organization and Turkey's international commitments were put into practice as of 01.06.1995.

The most significant phenomenon in Turkey's foreign trade policy is the Customs Union established between the EU and Turkey as of 01.01.1996. This development initiated the duration needed for the legal infrastructural consistency of foreign trade strategy with the EU's norms, and thus both import and export regimes have been made consistent with the regulations of the EU. The Free Trade Agreements signed with the Central and Eastern European Countries and Israel must be regarded as the factors

directly affecting our trade in the consistency framework of the Community's Common Trade Policy.

Within the framework of the modifications made in the laws, the Export Support Regime applied until 1.1.1996 was modified in compliance with the Customs Code of the Community. In place of the Export Support Regime applied in the framework of the Export Support Decision No. 94/5782 based on obtaining raw materials at world market prices, the Inward Processing Regime numbered 95/7615, published in the Official Gazette 31.12.1995, the newly Inward Processing Regime numbered 99/13819 published in the Official Gazette 31/12/1999 and prepared as being parallel to the provisions of the Community Customs Code, entered into force as of 1.1.1996.

According to the modifications in the Export Regime, (article 4 (e) of the Export Regulation), "an exporter" is defined as a person who is a member of the related Exporters' Association,

- a natural or legal person having a single tax number,
- tradesmen and craftsmen dealing with production and is registered to the Chambers of Tradesmen and Craftsmen
- joint- venture,
- consortium.

Export is the "de facto" exportation of goods or their value in compliance with the current Export Regulations, Customs Regulations and bringing the value of the goods back to the country through Turkish Currency Legislations or other ways of leaving country which can be accepted as an export by the Undersecretariat for Foreign Trade.

Types of exports are as follows:

- (a) Exports having no special nature
- (b) Exports on registration
- (c) Exports on credit
- (d) Exports by means of consignment
- (e) Exportation of imported goods

- (f) Exportation to free zones
- (g) Exportation made through counter purchase or barter trade
- (h) Exports through leasing
- (i) Transit trade
- (j) Exports without returns

All goods, other than those whose exportation is prohibited by laws, decrees and international agreements, can be freely exported within the framework of the Export Regime Decree. However, within the framework of WTO rules, restrictions and prohibitions on exports may be imposed in case of market turmoil, scarcity of exported goods, in order to protect public safety, morals, health; flora and fauna, environment, as well as, articles bearing artistic, historical and archeological value.

3.4. Inward Processing Regime

After Customs Union Agreement, which took place on January 1st, 1996 between Turkey and European Union via 1/95 Decree of Turkey-EC Association Council, Turkey has adopted various regulations in conformity with EC's regulations. One of these regulations is Turkey's export incentive system which was replaced by Inward Processing Regime (IPR) via Decree NO. 95/7615 put into force on January 1st, 1996. The current Inward Processing Regime (IPR) via Decree No 2005/8391 has been enforced since January 27th, 2005 (<http://www.foreigntrade.gov.tr/ihr/mevzu/dahhar/seri4.htm>).

IPR is a system allowing Turkish exporters to obtain raw materials, intermediate unfinished goods that are used in the production of the exported goods without paying customs duty and being subject to commercial policy measures. The owner of the IPR authorization is obliged to import goods stated on authorization and export them after processing the imported goods. The basic objective of the IPR is to allow manufacturing firms to buy materials at the world market prices and enhance the competitiveness of Turkish exporters. Inward processing can be classified by two main types of systems.

3.4.1. The Suspension System

The suspension system provides tax exemptions to the Turkish manufacturer-exporters/exporters by permitting manufacturer-exporter/exporters to import raw materials for use in production process and export final goods without subject to import duties and VAT during importation. Under this system, beneficiary of IPR has to submit letter of guarantee or guarantee money covering total amounts of all duties and VAT to the Custom authorities at the importation. Holder of the authorization can be subject to discounted rate of guarantee if the export performance of the holder meets the criteria getting a discounted guarantee.

If the manufacturer-exporter can export more than 1.000.000 or 500.000 Dollars within four years under IPR or special classified companies, they can put up 1%, 5% or 10 % of total amounts of all duties and VAT as a guarantee instead of all. This tax concession should be stated on the authorization certificate.

In the suspension system, manufacturer-exporters/exporters can use equivalent goods instead of the import goods stated on the authorization certificate. Equivalence is a procedure which allows the substitution of the goods in free circulation in place of the import goods stated on the authorization certificate. It should be emphasized that equivalence needs to be considered as in terms inputs (raw materials or unfinished intermediate goods) not in the compensating goods (final goods). The equivalent goods must be of the same quality and have the same features with the import goods.

3.4.2. The Drawback System

The import charges of the goods paid during importation can be subject to tax reimbursement after the export commitments are fulfilled. Under the drawback system import duty and VAT have to be paid when the goods enter the free circulation into

Turkey. Reimbursement of VAT and import duty can be claimed when the compensating products are exported.

Authorization certificate can only be granted to the firms which can submit necessary documents to Undersecretariat for Foreign Trade (UFT) via General Secretaries of Exporters Unions (GSEU). These documents are inward processing project form, table of raw materials, signature circular, petition, trade registration journal, capacity report and other technical documents in some special cases.

Criteria to grant a certificate is first, the imported goods should have been clearly determined that are used in the production of main compensating goods without any doubt, secondly, benefiting of IPR does not cause a serious damage to the domestic producers, thirdly, production process under IPR should have to create an additional production capacity, value added and increase competitiveness. The decision on granting the authorization certificate is made by examining whether or not these economic criteria are fulfilled.

The firms which have granted an authorization certificate should have to import and export goods without paying any kind of custom duties and fees within the period stated on the authorization certificate. This period of discharge cannot be longer than 12 months. However, for some special production facilities the time can be given up to 24 months. The period of discharge can be extended maximum half of the period stated on the authorization certificate due to the force major situations. The period of discharge starts with the date of first party entry but this period cannot be longer than three months. And also when one faces with economic crisis or natural disaster, like earthquakes happened in 1999, extra time can be given for discharge.

When the holder of the authorization certificate completes all the entry and discharge transactions within the period stated on the authorization certificate, the customs authorities give the letter of guarantee back to the holder or reimburse the money which was pledged as security for all kinds of duties and fees taken during import. For this return of letter of guarantee or reimbursement of security, all the customs declaration and authorization certificate has to be submitted to GSEU. GSEU compare the amount of goods imported on the customs declaration with the amounts stated on authorization

certificate, check rate of yield and if the GSEU conclude that import goods used in the production of export goods without any violation of IPR, then they inform the custom authorities that all the provisions of IPR are fulfilled without any violation of IPR, letter of guarantee or money can be reimbursed. If GSEU detect any violations of IPR, they also inform the customs authorities that all duties and fees should have taken from the holder including with compensatory interest and fine. (Fine equals the two times of all duties and fees).

4. SMALL AND MEDIUM SIZED ENTERPRISES IN TURKEY

SMEs (Small and Medium Enterprises) play a critical role in economic development of a country. A significant proportion of aggregate production and an important share of employment are realized by SMEs in many economies. A lot of developing and developed countries formulate policies to support SMEs to increase their contributions to their economy and, especially, to their exports. However, it should be noted that SMEs' propensity to exports is a very argumentative issue.

4.1. The Small and Medium Sized Enterprises and Export

The role of small and medium sized enterprises as exporters in an economy has been studied by many researchers. McConnell (1979) investigated variations in the export-related behavior of 148 manufacturing firms in the United States. He constructed two interrelated models, using corporate-level data, to predict the propensity of firms to export and to explain variations in levels of export performance. The main goal of his model was to develop a forecasting method that can be used by the government policymakers and business decision makers who are interested in identifying and promoting the export potentials of American manufacturing enterprises.

McConnell (1979: 12) concluded that:

- 1. Although exporting is the result of a rather complex decision process the results of the process can be forecasted with considerable accuracy given a minimum set of predictor variables.*
- 2. Postulates from the behavioral theory of the firm and from the product life cycle theory are good predictors of a firm's expected involvement in international trade. The implication is that such factors are likely to be useful in efforts to revise traditional international trade theory so that it is more relevant for business decision makers and government policymakers. Once the interrelationships of these tasks of identifying firms with export potential and of developing appropriate export stimulation programs are likely to be more successful.*

3. *The export performance model is also useful to community and government agencies that are interested in evaluating the benefits and costs of promoting export sales.*

Calof (1994) indicated that many academic studies and government leaders were asking small and medium sized firms to become more involved in exports but the role played by smaller firms was unclear. He argued that even though there were many studies on size and export behavior, discrepancies in study findings and the absence of variance statistics prevent researchers from understanding the importance of size. Calof (1994) sought to study the direct and indirect impacts of firm size by investigating three dimensions of export behavior: propensity to export, countries exporting to and export attitudes for 14,072 Canadian manufacturers. Calof (1994) concluded that even though firm size is positively correlated with all dimensions of export behavior, its importance is limited as the amount of variance explained is modest.

The proposition that firm size is positively associated with export behavior is often taken for granted and its acceptance has lead both academics and public sector officials to focus attention on finding ways of improving export activities of smaller firms. Yet, despite the supposed importance of size, and plethora of research on the topic, little consensus exists. Whether size has any relationship with export behavior has been a subject of many researches. Researchers who have found relationships between size and export activities have failed to found any information which identifies the amount of variance explained by size. With the absence of consistent results its is difficult to argue whether size does in fact impact export behavior, and with the lack of information on the amount of variance explained, it is impossible to determine just to what extent size explain export propensity. Inability to explain the relationship between size and exporting has raised concerns about the appropriateness of designing export assistance programs specifically for small and medium sized enterprises.

Bonaccorsi (1992), who used the largest national database ever employed for a study on size and export behavior (8.810 Italian companies), found that firm size was positively correlated with propensity to export and negatively associated with export intensity (export sales/total sales). While evaluating the findings, Bonaccorsi (1992: 369) indicated that most firms grow within their domestic market first. However, at some

point, the opportunities for domestic growth become limited forcing the firm to either stagnate or diversify their geographic market base. According to this approach, by the time a firm begins exporting, they have already grown to larger firm status by virtue of capturing a large market share within their domestic market. Thus, smaller firms grow in domestic market first and then began to intensify their exporting efforts.

Because of the inability to statistically prove a relationship between size and export propensity, many studies have sought to correlate the size of the firm with various export aspects such as the firms level of export intensity (Tookey, 1967; Calof 1993; Bonaccorsi 1992), number and nature of countries being exported to (Hirsch and Baruch, 1974; Beamish and Munro 1986; Balcome 1986), stage in the internationalization process (Cavusgil, 1984), and propensity to export (Christensen, Rocha and Gertner 1987; Kaynak and Kothari 1984; Bonaccorsi 1992). Little consistency in results has been found in these studies. Some studies have suggested a positive correlation between firm size and export activity (Cavusgil and Nevin 1981; Hirsch and Adar 1974; Christensen, Rocha and Gertner 1987; Cavusgil and Naor 1987; Meleksadeh and Nahavandi 1985). Other studies have found that size has little or no impact (Bilkey and Tesar 1977; Hester 1985; Edfelt 1986; Holden 1986). Still others have found that size does affect export activity, but only for certain size extension (Hirsch 1971; Cavusgil 1976; O’Roarke 1985). While indicating the “mixed” impact of size on exporting, Cavusgil (1984) suggested that size was only a significant factor where the firm was very small and beyond some point exporting was not correlated with size. The only consistency within literature is that few researchers have found size of firm negatively correlated with any aspect of export behavior for export intensity (Bonaccorsi 1992; Calof 1993).

Table 1 summarizes the basic findings of five studies based on an extensive review of the existing literature. All researchers indicate that empirical findings on the relationship between firm size and export behavior are mixed or conflicting. On the other hand, two hypotheses have been at least partially supported and these were:

1. The probability of being an exporter increases with firm size
2. Export intensity is positively correlated with firm size

The first hypothesis has been more widely supported in the literature. For example, Cavusgil, Bilkey and Tesar (1979) concluded that the profile of firms that are most likely to export included the size variable (an annual sales volume of \$1 million or more). Cavusgil and Nevin (1981) found that firm size (no. of employees) was a good estimator of the probability of exporting and that sales volume was a significant explanatory variable of the same export behavior. Withey (1980), Yaprak (1985) and Cavusgil and Noar (1987) also argue for this proposition.

The notion behind Hypothesis 1 is that small firms grow in domestic market and avoid taking risk by being involved in an activity such as exporting whereas large firms need to export to increase their sales further. A few exceptions were also suggested for this approach. Small high-technology firms, for instance, may become exporters just at the beginning of their life cycle especially if the domestic market does not offer sufficient opportunities for growth. Small highly specialized companies, operating in niche markets attracting global demand, are another example. If the size of domestic market is limited, such firms prefer to export even in the first stages of their life cycle. But for the large and mature industries, Hypothesis 1 is a valid proposition to explain export behavior (Bonaccorsi, 1992).

Table 4.1: A Summary of Findings on the Relationship between Firm Size and Export Behavior

Author, date of publication and general description	Major findings on the relationship between firm size and export behavior	Empirical support
Bilkey (1978) A general review of 43 studies	Empirical findings on the relationship between firm size and export intensity are mixed	Four studies found a positive relationship; three studies found no significant relationship
Reid (1982) A review of 21 studies on firm size and export behavior	Firm size is related to the exporter/non-exporter variable No generalization is possible on the relationship between firm size and export intensity	Three studies out of four A positive relationship have been found in only five studies out of eight
Gemunden (1991) A general review of 50 studies, of which 30 included firm size as an independent variable	Firm size is related to the exporter/non-exporter variable No generalization is possible on the relationship between firm size and export intensity	Eleven studies out of twelve A positive relationship has been found in only ten studies out of eighteen
Miesenbock (1988) A general review of 200 studies	There is a positive relationship between firm size and export intensity, including exporter/non-exporter and export intensity There is a positive relationship between firm size (total sales) and export intensity	Eighteen studies out of twenty Eight studies out of twelve
Aaby and Slater (1989) A general review of 55 studies	There is little agreement regarding the impact that organization size has on export propensity	The relationship between size and export intensity was negative (one study) or not significant (three studies)

4.2. The Role of the SME Industry

Turkey is one of the countries developing specific support programmes to assist in further development of her SMEs. Primary approach of Turkey in this field is outlined in her “five-year-development-plan”. The fundamental strategy developed for small and medium sized enterprises (SMEs) in the 8th Five Year Development Plan is based on increasing their efficiency, their share in the value added as well as their international competitiveness and share in exports. In recent times, increasing international competitiveness and exports of SMEs have been main goals of the foreign trade policy-makers in Turkey. To attain these objectives, various organizations have been effectively utilized. KOSGEB (Small and Medium Industry Development Industry Organization) is one of the organizations supporting SMEs to promote exports.

In Turkey, the number of SMEs including those in the service sector constitutes 99.8% of total enterprises and 76.7% of total employment. The share of SME investments within total investments constitutes 38% and 26.5% of total value added is also created by these enterprises. Although the share of SMEs in total exports fluctuates on an annual basis, on the average, it is 10% and their share in total bank loans is below 5%. Those SMEs that are tradesmen and artisans as well as merchants and industrialists are represented by the Confederation of Tradesmen and Artisans of Turkey and the Union of Chambers of Commerce, Industry, Maritime Trade and Commodity Exchanges of Turkey. Tradesmen and artisans are organized within the scope of 12 professional federations, 82 unions of chambers of tradesmen and artisans and 3496 chambers of tradesmen and artisans functioning under TESK.

The main target group of the SME support programmes is the manufacturing industry SMEs. According to 2003 figures of the State Institute of Statistics, (those enterprises with 1-150 workers are considered as SMEs) there are a total of 208,183 SMEs operating in the manufacturing industry employing 922,715 people. SMEs constitute 99.2% of all the enterprises in the manufacturing industry and they account for 55.65% of employment in this sector.

When manufacturing industry is analyzed in terms of distinction of public and private sector and sizes of enterprises, it is observed that 0.1% of the businesses are state enterprises, whereas, 99.9% are private enterprises. State enterprises employ 7.5% of the employees in all the work places and produce 17.2% of the value added. Private enterprises, on the other hand, employ 92.5% of the work force and create 82.8% of the value added.

Turkish industry is much more SME-based than the EU industry when the European scales of enterprises are taken into account as a comparison base. When comparing the economy as a whole with that of the EU economy, however, it is seen that the agricultural sector and the rural population employed in the agricultural sector have considerably higher proportions in Turkey than corresponding average figures in the EU. However, this situation is in a process of rapid change towards the normal standards of developed countries in line with the movement of urbanisation. On the other hand, capital accumulation of Turkey remains insufficient in relation to the country's development needs and foreign capital inflow to the country stays at a very low level as well. In this situation, considering the surplus manpower that exceeds the capacity of the large enterprise sector, arising in cities, it is an inevitable development option for Turkey to promote SMEs, which is the most economic employment creation field.

4.3. Institutional Structure

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

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

4.4. SMEs

In Turkey, it is observed that different organisations with activities related to SMEs use different SME definitions within the framework of their job descriptions, target groups and resources allocated for their operations. These definitions reflect differences both in terms of the criteria selected for the identification of the definitions and of the limits determined within the frame of these criteria. Formulation a common SME definition is needed in order to establish a standard in developing policies for SMEs, planning the programmes to be implemented within the framework of these policies, and in conducting research in this field.

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

For this purpose, development of an SME definition that determines, the framework of activities of all relevant institutions is primarily required.

4.5. Handicaps of the SME In Turkey

Special conditions of Turkey become determinant factors upon the development options; within this context the growth of SMEs constitutes an indispensable policy domain. As a consequence, it is of importance to formulate policies and programs for developing and supporting SMEs during the process of integration with the EU. While developing an SME strategy that conforms to the policies and programs of the Union, there exist certain basic weaknesses that need to be taken into consideration as a necessity of reflecting the current conditions of our country for providing a basis for future cooperation. SMEs have a number of problems regarding their development and gaining competitiveness both in the world and in the Single Market of the EU.

A typical Turkish SME produces for the Turkish market using traditional production methods; however, in a number of fields, it has to compete with foreign firms in the domestic market. The technological level of Turkish SMEs is much lower than that of global companies and Turkish SMEs engage themselves in producing low quality goods with low value added, often using outdated designs, ineffective production methods and older machinery and equipment. Furthermore, SMEs have no tradition of using consultancy services and giving R&D orders. Know-how related service sectors could not develop because of the low level use of engineering-consultancy, design, technology transfer and educational services and insufficiency of the trade of products and services in the country, which are subject to industrial property. In fact, Turkey has a natural potential to develop capacity in these fields requiring human capital rather than fixed capital.

As in all developing countries, what lie in the basis of structural problems are issues such as inability to transform technological needs of SMEs to economic demand automatically; lack of development of commercial links between the SMEs and know-how related service providers which, in turn, gives no opportunity for the growth of SMEs that are supposed to be producers of services. The creation of an adequate market

mechanism, which would provide a breakthrough from this structural problem and which would enable both sides to come together requires cultural developments, certain public support schemes and regulations and especially market-making organizations.

4.6. Financial Problems

The difficulty in raising finance is one of the most critical handicaps of the small and medium sized enterprises. Various researches reported that the smaller businesses from different industries suffer from the handicap. One of the oldest and most respected studies in field was conducted by the MacMillan Committee in 1931. The Committee issued a report, the MacMillan Report, including analysis of workings of the gold standard, monetary control and international trade. The most charming part of the report was the one indicating the “MacMillan Gap” the need “to provide adequate machinery for raising long-dated capital in amounts not sufficiently large for a public issue”.

Frost (1953) studied the issue of raising finance for small and medium sized industries. He investigated the findings of MacMillan Committee, which reported the, so called, MacMillan Gap that figuring out “the great difficulty experienced by the smaller and medium sized businesses in raising the capital which they may from time to time require even when the security offered is perfectly sound” and proposed establishment of an institution to finance the smaller businesses.

Piercy (1955) indicated that there was a general tendency to increase of scale capital wise, but the majority of small and medium-sized companies, which are mostly private companies often in the form of family companies, remains. He pointed out the rarity of the casual moneyed investor willing to invest in such businesses and indicated the fact that this development was paralleled by an increased concentration by the investor on quoted issues and more marketable of these. While investigating the extent to which the issue markets meet the needs of the smaller companies, Piercy (1955) suggested that the secular stream of floatation of private companies increasing when the market is on the feed, diminishing to small dimensions at other times. The market, when on the feed, likes these floatations; there is usually some profit for all parties, and, in the circumstances, the expense of the operation is not greatly felt. The stream is small in

relation to the total number of private companies and it is selected. There are a lot of conditions to be met for an operation in the issue market to be practicable for a small company. It does not, therefore, follow that the stream of what might be called new capital directed to small companies is large or growing; and where it is a question simply of new money the costs of issue become a consideration. It may indeed be a more important point that the proceeds cashed in by the shareholders assist the supply of personal private funds that are available for investment (Piercy, 1955).

The shortage of risk or venture capital is the factor Piercy (1955) pointed out as a significant issue in financial problems of small and medium-sized entrepreneurs. Piercy (1955) argued that there was a difficulty in securing the subscription of capital for industry in the form of ordinary shares and this referred the matter to the experience of the issue market and stock market to which it is so closely related. According to Piercy (1955) investors who avoid risks of negative effects of economic floatation prefer less risky or riskless investment instruments such as government bills and avoid providing venture capital for small and medium sized companies.

The credit share used by SMEs out of total credit volume (about 5 %) in Turkey is quite low when compared with their contribution to the country's employment and value added. Capital market instruments to serve SMEs couldn't be developed either. The high level of public borrowing in the money markets restricts the credit volume available to the private sector and drives interest rates extremely high. This situation combined with the scarcity of governmental supports has caused the SMEs to be almost totally excluded from the credit market.

As a result of the longstanding high-level public borrowing policy in Turkey, banks' funding capacity for SMEs has declined; investment/project finance services have been narrowed to a large extent. Further more the market mechanism in this field has been destroyed mainly due to the economic crises that brought about a wave of bankruptcies for banks and many enterprises staying in debt to banks.

4.7. Incentives for Exports

The state incentives for export support the exportation activities for export companies and Small and Middle Sized Enterprises (SMEs) in production and marketing processes and help them to solve their problems in the market. The main aim is to encourage export, to develop the export markets and to increase the competitive power of Turkish firms in international markets.

There are 11 support programs in terms of “the state incentives for export”. The last ruling concerning the application of incentives was made by the Undersecretariat of Foreign Trade (DTM). The programs are as follows:

1. R & D Incentives
2. Supporting domestic industry specific fairs with international participation
3. Supporting national or individual participation in international fairs and exhibitions
4. Supporting Market Research
5. Education and Training Incentives
6. Incentives for opening and running branch and/or office in abroad and promotion of Turkish brands
7. Supporting environmental costs
8. Incentives for building brand reputation of Turkish brands in abroad and promoting image of Turkish goods
9. Supporting employment
10. Export returns in agricultural goods
11. Supporting the expenditures for patents, useful model certificates and industrial design

The final decision body of these incentives is the Undersecretariat of Foreign Trade. Details of the state incentives are explained below.

4.7.1. Incentives for R&D Activities

R & D projects are the activities which aim at producing a new product, improving the quality or standards of the product, applying new methods for increasing the standards and decreasing the costs, developing new production technologies, adopting a new

technology to domestic conditions and also the transformation of the results of these activities to useful tools, materials, products, management, system and production techniques and improving the quality of existing technology. In addition, the aim, scope, period of time, budget, special conditions, the quantity of incentives given by the institutions or real/legal persons and the rules of the sharing of the rights of the invention that can be provided, are determined in advance.

4.7.1.1. Supporting R&D Projects

The objective of this incentive is to provide financial assistance for R&D costs of industrialists. The costs supported are those traceable and assessable. In practice, a previously declared percentage of costs are financed by the relevant government body whereas upper limits of financial incentives are identified.

Both profit oriented and non-profit oriented industrial organizations, software developing corporations/organizations and those creating value-added in organizational basis can enjoy the R&D incentives. The precondition of the incentives is traceability of costs and invoices arranged for each payment. Expenditures in following fields are supported:

1. Personnel
2. Equipment, tools and software used in R&D activities
3. Consultancy services or equivalent services
4. R&D service of domestic R&D entities
5. Patent applications
6. Equipment and materials of direct R&D activities

At most 50 percent or, with additional supports, 60 percent of costs incurred in the above areas are financed by the State. The time-length of incentives in this group is three years and TUBITAK is the responsible organization.

4.7.1.2. Supporting Capital for Projects

The support rate is 50 percent and the capital support is provided in two ways: (1) Capital Assistance for Product Development Projects and (2) Capital Assistance for Strategic Focus Projects.

The objective of this incentive is to support projects that are likely to increase Turkey competitive power in international markets. Projects, which increase quality of labor force and promote high technology, are supported in this respect. Maximum time length of support program is one year and the upper limit of financial support is US \$ 100.000. TTGV (Turkish Foundation of Technological Development) is the responsible organization.

4.7.2. Supporting International Industry Specific Fairs Organized in Turkey

The objective of this incentive is to increase international participation in fairs organized in Turkey and to increase awareness of Turkey and Turkish industries. Corporations organizing fairs can utilize the incentive.

Fairs usually supported in the scope of this incentive focused on following industries: textile and ready-made clothing, leather (including shoes), vehicles and by goods, food and food technologies, electrical and electronic, metallic goods, soil, construction materials, and furniture. The Association of Exporters is the responsible organization in this support. Expenditures to be supported within the scope of this support is summarized in the following table.

Table 4.2: Expenditures of exporters to be supported

	Support Rate	Maximum Support
Before-fair international advertisement activities	50 %	US \$ 25.000
Transportation costs of important buyers invited to fairs (2 person/each country)	50%	US \$ 15.000
Costs of seminars, conferences, panels and price-giving competitions to organized during the fair	50%	US \$ 5.000

4.7.3. Supporting Participation in National and Individual Fairs in Abroad

The objective of this incentive is to increase participation of Turkish industrialists in fairs in abroad and to increase promote Turkey's and Turkish industries' image in this way. Manufacturers, marketing companies and organization companies can enjoy this support. In national fairs organized in abroad the organization company and in individual fairs organized in abroad companies participating in fair are supported. Those demanding the support must apply within six-month period after fair declared to supported.

Incentives and percentage of supports are summarized in the following table:

Table 4.3: State Supports Provided For Exporters

Those Participating in National Fairs	Support Rates	Maximum Rates
SME/Companies of Regions with Precedence in Development	80%	US \$ 20.000
Others	50%	US \$ 20.000
Organization Company of Fairs with National Participation in the form of:		
- International Trade Fairs and Exhibitions	60%	US \$ 40.000
- Promotion activities in which Turkish export goods are exhibited	60%	US \$ 60.000
In individual fairs; Participating companies		
- Stand rent	100%	US \$ 20.000
- Transportation costs	50%	(total)
Supports for product groups (genetic engineering/biotechnology, space and air technologies, information systems, hardware, software, advanced materials technology)		
- In fairs with national participation;		
* SME, SECTORIAL FOREIGN	90%	-
TRADE FIRMS (SDŞ) and Companies of Regions	60%	-
with Precedence in Development		
* Others	100%	US \$ 25.000
- In individual fairs	60%	(Toplamı)
* Rent		
* Transportation expenses		

The Association of Exporters is the responsible organization in this incentive.

4.7.4. Supporting Market Research

4.7.4.1. Supporting Market Research Projects

The objective of this incentive is to support systematic market researches of SME/Sectorial Foreign Trade Firms (SDŞ)/ÜD, which seek to create new export goods and to increase market shares in foreign markets. SMEs/Sectorial Foreign Trade Firms (SDŞ)and ÜD can utilize this incentive. Researches to be supported in this respect may be conducted by SME/Sectorial Foreign Trade Firms (SDŞ)/ÜD or by a consultancy company they hire. Rates and amount of financial support are summarized below:

Table 4.4: State Support Rates for Market Research Expenditures

	For Each Project	For One Year	Total
SMEs	US \$ 7.500	US \$ 15.000	US \$ 75.000
SECTORIAL FOREIGN TRADE FIRMS (SDŞ)/ÜD	US \$ 10.000	US \$ 50.000	-
Expenditures to be Supported			
- Transportation			
- Accommodation			
- Purchasing			

The responsible organization in this support is the Centre of Developing Exports (İGEME)

4.7.4.2 Supporting International Cooperation Activities between SMEs

The objective of this incentive is to lead SMEs to participate in activities increasing cooperation between SMEs. SMEs and Sectorial Foreign Trade Firms (SDŞ) can enjoy this incentive. Activities to be supported are as follows:

1. International activities organized by European Union to increase cooperation between SMEs.

2. Participation in international activities that are confirmed by DTM (The Undersecretariat of Foreign Trade) and that are aimed at increasing international cooperation between SMEs
3. Cooperation programs that are prepared to increase international cooperation between SMEs and confirmed by DTM.
4. Activities arranged by Sectorial Foreign Trade Firms (SDŞ)'s in coordination with The Undersecretariat of Foreign Trade

Total amount of support can not exceed US \$ 500 in transportation and US \$ 100 in accommodation and expenditures in these fields are financed by 70%. The responsible organization is Foundation of Economic Development (IKV) for the first group of activities and Foreign Trade Undersecretariat (DTM) for the second and third groups of activities.

4.7.5. Supports for Education and Training

The aim of this incentive is to support foreign trade-oriented education and training activities of SMEs and Sectorial Foreign Trade Firms (SDŞ) and their partners. SMEs, Sectorial Foreign Trade Firms (SDŞ) and partners of Sectorial Foreign Trade Firms (SDŞ)'s can enjoy supports in this group. Education and training activities to be supported can be grouped under following categories:

1. Foreign Trade, Customs and Foreign Exchange Laws and Regulations
2. To find market and customers for exports, analysis of a market, market research, bargaining with a buyer and communication techniques and giving proposals
3. Providing national and international financial resources for exports
4. Competition law and conditions, laws and regulations of European Union and World Trade Organization, and international marketing techniques
5. Fashion-Brand Design and similar issues

Expenses of education and training in abroad are supported by 50 percent for SMEs and 75 percent for Sectorial Foreign Trade Firms (SDŞ)'s, unless total amount does not exceed US \$ 7.500 and total time length does not exceed three months. For participation in education and/or training programs, support rates are the same with international

programs but total amount of supports can not exceed US \$ 5.000 for SMEs and US \$ 15.000 for Sectorial Foreign Trade Firms (SDŞ)'s. A total of six education and/or training programs (three national and three international) are supported and an applicant is required to apply one month before starting date of a program. The responsible organization is the Centre of Developing Exports (İGEME).

4.7.6. Supporting Opening and Running Branch/Office in Abroad and Activities of Building Brand Awareness

The goal of this incentive is to support firm establishment, store-branch opening, and running and promotion activities of Turkish firms in abroad and to help them increase their market share and promote country image of Turkey. Manufacturing companies or software developing companies operating in Turkey can enjoy incentives grouped in this category.

Items of expenditures to be supported and rates of financing are summarized in the table below:

Table 4.5: State Supports for Opening and Running Branch and Office in Abroad

	Support Rate (1st Year)	Support R. (2nd Year)	Maximum Support
In case of opening branch/store/office or establishing a firm to run wholesales or retail business with his name in abroad			(US \$)
Purchasing property (only once)	50 %	-	20.000
Rent	50 %	30 %	50.000
Advertisement Expenditures	30 %	20 %	30.000
In case of founding and running an intermediary business by establishing firm/branch/store in abroad			
Rent and Advertising Expenditures	50%	30%	30.000
Supports for a Turkish SME/SECTORIAL FOREIGN TRADE FIRMS (SDŞ)operating in manufacturing industry grants a distribution function to a foreign company	50 %	-	10.000
Official expenditures	30 %	20 %	30.000
Advertising expenditures			

The responsible organizations for these supports are the Association of Exporters and The Undersecretariat of Foreign Trade.

4.7.7. Supporting Environmental Expenditures

The objective of this incentive is to support SMEs expenditures during the certification of their quality system (ISO 9001) and environmental management systems (ISO 14000) by Institute of Turkish Standards or other accredited authorities of certification. Within the scope of this incentive, expenditures of CE Marking certified by notified bodies of European Union and other quality and environmental management certificates

approved by The Undersecretariat of Foreign Trade are supported. SMEs can enjoy supports in this group.

Application for this support should be made within six months after certification. Support rate is 50 percent of total expenditure and the responsible organization is The Undersecretariat of Foreign Trade.

4.7.8. Supporting Employment

The objective of this incentive is to support employment of qualified labor by Sectorial Foreign Trade Firms (SDŞ). Sectorial Foreign Trade Firms (SDŞ)'s can enjoy this support. 75 percent of expenditures related to wage and relevant taxes can be financed with this support but the upper limit of total support is US \$ 18.000. In case of employment of ordinary staff, the upper limit is US \$ 9.000 and the support rate is again 75 percent. The responsible organization is The Undersecretariat of Foreign Trade.

4.7.9. Supporting Activities of Building Brand Awareness and Promotion Brand Image of Turkish Goods in Abroad

The objective is to support activities aiming at building brand awareness and promoting brand image and establishing and running Turquality branches in abroad of Associations of Exporters, Association of Producers, Turkish manufacturing companies, and Turkish Fashion designers. Companies demanding this incentive should apply to The Undersecretariat of Foreign Trade with a project.

The duration of the support is four years and expenditures are financed by 50 percent. For Association of Exporters the support rate is 80 percent, for those using the mark "Turquality from Turkey" 60 percent, and for those using the mark "Made in Turkey" 55 percent. The responsible organization is The Undersecretariat of Foreign Trade.

4.7.10. Exports Refund of Agricultural Products

The aim of this support is to increase exports of certain groups of agricultural products. Exporters of agricultural products can enjoy this incentive.

Agricultural products whose exports are supported are as follows:

1. Flowers and buds of plants
2. Vegetables
3. dried vegetables
4. fruits
5. iced fruits and vegetables
6. honey
7. jelly, marmalade, syrupy jam
8. fruit juices
9. olive
10. canned fish
11. products (sausage, salami etc) made of poultry
12. chocolates and cacao
13. biscuits, multilayered wafer with sweet filling
14. pastas, spaghettis

4.7.11. Supporting For the Expenditures of Patents, Useful Model Certificates and Industrial Designs

This includes the expenditures for registration for industrial designs or patents and useful model certificates for an invention which is created in the projects realized by the people living in Turkey in order to support the development of new techniques, products and intense technological innovations which have a potential for trade.

The potential users of this support are legal persons living in Turkey who have applied to the Turkish Patent Institute directly or by means of their representatives registered with the Institute.

The expenditures supported are expenditures for industrial design registration, patents, and useful model certificates. Patents are granted to owner (or his/her legal

representative) of an invention. An invention is a product or method that provides solutions for technical problems in any branch of industry including agriculture. Patent is the name of the certificate which provides the right of:

- production, selling, usage or importing of a product that is subject of invention
- using the method that is subject of invention and selling, using or importing the products that are produced by this method

Patents are granted for definite period. Patent with examination are given for 20 years whereas patents without examination are valid for 7 years. A useful model is very similar to a patent. It is also given to owner of an invention and grants the right of production, sale, usage or importing, for 10 years. Useful models are usually called as “domestic patents”. They are valid within the boundaries of a chosen country.

An industrial design is a certificate granted to a designer who creates a new design in total composition or part of a product. The new design may be in certain characteristics and properties such as line, shape, form, color, texture, material or elasticity that can be perceived by human senses. The implementing institution of patent, industrial designs and utility models is the Turkish Patent Institute (TPI).

5. SMALL AND MEDIUM SIZED INDUSTRY DEVELOPMENT ORGANIZATION (KOSGEB)

5.1. History

The establishment of Small and Medium Sized Industry Development Organization (KOSGEB) dates back to the beginning of 1990s. Before this date, there were two governmental organizations founded to support SMEs, namely the Small Enterprise Development Organization (KÜSGEM) that was established in 1973 and SEGEM (Industrial Education and Development Center) that was founded in 1978, and KOSGEB was established by replacing these organizations in 1990 ([http://www.kosgeb.gov.tr /KOSGEB/tarihce.asp](http://www.kosgeb.gov.tr/KOSGEB/tarihce.asp)).

The Small Enterprises Development Organization (KÜSGEM) has established under the body of the Ministry of Industry and Trade, in Gaziantep as a pilot project, in 1973. In 1974, KÜSGEM (Small Enterprise Development Organization) started its activities according to the international agreement, namely “Small Enterprises Publishment Development”, which is approved with the 17.06.1983 date and 83/6744 no. Council of Ministers Judgment. Again, according to the international agreement of “Providing Industrial Education Services “ which is approved with 10.11.1978 date and 7/16728 no. Council of Ministers Judgment, SEGEM “Industrial Education & Development Centre” is activated.

Primary objectives of KÜSGEM were to:

- Give technical consultancy services to the small and medium scale enterprises by “Development Centers”.
- Apply the principles of modern business administration
- Create awareness of world standard quality and making it’s usage widespread
- Increase the level of technical manufacturing
- Study on the increase of the capacity of employment
- Support the technical substructure for the modern business administration skills gain (<http://www.kosgeb.gov.tr/KOSGEB/tarihce.asp>)

On the other hand SEGEM has organised many programs for meeting the education requirements of the technical staff and managers in the Small and Medium Enterprises. SEGEM became a service organisation promoting lifelong education mentality.

However, with the fact of both KÜSGET and SEGEM's services are short period, and did not totally meet the whole requirement among the country with limited sources, there appeared a need of making a legal arrangement and composing these two organisations under one roof which has a wider scope and can provide periodic and widespread services. Both this requirement and the aim of increasing the competitiveness, effectiveness and scale of Turkish SME's and integrating the industry with the economical developments; KOSGEB foundation law has been accepted in the Grand National Assembly on 12 April 1990. 3624 No. Law of the “Small and Medium Scale Enterprises Development Organization Foundation” is published on 20 April 1990 date 20498 no. Official Gazette and activated.

5.2. Description and Establishment Purpose

As indicated in the above sections of this thesis, Small and Medium Industrial Enterprises (SMEs) are the engine of an economy. SME sector is playing a key role in the successful economic growth of many developing and developed countries. A sound SME industry has important contributions to socio-economic objectives of an economy. Some key functions of SME are as follows (<http://www.kosgeb.gov.tr/KOSGEB/Default.asp>):

- SMEs are the biggest source of low cost employment
- SMEs help in regional and local development
- SMEs respond to market fluctuations more easily
- SMEs help achieve fair and equitable distribution of wealth
- SMEs are key drivers for value-added exports
- SMEs assist in fostering a self- help and entrepreneurial culture in the country
- SMEs support and complement large scale industries

Increased awareness about importance of SMEs has led almost all the countries in the world to show serious efforts to support and strengthen their SMEs through a number of support institutions and programs. SMEs need this support to overcome the economic and competitive disadvantages that they face because of their small size.

SMEs are an important part of Turkish economy. They constitute a significant majority of all enterprises, perform an important part of employment and produce a vast proportion of total output. According to the current figures, SMEs involved in the Turkish manufacturing industry which employ 1-150 persons represent the 99.32 percent of all manufacturing industry and employ 56.29 percent of all manufacturing industry employees.

The Small and Medium Industry Development Organisation (KOSGEB) was established in 1990 with a special Act. No: 3624 as a result of the government's realization and appreciation of SMEs positive role in employment and economic growth. Primary goal of KOSGEB is to support SMEs to increase their contributions to overall Turkish economy in terms of employment, exports and national income.

5.3. Objectives of KOSGEB

KOSGEB is a non-profit, semi-autonomous organisation responsible for the growth and development of SMEs in Turkey. KOSGEB's Board consists of more than forty members from the Government of Turkey and half of them are from the private sector representative organizations.

The primary objective of KOSGEB is to increase SMEs share and efficiency in Turkish economy, to enhance their competitive capacity and to increase their contributions to exports from Turkey. In order to accomplish this objective KOSGEB has assumed responsibility for the following functions (<http://www.kosgeb.gov.tr/KOSGEB/Index.asp>);

- Developing SMEs' technological skills
- Improving their training and information level

- Providing appropriate financial mechanisms
- Improving their managerial infrastructure

KOSGEB conducts all the necessary development and support programs for the objectives stated above. In this respect, the mission of KOSGEB is stated as follows (<http://www.kosgeb.gov.tr>);

- To develop and support the mechanisms which would increase the SMEs' competitive capacity both in national and international markets
- To disseminate appropriate information to SMEs
- To provide new job opportunities in the market and technology oriented, high value added production fields
- To encourage entrepreneurship and to realize all of the above mentioned activities in accordance with the previously determined program targets and planned priorities
- The main principle is to inform and orient the SMEs while being an internationally qualified organisation.

Given the mission statement, responsibilities of KOSGEB can be summarized as follows:

- To provide qualified and rapid services to SMEs in order to make them to produce their goods and services in high quality standards, low prices and advanced technologies
- To eliminate all of the obstacles that the SMEs might confront while competing in the domestic and foreign markets

5.4. Organization of KOSGEB

Major organs of KOSGEB are as follows (<http://www.kosgeb.gov.tr/Organization/Index.asp>):

- Departments of Presidency; coordinates other departments indicated below

- Technology Development Centers; usually settled in state universities
- Enterprise Development Centers; usually settled in industrial zones
- Laboratories; usually settled in industrial zones

The primary activities of these departments can be summarized as follows:

- Regional and Sectoral analysis
- Regional and Sectoral Development projects
- Local Economic Development programs
- Small Industry Regional Operation plans
- Investment and Management consultancy
- Entrepreneurship Support systems
- Research and analysis for building a suitable environment
- Support on establishment of business and development
- Programs and projects for the special target groups
- Analysis with respect to sectors and countries
- Foreign capital/mutual investment consultancy
- Advertisement supports
- Inter business cooperation programs

5.5. Activities of KOSGEB

KOSGEB presents services on production, marketing, quality control, machinery and equipment support, technology development, training, and information supply. It conducts a rich spectrum of projects and prepares supports individual projects prepared by profit and non-profit oriented organizations, associations and local authorities. In addition to these functions, KOSGEB supports industrialists for their participation at the most important international fairs abroad. Also, export oriented market research business trips are organized and supported for selected branches of industry in group organizations.

KOSGEB's responsibility for the Employment Creation Aid and the Training Aid schemes which have been approved on July 7, 1997 within the framework of the state incentives for exports. For both of the aid programs, two protocols were signed between KOSGEB and the Undersecretariat of Foreign Trade on September 17,1997.

Furthermore, KOSGEB supports the projects of the SMEs which are related to the research, new product/production methods and new technology in its seven Technology Development Centers and also in the Incubators without wall which has been recently established. The supports are shortly as follows (<http://www.destek.gov.tr/Destekler/Index.asp>);

1. Place
2. Supplies and Equipment
3. Consulting Services
4. Participating in International and Domestic Fairs
5. International Exhibitions Visiting
6. Supply of Software and Publications
7. Publication of R&D Results
8. Promotion
9. Employment
10. Training
11. Patent, Useful Model, Industrial Design
12. Preparation of Electronic Commerce-Web Site
13. Preparation of R&D Documentation

With respect to international perspective, KOSGEB is the member of World Association of Industrial and Technological Research Organisation (WAITRO) and International Association of Science Parks (IASP). In addition to this, the study of the nation wide spread of Credit Guarantee Fund Management and Research Corporation established within the framework of Turkey-Germany Economic and Technical Cooperation Agreement is continuing. KOSGEB which is one of the shareholders of Credit Guarantee Fund Management and Research Corporation added new fund and gave additional financial support to use for guarantee by Halkbank for SME credits (<http://www.kosgeb.gov.tr/Destekler/Index.asp>). KOSGEB's efforts to reach profitable

self employment to create better job opportunities and to upgrade the skills and technologies and better relations among the SMEs of the world have been supported by the international institutions such as UNDP/UNIDO (United Nations Development Program/United Nations Industrial Development Organisation), WASME (World Assembly of Small and Medium Enterprises), ILO (International Labour Office), World Bank, OECD (Organisation for Economic Cooperation and Development), JICA (Japan International Cooperation Agency).

As a result of such mutual cooperation activities, KOSGEB actively involved in international relations for instance in 1999 two cooperation agreements on SME related activities were signed between KOSGEB and Russian Federation and Singapore respectively. Additionally, KOSGEB arranged business programs for Egyptian and Algerian Delegations (<http://www.kosgeb.gov.tr>).

Successful accession to the European Union substantially depends on the ability of the SMEs to react adequately and quickly to the challenges of the market. At the preparation to the accession, the participation of Turkish SMEs in the Community programs for SMEs will play an important role. KOSGEB felt responsibility in this matter as well.

5.6. KOSGEB's Incentives for Exports

As it was indicated above, KOSGEB provides a wide range of supports for SMEs in a rich list of activities deriving from employing qualified labor to transmission to electronic commerce, from consultancy services to participation in international fairs, from education and training to building brand awareness and promoting Turkish a () brand(s) in abroad, and from international advertisement to enjoying services of matching centers in abroad. To enjoy these supports, SMEs are required to make an appropriate application, which can nowadays be made over the Internet, to give a written declaration that the applicant meets the requirements such as employing less than 150 workers and is not owned by a large organization, and to prepare a written plan, so called "Strategic Road Map".

In the Strategic Road Map, an applicant mainly states its short, medium and long term goals and strategies. KOSGEB grants many more supports to applicants who declare that they aim at starting exporting or increasing exporting when compared to other applicants who do not have an objective of launching or rising exporting. This strategy of KOSGEB shows that the organization aims at supporting SMEs, which are export oriented. In this sense, it can be asserted that KOSGEB has already been an important supporter of exporting from Turkey. In this respect, various supports provided by KOSGEB can be perceived as new incentives for exports in Turkey. What the distinguishing point is that these supports are wholly given to SMEs that are exporters or aim at being exporter in the short-run.

6. THE CASE STUDY OF DOĐA BİTKİSEL ÜRÜNLER SAN. VE TİC. A.Ş.

This part of the study includes a case study of Turkish SME supported by KOSGEB. The company is Dođa Bitkisel Ürünler San. ve Tic. A.Ş., which has been (and still is being) supported by KOSGEB between 2003 and 2006.

6.1. Dođa Bitkisel Ürünler San. Ve Tic. A.Ş.

Dođa Bitkisel Ürünler San. ve Tic. A.Ş., was established in 1989 with a vision to become the leader of the health food industry in Turkey. The philosophy of the founders have been, and still is, to lay the grounds for a well established health food company who is committed to conforming at all times to the highest level of ethical and legal standards (<http://www.doga.com/about.htm>).

Today, Dođa Bitkisel Ürünler San. ve Tic. A.Ş. is a leading company in this area, run by a committed team of experts in this field is mainly involved with manufacturing and marketing of additive free natural foods and food supplements, herbal drugs and related health products.

Dođa designs, develops, produces and sells nature based functional food products. It is the first and still is the only health food company who produce only 100% additive free products by combining the best of tradition with the input of modern science.

By introducing locally produced, herbal tablets, herbal and medicinal teas, soft and cube brown sugar, various breakfast cereals and cereal bars, aromatic oils and vinegars, culinary herb mixtures, marmalades with no added sugar, and many other products to the Turkish consumer for the first time, Dođa has earned a well deserved image. Almost all products of Dođa gained acceptance by the consumer by their universal qualities, by their innovative packages, and by their content of product information.

Doğa products have been presented to the consumer as a whole on special wooden display stands which bears the company's logo in major retailers. In addition to its own brand, Doğa has been producing herbal teas and breakfast cereals for private labels too.

Thanks to its production methods and techniques, Doğa is a modern and very innovative company. As a reason for honor, this attribute of the company was rewarded by the United Nations. After being entitled to the “The Most Innovative Entrepreneur of the Year” award by the United Nations Economic Commission for Europe in 2003, Doğa has received the United Nations Food and Agriculture Organization's (FAO) “Private Sector” category, since it has successfully offered healthy products to its consumers for sixteen years without conceding from product naturality.

6.2. Products of Doğa

The product line of Doğa can be categorized under four major groups. These were *herbal infusions, medical herbal mixtures, cereals, and natural fruit preserves* ([http://www.doga.com/Doga Bitkisel Caylar/products.htm](http://www.doga.com/Doga%20Bitkisel%20Caylar/products.htm)). Doğa also produces brown sugar, which is single product out of these categories. The brown sugar is a sweetener, richer in minerals and vitamins than pure white sugar.

Doğa Cereals

Doğa Cereals involves the categories of *whole grains, muesli, and muesli bars*. What each group contains is listed below:

Whole Grains

- Wheat Flakes

- Rye Flakes

- Oat Flakes

Muesli

- Crispy Muesli With Soya

- Crispy Muesli

Gluten Free Muesli
Muesli With Flaxseed

Muesli Bars

Muesli Bar With Green Tea Extract
Muesli Bar With Hazelnuts
Muesli Bar With Flax Seed

Doğa Medicinal Herbal Mixtures

Products in this group are:

Phyto Calm
Phyto Coff
Phyto Digest
Phyto Lax
Phyto Slim

Natural Traditional Fruit Preserves

Following items are sold as fruit preserves:

Red Raspberyy
Cornell Cherry
Blackberry
Rosehip

Doğa Herbal Infusions

Herbal infusions of Doğa are the following:

Sage
Echinacea
Form
Linden Flowers & Clove
Nettle
Rosehip

Yerba Mate
Ninjin
Fennel
Green Tea

6.3. Dođa's Relationship with KOSGEB

When the management in Dođa decided to apply for supports of KOSGEB, it was the beginning of 2003. The company needed supports of KOSGEB for its new investments and efforts to go international. While seeking for support from KOSGEB, to develop a new product and to purchase a new machine for higher quality production were two main objectives of the management in Dođa. The company needed a high tech production machine, which uses infrared technique, to produce products with higher quality. Expected benefits of the machine were as follows:

- Increasing the fibre value of grains
- Gelatinizing cornstarch
- Increasing digestibility
- Increasing protein value by drying
- Increasing shelf life of products
- No loss in nutrition value

After initial contacts with KOSGEB, the management applied for the *Machinery and Equipment Support*. A number of relevant forms were filled and several documents providing information about company's ownership structure, employment practices, machinery and equipment list, most recently published balance sheets and income statements etc. were submitted to KOSGEB. The short-term and long-term goals of the management and expected utilities of the machine planned to be purchased were stated as written report. In this way, the company had a written application to KOSGEB.

The application of Dođa was evaluated and concluded by KOSGEB within several weeks. The company was invited to form a written contract showing primary details such as the subject of the support, the amount of financial assistance, and the terms of

payments and repayments. Based on the agreement, KOSGEB provided Doğa with a financial assistance worth of €110.000. Doğa would have no repayment in the first year and repay the whole credit with equal installments spread over the months of the following three years. The credit with zero interest rate was provided in the second half of 2003 and the company purchased imported production machinery with high technology.

Following the employment of the new machinery, Doğa had a number tests conducted in laboratories of Hacettepe University and TUBITAK. Since the laboratory of Hacettepe University had not been accredited by KOSGEB, the company could receive financial support only for the test done in TUBITAK's laboratories, which had been recognized by KOSGEB. The tests were providing evidence on whether the new machinery meet expected utilities stated while applying to KOSGEB. The results were desirable. The new machinery was generating products providing benefits previously targeted. Thus, *the Machinery and Equipment Support* of KOSGEB has worked well, Doğa has increased the quality of its production, and the objectives set at the beginning of the project were attained.

6.3.1. The Muesli Bar Project

The machinery and equipment support was not the only incentive Doğa received from KOSGEB. The company also enjoyed the *Quality Development Support* and developed a new and highly innovative product, so called *Muesli Bar*. Muesli Bar was developed by a process with a length of sixteen months between January 2003 and December 2004. The newly developed product was commercialized in March, 2005 and welcomed by the British market in the same year.

The idea and concept of *Muesli Bar* were developed by the production managers in charge of new product development activities in Doğa in 2003. The Muesli Bar were developed with three varieties: muesli bar with green tea, muesli bar with hazelnuts, and muesli bar with flax seed. Doğa Muesli Bar with Hazelnuts is a mixture of micronized and delicately roasted cereal flakes, a combination of delicious sun dried Mediterranean fruits and hazelnuts held together within a base composed of peanut butter, natural fruit

paste and honey. Doğa Muesli Bar with green tea extract is formulated for the health and nutrition-conscious consumers. Finally, Muesli Bar with Flax Seed is a rich source of Omega 3 and 6 fatty acids of plant origin (http://www.doga.com/en/pro_3_10.asp).

While producing Muesli Bar, the advanced nutridigest technology has been utilized. The grains used in the product were processed without extracting anything and the contents of fibre and protein were higher with this method of production. The nutridigest technology used in production of Muesli Bar is a highly reliable and consistent “short time, high temperature” process using humidity, infrared energy and mechanical pressure to achieve high levels of starch gelatinization and elimination of anti-nutritional factors without any significant water loss. Infrared energy is the same type of energy provided naturally by the sun. Applied to selected grains and pulses, process provides improved ingredients for the food industry. Infrared energy makes the starch softer and turgid, causing it to swell, fracture and gelatinize. Immediate rolling and flaking enhances digestibility and high nutritional value. The palatability improvement achieved by converting the starches to sugar strongly enhances their flavor compared to other processes ([http://www.doga.com/Doga_Bitkisel_Caylar\Nutridigest and Muslubar.htm](http://www.doga.com/Doga_Bitkisel_Caylar\Nutridigest_and_Muslubar.htm)).

To develop Muesli Bar, a fund of YTL 50.000 was needed. KOSGEB provided the fund as a credit of zero interest rate. Doğa obtained the credit via a State Bank working with KOSGEB. The company used the fund to develop Muesli Bar. It was a project planned to last within 16 months. The project of new product development finished within the planned time period. Doğa used the fund in conceptualizing, testing and commercializing the new product, so called Muesli Bar. Primary objective of KOSGEB was to lead Doğa to exporting and the company act according to this objective by exporting Muesli Bar to British market in its first year of commercialization.

The British market is a highly competitive market where major giants of functional food industry, such as Nestle, Dr. Oetker, and Kellogg, are operating. Despite of the high competition in the market Doğa targeted this market for penetration. Even though no exact figures are available for the sales of first year, initial feedbacks with respect to customer satisfaction are reported as desirable.

6.3.2. Final Remarks

The case of Doğa is a success story. The company successfully used *the Machinery and Equipment* and *the Quality Development* supports of KOSGEB and increased its production quality and generated a product exportable to a foreign market. The two supports mentioned above are not the only incentives provided by KOSGEB for Doğa. The company also obtained *the Qualified Labor* support. While providing this incentive KOSGEB aims at motivating the entrepreneur in question for new employment and increasing its competitive power especially for the target of beginning or increasing exporting. It was 2004 when Doğa received the Qualified Labor support. The company formed contract with and employed a specialist, a graduate of university. The new employee worked for nine months. After nine months, he transferred to a new company and the contract ended in this way. KOSGEB financed 75% of all wage and related tax payments of the employee for the whole process. No repayments were asked for this support. But the support and the process of employing a new and qualified labor did not generate the desirable outcome.

In its relationship with KOSGEB, Doğa was always in touch with the KOSGEB Unit located in Boğazici University. The unit was, by nature, a technology development centre and could grant supports only related to research and development, quality development, tests and calibration activities. Doğa needed such supports to increase the quality of production processes, to develop a new product, and to raise quality of its existing products. These steps prepared the company to start exporting and the supports were granted to Doğa because it declared its objective of starting exporting. In this sense, the machinery and equipment, and the quality development supports can be regarded as indirect supports for exporting.

Doğa also needed other supports of KOSGEB such as supports for participating in international fairs for an effective process of internationalization. But entrepreneurs supported by KOSGEB can enjoy supports provided by the Unit they are in touch. Since the Unit Doğa established relationship is a technology development centre and was not authorized to provide supports other than technology development supports, Doğa could

not receive other supports such as those for participation in international fairs and advertisement in foreign markets. Thus, this limitation is the most serious problem Doğa has experienced in its relationship with KOSGEB.

The heavy burden of bureaucratic transactions needed to complete applications for supports was another handicap Doğa had to deal with while applying and receiving supports from KOSGEB. The processes were usually time-consuming and complex and specialists in charge were not authorized well to resolve the problems encountered. Since KOSGEB was newly practicing many of support mechanisms it developed, the specialists needed to get confirmation from their central governing bodies for almost all critical decisions toward granting supports. In other words, specialists who conduct transactions tended to avoid taking initiatives and this was causing delays in completion of relevant processes.

Finally, the complexity of processes required to be completed to obtain supports was the third serious obstacle in front of receiving supports. The processes usually required a lot of paper work and what asked in the forms were sometimes obscure. To articulate process of steps towards short-term and long-term goals was difficult process required by KOSGEB in written format. KOSGEB were asking the company for setting measurable goals and explaining how to attain the stated objectives with clear process steps and these somewhat complex requirements were causing some delays because neither the KOSGEB specialists in charge nor the company representatives were familiar with such practices.

Despite of all the handicaps and problems stated above, Doğa has accomplished a successful process of gaining and using supports from KOSGEB and created a new product, so called Muesli Bar, being exported to a rich foreign market. In addition to this, the company became able to promote its production technology by buying new high tech machinery with credits provided by KOSGEB. As a conclusion, the case of Doğa can be shown as a good example for other entrepreneurs seeking for supports of KOSGEB.

7. CONCLUSION

This study investigated major export incentives and specifically analyzed export incentives provided by the Small and Medium Industries Development Organization (KOSGEB) in Turkey. Although SMEs play a key role in Turkish economy in terms of employment, production and economic growth, their contribution to total exports of Turkey wehas been limited. Some factors such as increasing popularity of globalization, liberalization of Turkish Economy, decreasing domestic demands after economic crises and government incentives for exports have stimulated SMEs for exporting. Thus, aggregate exports of SMEs and its proportion in total exports have gradually increased.

Despite the positive developments, some threats against SMEs have also taken place for the recent years. After liberalization of Turkish Economy barriers in front of entry of foreign goods and services were gradually eliminated and Turkish SMEs have faced fiercer competition. To help SMEs in dealing with increased competition widely deriving from global rivals and in surviving and increasing their competitive power the Governments of Turkey have intensified their supports to SMEs. Major objectives of these supports were to lead SMEs to more investment, employment of more qualified labor, growth of output and more exports. To lead SMEs to export more has been an important goal, because it has been considered that growth in exports would contribute to overall economic growth and competitive power of small and medium industries.

Incentives given to SMEs have been widely focused on exports-related activities and expenditures. In fact, institutions, banks and organizations (such as Undersecretariat of Foreign Trade and Turkish Eximbank) in charge of providing support for Turkish exporters have been granting incentives without any discrimination with respect to size of entrepreneurs, but organizations established with the purpose of supporting SMEs have also intensified their incentives according to export efforts of entrepreneurs in question.

Incentives provided by KOSGEB (Small and Medium Industry Development Organization) have been the specific subject of study in this research. The main purpose of KOSGEB is defined as supporting small and medium manufacturers and producers to

increase their competitive power, production, employment and exports and the Organization provided a significant amount of funds for various expenditures, investments and activities of SME in the last decade. But KOSGEB has partially changed its strategy and began to choose industrialists aiming at launching exporting or increasing exporting to grant incentives. This does not mean that KOSGEB does not provide any supports for small and medium industrialists which do not export. But the Organization grant its incentives widely to producers targeting exporting or similar and related objectives such as increasing brand awareness of Turkish marks in abroad.

In this thesis, the case study of a real industry company supported by KOSGEB was accomplished. As discussed in relevant sections, KOSGEB have granted credits with zero interest rate and provided R&D incentives to the company in question. With the contributions of these incentives could buy a high tech imported machinery to use in production of a newly developed product and had relevant tests of the product realized in accredited laboratories in Turkey. As a result, the company developed a new product, namely *MusliBar*, and has successfully penetrated into the England market. Even though sales figures of the product in the English Market have not been publicized yet, the company management stated that the new product was welcomed by English consumers and first sales results are daring. Thus, KOSGEB has played a very valuable role in creating a new Turkish exporter.

It can be argued that both the critical role of SMEs in Turkish Economy and the role of some macro economic and political developments such as economic and political globalization and Turkey's integration with Liberal West World in Turkish SMEs will continue. The liberalization process will create new threats and opportunities for Turkish small and medium industrialists. Success or failure of Turkish SMEs will partially depend on support policies of Turkish governments. To narrow the MacMillan gap for Turkish case, the Governments could effectively help Turkish industrialists in increasing their competitive power and exporting more via providing incentives for their investments, R&D activities, employment, and technological advances, Turkish SMEs would significantly contribute to total exports of Turkish Economy and its overall future economic prosperity. Otherwise, a lot of Turkish SMEs would not be able to deal with increased global competition and go bankruptcy which may have negative consequences such as higher unemployment and weaker domestic industries.

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