

**ENLARGEMENT- LED TRANSFORMATION OF TURKISH SME
POLICIES**

A Master's Thesis

**by
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POLICIES

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by

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December 2011

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ABSTRACT

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This thesis aims to analyze the effects of Turkey's membership candidacy to European Union on Turkish small and medium-sized enterprises (SMEs), with respect to the European Union's (EU) pre- accession strategy and agenda setting role. After giving the contextualization and *modus operandi* of enlargement- led Europeanization as well as the EU approach to SME policies, historical analysis is utilized to show the evolution of the Turkish policies on SMEs since the establishment of Turkish Republic. The study reaches a conclusion that, EU candidacy, by means of the accession conditionality and its own agenda, led to changes in Turkish SME policy makers' perceptions regarding the role of SMEs importance in economy and thus paves the way for the solution of Turkish SME's chronic problems in the long run.

Keywords: SME Policies, Turkey, European Union, Europeanization, EU Conditionality, EU Candidacy Period, Pre-enlargement Strategy

ÖZET

ADAYLIK SÜRECİNDE TÜRK KOBİ POLİTİKALARININ DÖNÜŞÜMÜ

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Yüksek Lisans, Uluslararası İlişkiler Bölümü

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Bu tez, AB'nin katılım öncesi stratejisi ve gündem oluşturma rolünün ışığında, Türkiye'nin AB'ye adaylık sürecinin Türkiye'nin Küçük ve Orta Ölçekli İşletmelerine (KOBİ) yönelik politikalarına etkisini incelemeyi amaçlamaktadır. Çalışmada, genişlemeye dayalı Avrupalılaştırmanın işleyişi ve AB'nin KOBİ politikalarına yaklaşımı sunulduktan sonra, tarihsel analiz yönteminden faydalanılarak KOBİ politikalarının Cumhuriyetin kuruluşundan bu yana geçirdiği evrim incelenmektedir. Çalışma, adaylık sürecinin, AB'nin kendi gündemi ve katılım öncesi stratejisi aracılığıyla, Türk KOBİ politikalarına şekil verenlerin KOBİ'lerin ekonomik önemi hakkındaki algısını değiştirdiğini, bu yüzden de uzun dönemde Türk KOBİ'lerinin kronikleşmiş sorunlarının çözümüne katkıda bulunacağı sonucuna varmaktadır.

Anahtar Kelimeler: KOBİ Politikaları, Türkiye, Avrupa Birliği, Avrupalılaştırma, AB Koşulsallığı, AB Adaylık Süreci, Katılım Öncesi Stratejisi

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CHAPTER 1

INTRODUCTION

Intensified in the post- Copenhagen period, enlargement has gradually become one of the EU's most influential foreign policy tools. The EU has used this tool for tailoring the applicant states in line with its membership pre-requisites. The EU now involves in every phase of the accession process by directing and monitoring the candidate states, while they prepare themselves for accession (Hillion, 2010:11).

The pre-accession strategy led European institutions mainly the Commission; exert strong pressure on the applicant countries to transform their domestic politics. The ultimate objective of the applicants becoming a full member of the EU, as well as their perception of the EU practices as effective solutions to their inextirpable problems, inclined the applicants to adapt to the conditionality set out by the EU institutions.

Thus, the applicant states have faced enlargement- led Europeanization which is a step by step process that redirects and reshapes politics to the degree that the EU political and economic dynamics become part of the organizational logic of national politics and policy making (Ladrecht, 1994) in the pre-accession process. Due to the formalization of

the EU conditionality, and the EU's playing its agenda setting role perpetually, the impact of Europeanization is most severe after the declaration of candidacy.

In this respect, declaration of Turkey's candidacy has marked a milestone for Europeanization of Turkey, who has for long sought to become a member of the EU. The candidacy led to a significant domestic transformation process nearly in all of the policy fields, in which EU norms and practices are embraced.

The policies on Small and Medium Sized Enterprises (SMEs), which were disorganized and unsettled due to the underestimation of SMEs role in economic development by policy makers for decades, have been one of the fields that severely experienced transformation in the candidacy period. In the light of the EU's pre-enlargement strategy, this thesis tries to answer the question of how the candidacy period has affected Turkish SME policies.

Because SMEs compose 99.9 % of total enterprises and 78 %¹ of employment in Turkey, and since they are considered as the motors of bottom- up development due to their roles in employment generating, flexible production, innovation (Özcan, 1995), SMEs occupy a position of strategic importance for Turkish economy. However, since Turkey fell behind in developing effective SME policies, SMEs faced with many problems which hampered their functioning for many years. Accordingly, studying the effects of the EU candidacy on SME policies is important in the sense that it will provide a basis for understanding whether the Turkey's EU membership candidacy

¹ Source: TÜİK Annual Business Statistics , 2009 data, (European Business Facts And Figures 2009)

would serve in a further understanding of SMEs importance to policy makers, and consequently solving SMEs problems.

SME policies are one of the areas that the dimension of Europeanization is not extensively studied. Rather, the literature on Turkey's accession is abound with the Europeanization of the fields under "political criteria", such as democratization and human rights; the fields which are relatively slowly Europeanized due to high political costs shaped by public aversion. The more "technical" policy areas, which also have big impact on daily life, are brought out of focus except statistical impact assessments.

Nevertheless, since the pace of Europeanization has not been the same regarding all the policy areas due to the differences in the technical, financial and political costs of domestic transformation; it is not plausible to reach overall conclusions on Turkey's level of Europeanization on the findings of the studies of policies which have high domestic transformation costs. The study of SME policies is important since it will exemplify a swifter and deeper version of Europeanization. Relevantly, because a change in SME policies results in and result from a change in economic, sociological and developmental perspectives, this study will give an opportunity to demonstrate the impacts and *modus operandi* of the EU candidacy with an inductive approach. Using data on accession negotiations, the thesis analyzes the changes in Turkey's SME policies and institutions, in the framework of conditionality driven, enlargement – led Europeanization, which asserts that enlargement puts leverage for convergence as a result of conditionality which requires that candidates adopt and embrace EU policies

and administrative structures before becoming members, and therefore get transformed / Europeanized before being EU members.

In this context, it is argued in this thesis that, due to relatively lower political and technical costs of domestic transformation, the perception of EU practice as a remedy to deficiencies of SMEs and the EU's perpetual use of pre-accession strategy, the candidacy led Turkey to adopt the framework used by the European Union in preparing SME policies, both in terms of content and methodology. The EU had an unprecedented influence on the restructuring of Turkish SME policies by transferring its perceptions and practices regarding SMEs to Turkey, by means of its conditionality and pre-accession assistance. Therefore, Turkish SME policies are argued to be shaped by the agendas of the EU, since 1999².

While analyzing the transformation, an historical analysis was made to compare the before and after situation of Turkish SME policies. The changes in the actions of the Turkish policy makers in relation to the changes in the appeal of pre-accession instruments are examined. The data is collected from Communications, Recommendations, and Working Papers of the Commission, along with the progress reports and other accession documents, as well as the archives of the Turkish public institutions.

The thesis contains five chapters, after the introduction, the concept of enlargement-led transformation of candidate states will be presented in the second chapter. The different

² The year of the declaration of Turkey's EU membership candidacy.

definitions, including enlargement led Europeanization, will be given to form a basis for understanding the domestic transformation of Turkish SME policy. Then, the second section presents my arguments on how Europeanization occurs and candidate states embrace EU practices. In this regard, a brief summary of EU's pre - accession strategy is given, in tandem with its components conditionality and pre-accession assistance.

The third chapter discusses the EU SME Policy, which has been the formative of the Turkish SME policy in the candidacy period. Firstly, to give an insight for why the SMEs are important, their role in economic development is explained with an historical analysis of how and why they have been supported. The current EU support mechanisms for SMEs, some of which are also benefited from Turkey are presented, as well as the SME acts Turkey has committed.

The fourth chapter is composed of two parts, which analyze the Turkish SME policies in the before and after candidacy period. In the part that presents the pre- candidacy period, the chronic problems of Turkish SMEs due to the deficiencies of the policies on them is addressed, as well as the different approaches of the policy makers to SMEs in the different time frames. In the second part which presents the post candidacy period, a yearly analysis of SME policy which evolves in the light of the EU conditionality and EU agenda will be given. The discourse of, and the changes of the discourse on EU's documentary instruments such as progress reports, screening reports will be the main reference points to show the transformation process of SME policies.

In Chapter 5, the main findings of the thesis on how the SME policies have been shaped in the candidacy period will be presented, and the paramount differences of Turkish SME policy, both in terms of content and methodology will be denoted.

CHAPTER 2

ENLARGEMENT LED TRANSFORMATION IN CANDIDATE STATES

This chapter examines the concept of Europeanization in the literature in order to set a conceptual framework explaining the influence of Europeanization on Turkey's SME policy. It consists of 3 sections.

In the first section, different definitions of Europeanization are given to highlight the argument on the concept, while addressing the domestic transformation in the candidate countries. The second section explains how Europeanization evolves and candidate states embrace the EU practices. The form and the content of the rule transfer from the EU to the candidate countries and the variation of the level of Europeanization regarding different policy areas are specified.

The third section begins with an elucidation of the transformation of enlargement from a procedure to a policy (Hillion, 2010). Upon this, to form a basis for domestic SME

transformation, a brief summary of EU's pre-accession strategy is given, in tandem with its components conditionality and pre-accession assistance.

2.1 Europeanization:

Traditional Europeanization:

When the literature on the Europeanization is reviewed, it can be deduced that Europeanization is an intrinsically controversial concept. There is not a single and mutually agreed definition of Europeanization but partial approaches to the concept.

Most widely, the term is used for the reshaping and approximation of national politics and policies to the EU standards and practices. According to this approach, Europeanization is a set of regional economic, institutional and ideational forces for change, also affecting national policies, practices and politics (Schmidt, 2001). For Ladrecht (1994), Europeanization is a step by step process that redirects and reshapes politics to the degree that EU political and economic dynamics become part of the organizational logic of national politics and policy making. Radaelli, who is a prominent figure in the theoretical debates of the European integration studies, defines Europeanization as the “process of construction, diffusion and institutionalization of formal and informal rules, procedures, policy paradigms, styles, ways of doing things and public policies” (2000:30).

Europeanization is also viewed as a dual process which the nation states shape and from which they are shaped. The approach that regards member states as both contributors

and products of European integration attracted attention from many Europeanization scholars. In this respect, Europeanization is described to be “a two-way process where the EU member states create European rules which are re-imported to transform the national setting” (Papadimitriou and Phinnemore, 2003: 8); and a mechanism for states who look for shaping the effects of top down pressures by uploading their preferences to the EU level (Börzel, 2002).

For the others who sees the concept as a “smokescreen for domestic maneuvers” (Bache and George, 2006:60), it is a process in which national actors uses for legitimizing their domestic actions (Buller and Gamble, 2002; Radaelli, 2004).

The different definitions mentioned above had indeed one common trait. In their conceptualizations, Europeanization is restricted to member states of the European Union, and would be members are not considered in the analyses. Especially the earlier Europeanization literature (before the introduction of the Central and Eastern European countries on the enlargement stage) takes the member states as the sole unit of analysis (Grabbe, 2001:1014). Agh (2002:2) argues that the study of candidate countries’ Europeanization is theoretically and methodologically different, “The candidate countries have always been in a completely different situation as far as Europeanization is concerned”.

Enlargement- led Europeanization:

In newer contributions to literature, the concept of Europeanization is applied to candidate states or at least there is the argument that Europeanization can be applied to

candidate states (Sedelmeier, 2006; Aydın and Açıkmeşe, 2007; Schmelfenning et al, 2006 Gwiazda, 2002; Grabbe, 2003; Goetz, 2001).

Virtually, this newer concept of Europeanization which also includes the transformation of policies, politics and ways of doing things in candidate states. According to this approach, the concept of Europeanization with many of its different definitions can also be exported to the countries who wish to join the EU. However, the concept of Europeanization differentiates between traditional Europeanization, since enlargement – led Europeanization’s driving force is the conditionality that EU imposed via its accession instruments. Enlargement – led Europeanization, asserts that enlargement puts leverage for convergence as a result of conditionality which requires that candidates adopt and embrace EU policies and administrative structures before becoming members, and therefore get Europeanized before being EU members.

The enlargement- led Europeanization also deviates from the traditional Europeanization, which discuss Europeanization as a “two-way process” that entails a “bottom- up” and a “top-down” dimension; since it does not embrace the bottom-up dimension as the candidate countries do not have a transforming power on European Union. Therefore the direction of the process in enlargement- led Europeanization is only top- down. In other words, in the earlier studies of Europeanization, the conceptual definitions are discerned as a process which shapes the member states and at the same time is shaped by them. But in the later studies focusing on enlargement- led Europeanization, the candidate states are discussed as importers or consumers of Europeanization, rather than as co-determinants of it. Therefore, the lines between the

European and the national are more evident in the enlargement-led Europeanization literature (Papadimitriou and Phinnemore, 2003: 8). In this study, the conditionality driven, enlargement – led Europeanization, (or top - down Europeanization) is going to be the framework and the approach to Europeanization of Turkish SME policies is instrument based rather than theory based.

In the light of these differences on the conceptualization of Europeanization in the literature, the next section elucidates some arguments on how enlargement- led Europeanization occurs in candidate states. This is important in the sense that, it forms a basis for identifying how and the domestic policies regarding SMEs were transformed in the candidacy period.³

2.2 How Europeanization Occurs in Candidate States

Rule transfer from the EU to the candidate countries and the variation of the level of enlargement led Europeanization regarding different policy areas are explained in several ways:

³ Because the enlargement- led Europeanization literature to a great extent emerged with the candidacy of the former Communist States to the EU, there is an agglomeration in the studies regarding the transformation of these countries in their candidacy and new membership period. However, most of these studies analyze the democratization of these countries, putting other aspects of Europeanization on the back burner (Gwiazda, 2002; Ram, 2003; Raik 2004 and many others). Even in the studies which take Turkey as the unit of analysis, the research which analyze the transformatory role of EU in the democratization and the political criteria, outnumber the research related with technical obligations to assume the membership. However, in this study, the transformation of SME policies, one of a more technical policy area, is examined.

- i. The preciseness of the EU conditionality which will be the basis of the starting of the negotiations, and the continuation of accession process,
- ii. the perception of the EU rules as essential remedies; the level costs of the EU rules to the adopting country,
- iii. the cost reduction effect of the EU in the reform making process (Uğur and Yankaya, 2008: 581-583).

In the first approach, the reason underlying the success of EU rule transfer is claimed to be the use of precise conditionality in the enlargement methodology. The conditionality is so clearly given that, it does not lead to any confusion in the candidate country. By different pre-accession strategy instruments, the candidate country is made clear about the terms and conditions of EU membership, and also the EU makes the candidate country clear about its obligations to reach subsequent levels in the accession process (announcement of candidacy, the accession negotiations and announcement of membership)⁴. EU clearly expresses that, non compliance with the conditionality results in the suspension of the process⁵ (Council of the European Union, 2005:7).⁶ Accordingly, both the possibility of membership as an ultimate reward, and the unrest due to the potential withholding of membership in absence of proper adoption, are provided as “external incentives” for the candidate country (Schimmelfennig and Sedelmeier, 2004: 671). Thus, this external incentive creates stimuli for transformation

⁴ Haughton (2007: 234) ramifies the accession process as “pre-accession, the accession negotiations and, sandwiched between these two” and argues that the EU’s transformative power varied across these three phases, “being at its strongest during the decision phase of whether or not to open accession negotiations.”

⁵ In the negotiation frameworks of the 10 candidate countries, the formal procedures for suspension of the negotiations were not included. These statements began to be included in the accession negotiations of Turkey and Croatia, due to lessons drawn from the fifth enlargement (Pridham, 2008: 366).

⁶ Principle 5.

of domestic policies. The stimuli get stronger as the likelihood of membership increases, where the accession is perceived as a less distant probability, like in the times of declaration of candidacy (Müftüler Baç, 2005: 17) and without clear signals from the EU side, the necessary motivation for transformation would not be generated.

Rational choice institutionalism:

To further elucidate the second and the third arguments, rational choice institutionalism can be used as a theoretical framework. For understanding the Europeanization (also enlargement- led Europeanization) many theories have been set forth. However, rational choice institutionalism (RCI) is a more beneficial one to study implications of Europeanisation because it provides “explanatory frameworks for the differential patterns of national behaviour vis-à-vis the EU pressures” (Buhari, 2009:108).⁷

In the general context RCI assumes that relevant actors have a fixed set of preferences, and they behave “entirely instrumentally so as to maximize the attainment of these preferences, and do so in a highly strategic manner that presumes extensive calculation” (Hall and Taylor, 1996: 944-945). Therefore, the behavior of individuals in institutions is regarded as shaped with strategic calculations. Also it is argued that actors’ behavior is driven by a strategic calculus (its main difference by historical institutionalism); and second, that this calculus will be deeply affected by the actor's expectations about how others are likely to behave as well.

⁷ 54R Harmsen and T. M. Wilson, *Europeanization: institution, identities and citizenship*, Rodopi, 2000
Turkey-EU Relations: The Limitations of Europeanisation Studies

When linking RCI to Enlargement- led Europeanisation research, two assumptions can be suggested. The first assumption is that national actors (these can be governments, political parties, interest groups, firms) look out for their material interests and try to maximize these interests. Second, European integration offers these national actors the opportunity to realize their interests in light of domestic constraints. (Börzel and Risse, 2003; Schimmelfenning and Sedelmeier, 2005).

In the framework of the first and second arguments, it is the rational calculations of political leaders in power and the opportunity structure which enables them to realize their interests that increases the compliance with EU pre-accession requirements.

In this context, it would be misleading to think that the existence of the conditionality on its own is the golden key to success. The other factor is the perception of the EU-led reforms as necessary steps for the sake of the country. If the EU rules are perceived to be effective solutions for the candidate country's inextirpable problems, compliance to them is more likely. The European Union in this respect is perceived as a check-up report that shows the deficiencies of the country and as a source of beneficial reforms. However, if carrying out a specific reform in order to assume the obligations of the membership is too costly (in terms of both technical, financial and political costs) and perceived as conflicting with the national interests of the candidate country, then adoption is less likely.

Third, EU conditionality opens a window of opportunity for policy reform by lowering the political costs of controversial reforms" (Uğur and Yankaya, 2008: 585). The

politicians generally face up with a convenient atmosphere in bringing about many controversial reforms during the accession campaign in the name of meeting EU's conditionality. Most of the objection to reforms that would be raised in the absence of the EU conditionality becomes less evident with the prospect of membership. Furthermore, the actions made by politicians to demonstrate the benefits of the reforms which were previously questioned, may lead to moderation in the constituents against membership, who would then find it increasingly difficult to ground their objections to reforms on the matters of the national interest (Öniş and Türem, 2002:447-450). In other words, the politicians would carry out challenging reforms quicker and with less aversion from their constituents on the coattails of EU candidacy.

Consequently, as the enlargement- led Europeanization definitions infer, once the candidate state gets into the accession process, the EU step by step impacts all national patterns of governance (Grabbe, 2001:1014). The process creates a continuous stimulus for the candidate country which results with the adaptation and embracement of the policies and the ways of doing things, as wells as the values the Union is said to be built upon.

EU's successful use of pre- accession strategy, allow the EU an unprecedented influence on the restructuring of domestic institutions and the entire range of public policies in the candidate countries (Schimmelfennig and Sedelmeier, 2004: 669). The next section presents in detail the EU's pre-accession strategy, the driving force behind Europeanization, which is a combination of enlargement conditionality, documentary instruments of enlargement and pre- accession assistance.

2.3 EU pre- accession strategy:

European Union (including the former EEC) has not had a single and unique pre-accession strategy for all waves of its enlargement. Accession processes have been different in all aspects, including the number of the candidates and the duration of the process. The conditions imposed to candidate states have also varied. In the first waves of enlargement, conditionality was based on the Paris and Rome Treaties. The applicant country had to fully accept the fundamental objectives of the basic treaties establishing the community. Thus meeting the conditions based on main treaties had been enough to achieve support for accession from all the member states. Only, for some certain enlargements, some applicants have faced certain demands from the European Commission to protect their economic, social advantages and progress. Moreover, the EEC did not exert effort in monitoring the applicant countries (thus there were no settled progress reports) in the pre-accession stage (Veebel, 2009: 212; 213).

The introduction of non- treaty based criteria can be dated back to the first years of the 90's, in which Central and Eastern Europe (CEE) countries, most of which adopted communist mode of government prior to the 90s, applied to become a member of the European Union. There was a huge gap between the development levels of the existing member states and the applicant states. Therefore, adaptation of the applicants took the challenge of enlargement beyond simply preparatory reforms. "The conditions set for the CEE countries were the most detailed and comprehensive ever formulated" (Grabbe, 2002: 250). The first and most formal accession conditions till then were set at

Copenhagen in 1993 stating that, candidates must have stable democratic institutions, competitive market economies, and the ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union (Council of the European Union, 1993). The Copenhagen Council also stated that:

“The European Council will continue to follow closely the progress in each associated country towards fulfilling the conditions of accession to the Union and draw the appropriate conclusions.

The European Council agreed that the future cooperation with the associated countries shall be geared to the objective of membership which has now been established” (Council of the European Union, 1993).

Since Copenhagen, enlargement has become a policy as opposed to merely a procedure governed by a set of elaborated substantive rules, encompassing evolving accession conditions and principles (Hillion, 2010:14). By then EU is actively enrolled in transforming the candidate states to member states. Contrasting with the accessions of former waves of enlargement, in which the candidate was supposed to fulfill the conditions without any interference by the Union, the post – Copenhagen enlargement necessitates active enrolment of the EU institutions to lead and monitor the would be members while they are preparing themselves for the accession⁸.

A pre-accession strategy was first mentioned in the 1994 Essen European Summit (European Council, 1994) just one year after the Copenhagen Summit, and following on from the European Council of Luxembourg in December 1997, a reinforced pre-accession strategy for the ten Central and Eastern European candidate countries was launched. By then, The European Council with the help of the Commission, refined the

⁸ Please see the regular reports part.

normative content of the admission conditions, taking account of the circumstances of each round of enlargement, and of the candidates involved (Hillion, 2010: 10).

The problems encountered in the accession of the CEE countries which has Communist backgrounds, pointed out the necessity to improve the administrative capacities of the would be EU members. The European Council of Madrid demanded to speed up administrative reforms (European Council, 1995), resulting in the introduction of new criteria for the improvement of **administrative capacity** (the Madrid Criteria). Since then and evolving with the Agenda 2000⁹, the candidate countries have not only been obliged to adopt the legislation in the related policy arenas, but also obliged to provide well- established administrative structures for the implementation of the legislation. Thus, the candidate countries are assisted in establishing a “modern efficient administration that is capable of applying the *acquis communautaire* to the same standards as the current member states” (European Commission, 1998).

Benchmarks, as the most structured form of conditionality to accede to the different levels in the accession process, were also introduced within the 5th enlargement process.

The pre-accession strategy was sophisticated with the update of its indissociable components, enlargement conditionality (along with its documentary instruments) and

⁹ “Agenda 2000: For a stronger and wider Union”, is an action programme whose main objectives are to strengthen Community policies and to give the European Union a new financial framework for the period 2000-06 with a view to fifth wave of enlargement.

...It is a comprehensive response to the requests made in the Madrid European Council in 1995 that envisioned the preparation of a communication on the Union's future financial framework by the Commission on the basis of a thorough analysis of the Union's financing system, having regard to the prospects of enlargement (Commission DG Enlargement)”.

pre-accession assistance. The next section presents in detail the character of the EU conditionality and how the documentary instruments contributed to application of it.

2.3.1 European Union Conditionality:

Conditionality is widely acknowledged to be the driving force behind the process of pre-accession strategy, and therefore enlargement-led Europeanization (Papadimitriou and Gateva, 2009:154) and the backbone of the EU's enlargement methodology (Maniokas, 2000:3).

The European Union uses conditionality in many areas as well, being most significantly in the enlargement agenda. If the conditionality that the Union uses in the enlargement policy is to be categorized, it is *ex ante*, asymmetric, and “positive” (Veebel, 2009: 207) in nature.

The relationship is asymmetrical because, the sides are not in equal status. The European Union via its institutions sets the conditions and monitors the process made by the candidate states, while the candidate countries are obliged to follow what is told with a limited room for building contra conditions towards the Union.

The nature of the EU conditionality is *ex-ante* since, the conditionality has to be met before the accession; and the accession is the outcome of fulfilling the conditionality. Candidate states devote too much effort and resources to meet the conditions set for them for the ultimate goal of membership.

Lastly, the EU uses positive conditionality model, making the Union membership the golden carrot. However, it can not be considered as a true carrot and sticks model, because the candidate countries are rewarded by passing to another phase in the accession process, with the eventual reward to membership (the carrot), but there is not a clear sanction or a punishment if the conditions are not met (the stick). The stick can only be withholding the negotiations (Schimmelfennig, 2004; 671), thus, stalling the whole process.

After declaration of candidacy¹⁰, the documents of enlargement which specifies the priorities for the candidate country, the circumstances under which the process is brought to a standstill, the roadmaps for what to do next are prepared in each level of the process to undergird the conditionality.

In the next sections, the EU's main documentary instruments for accession process are explained to form a basis for elucidating the conditionality on Turkish SME policy. In the fourth chapter, our analysis on SME conditionality is grounded mainly on these documentary instruments.

2.3.1.1. Accession Partnerships:

In the course of the remaining part of the 1990s, new instruments were introduced to foster the pre-enlargement strategy. In the Luxembourg Council (1997) the Copenhagen

¹⁰ In the case of Turkey, the progress reports which will be explained in this chapter were published even before the declaration of candidacy.

Criteria were splitted up to short, medium and long term priorities composing of the “accession partnerships”. Accordingly, the Accession Partnerships, which are based on the pre-accession strategy, are the main instrument providing the candidate country with guidance in its preparations for accession. These unilateral documents are drafted by the Commission, shaped by the Council, and ultimately are published as the Council Decisions in the official gazette of the Union. Accession Partnerships consist of sub headings as objectives, priorities and evaluations.

As in the case of Turkey, the objective of the Accession Partnership is to incorporate in a single legal framework:

- the priorities for reform with a view to preparing for accession;
 - guidelines for financial assistance for action in these priority areas;
 - the principles and conditions governing implementation of the Partnership
- (Accession Partnership for Turkey, 2008).

In addition to setting the framework of the pre-accession financial assistance, accession partnerships include a wide variety of policy areas. The priorities are indicated in the policy areas of agriculture, taxation, fisheries, transportation, employment, social policy and many more. Short term priorities refer to list of actions expected to be taken within one to two years, while medium-term priorities are expected to be achieved within three to four years.

The candidate country is expected to respond accession partnerships that the Council has adopted, with a **national program** that clarifies the actions to be taken in the light of the

short, medium and long term priorities. These national programs are binding for the candidate countries. The candidate country specifies the reforms to be done, the time schedule and the responsible institution (mainly the public institutions) that will be responsible for the achievement of it.

Lastly, accession partnerships envision the evaluation and monitoring of the candidate countries during the process. The Commission regularly evaluates the progress made by the candidates on the priorities set by the Accession Partnerships and specifies the areas in which greater efforts have to be made. Such evaluation covers compliance with the accession criteria, including adoption and enforcement of the *acquis*.

2.3.1.2 Negotiation Frameworks:

Opening of accession negotiations is a major step in the accession process and the first manifestation of fulfillment of the conditionality after the announcement of the candidacy. In order to be eligible for the opening of accession negotiations a country should be able to meet the Copenhagen Criteria to a certain degree. Accession negotiations begin with the adoption of a “Negotiating Framework” in an Intergovernmental Conference attended the member states and the candidate states. The Negotiation framework stipulates the continuation of the negotiations on the basis of:

- Fulfilling the Copenhagen political criteria with no exceptions and assimilating and speeding up the political reforms,
- Undertaking and applying the EU *acquis*,

- Establishing and strengthening the dialogue with civil society and in this regard undertake a communication strategy aimed at both the European and the Turkish public (Council of the European Union, 2005).

Accession negotiations prescribe the outline for the candidate state to fully and effectively adopt the EU acquis to their legal systems. The *acquis communautaire* is an accumulation of the EU law, comprising of “EC’s objectives, substantive rules, policies and, in particular, the primary and secondary legislation and case law – all of which form part of the legal order of the European Union. This includes all the treaties, regulations and directives passed by the European institutions, as well as judgments laid down by the European Court of Justice.” (Eurofound, European Industrial Relations Dictionary)

The candidate country is expected to transpose all of the EU legislation to its national legislation. Therefore the EU acquis is divided into chapters according to segregate subject matters. These chapters are:

- 1) Free Movement of Goods
- 2) Free Movement of Workers
- 3) Right of Establishment and Freedom to Provide Services
- 4) Free Movement of Capital
- 5) Public Procurement
- 6) Company Law
- 7) Intellectual Property Law
- 8) Competition Policy
- 9) Financial Services
- 10) Information Society and Media
- 11) Agriculture and Rural Development
- 12) Food Safety, Veterinary and Phytosanitary Policy
- 13) Fisheries
- 14) Transport Policy
- 15) Energy

- 16) Taxation
- 17) Economic and Monetary Policy
- 18) Statistics
- 19) Social Policy and Employment
- 20) Enterprise and Industrial Policy
- 21) Trans-European Networks
- 22) Regional Policy and Coordination of Structural Instruments
- 23) Judiciary and Fundamental Rights
- 24) Justice, Freedom and Security
- 25) Science and Research
- 26) Education and Culture
- 27) Environment
- 28) Consumer and Health Protection
- 29) Customs Union
- 30) External Relations
- 31) Foreign, Security and Defense Policy
- 32) Financial Control
- 33) Financial and Budgetary Provisions
- 34) Institutions
- 35) Other Issues

The accession negotiations are not typical negotiations in which parties come together and resolve matters of dispute by holding discussions and reaching a mutual agreement. In fact the word negotiation is not suitable for this process because the subject matter of it, the *acquis*, is non- negotiable in nature.¹¹

2.3.1.3. Screening Reports:

The first stage of the accession negotiations is screening. As an initial step, the members from the Commission make a presentation of the EU legislation (explanatory meeting) in the field of a certain chapter. As a response to this, bureaucrats from the candidate countries make a presentation of the status quo of the legislation in the candidate

¹¹ Only in very limited areas, derogations can be given, but its very rare and EU does not have a lukewarm approach to demands of derogations.

country. Subsequently, the differences between EU legislation and legislation of the candidate country are determined (country sessions). As a result of these meetings, a broad calendar of the accession process and the potential obstacles that may be encountered during process are determined (EUSG, Accession Policy Directorate). After each screening process, a screening report is submitted which evaluates if the chapter is ready to be opened and what remains to be done for the opening of the chapter. This “what remains to be done” part is summarized as the benchmarks.

Benchmarks are a new tool introduced as a result of lessons learnt from the fifth enlargement. Their purpose is to improve the quality of the negotiations, by providing incentives for the candidate countries to undertake necessary reforms at an early stage. Benchmarks are measurable and linked to key elements of the *acquis* chapter. In general, opening benchmarks concern key preparatory steps for future alignment (such as strategies or action plans), and the fulfillment of contractual obligations that mirror *acquis* requirements. Closing benchmarks primarily concern legislative measures, administrative or judicial bodies, and a track record of implementation of the *acquis* (European Commission, 2006b).

Benchmarks are the most structured instruments that show all of the properties of EU enlargement conditionality (positive, ex ante and asymmetrical). Candidate states cannot move towards the next stage in the accession negotiations without the fulfillment of the benchmarks. (i.e. opening or provisionally closing of the chapters) and can not negotiate the substance of the benchmarks.

2.3.1.4 Progress Reports:

Regular monitoring of the performance of candidates in the accession process increases the credibility of conditionality and the motivation of doing reforms. The reports

facilitate the EU's determination for the fulfillment of accession conditionality. On the other hand, these reports represent a mirror of what the current situation is and a roadmap of what remains to be done for the candidate state. Being aware of these facts, The 1997 Luxembourg Council declared that:

“ From the end of 1998, the Commission will make regular reports to the Council, together with any necessary recommendations for opening bilateral intergovernmental conferences, reviewing the progress of each Central and East European applicant State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis* (...)The Commission's reports will serve as a basis for taking, in the Council context, the necessary decisions on the conduct of the accession negotiations or their extension to other applicants. In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating applicant States' ability to meet the economic criteria and fulfill the obligations deriving from accession.

The Commission is given omnibus powers by the Council to monitor the performance of candidates in their accession process. Acting beyond its traditional role of ‘guardian of the Treaties’ vis-avis the Member States, the Commission acquired the pivotal function of promoting and controlling the progressive application of the wider *EU acquis* by future members (Hillion,2010:13).

The Commission each year (generally in one of the months of autumn) adopts the "enlargement package", a set of documents which explain different aspects of enlargement policy. This package reveals the annual enlargement strategy with the objectives and prospects of enlargement, and provides an assessment of the progress made over the last twelve months by each of the candidates and potential candidates. These assessments are also published as progress reports, in which the services of the Commission monitor and assess in detail what each candidate and potential candidate

has achieved since last year, pointing out where more effort is needed (European Commission, DG Enlargement).

A progress report is consisted of three parts which highlight the candidate country's performance on the political criteria, economic criteria and ability to assume the obligations of the membership (European Commission, 2010a). In the "political criteria" part, candidate's alignment with the Copenhagen Criteria, democracy and the rule of law, human rights and protection of the minorities, and regional and international obligations is monitored.

In the "economic criteria" part, the existence of a functioning market economy, the capacity to cope with the market forces within the Union (along with the performance in main economic indicators of the candidate country) are evaluated.

Lastly, in the "ability to assume the obligations of the membership" part, the annual performance regarding the chapters, the state of play in the adoption of the entire body of European legislation, and the effective implementation through appropriate administrative and judicial structures in the candidate state are monitored and evaluated.

Moreover in order to ensure equal treatment and an objective assessment across all reports, it is stated that: "As a rule, legislation or measures which are under preparation or awaiting Parliamentary approval have not been taken into account" (European Commission, 2010a: 4).

The terminology used in the progress reports unfolds the view of the Commission in the related issues. Progress in the policy areas is compared to the previous year(s) and classified as “no, hardly any, limited, little, uneven, some, further, good, substantial” progress. Thus, this document, although not even published in the official gazette of the Union, is one of the most important documents for the candidate country. The institutions who are responsible from the several chapters see their pros and cons and are directed in what remains to be done.

In addition to The Commission’s Regular Reports, European Parliament (EP) also prepares a report evaluating the general performance of the candidate states in many policy areas. The Parliament is a key player in determining the extent of enlargement under article 49 of the Treaty of the EU. Accordingly, the EP must give its assent to all accession treaties by an absolute majority of its component members (Treaty on European Union, Lisbon consolidated version, 1993, 2009). This provides the EP with a veto over enlargement. Therefore, the role of the Parliament on the enlargement policy is undeniable.

However, the EP’s progress reports are not as systematic as that of the Commission’s in nature. A rapporteur, who is also a member of the Parliament, is chosen to write the report on behalf of the Committee on Foreign Affairs. The report generally consists of the General Remarks, Political Criteria, Economic Criteria, Ability to Assume the Obligations of the Membership parts and several issues that are specific to a certain

candidate country¹². The report, completed by the rapporteur, is submitted to the Parliament and necessary amendments to be voted later are requested from the Parliamentarians representing each political group in the Parliament. The final report is published as a Parliament Resolution.

2.3.2 Pre-accession assistance

As another component of pre- accession strategy, candidates are given pre-accession assistance for their reform processes. This assistance can be in the form of technical assistance or financial assistance. Technical assistance is usually given by the EU for the development of administrative capacity and for the proper implementation of reforms in the candidate country while financial assistance is given to ease the financial costs of the transformation process.

2.3.2.1 Technical Assistance:

Since, the European Council of Madrid demanded to speed up administrative reforms (European Council, 1995), the EU also calls for administrative structures that are authorized on the proper implementation of the policies. Thus, administrative capacity is a prominent component of EU conditionality, and one of the main instruments of EU's transformative mechanism. This instrument is not only used in the transformation of the

¹² In the European Parliament Reports on Turkey, several extra titles exist such as Enhancing Social Cohesion and Prosperity, Building Good Neighbourly Relations, Advancing EU- Turkey Cooperation. Moreover, in the reports regarding Croatia, there are sub titles encompassing Croatia specific issues such as Regional Cooperation. SME policies have not ever been placed to the Progress Report that the Parliament prepares.

candidate states, but also in acceding states, new members and potential candidate states which are also called beneficiary countries.

For the proper adoption and implementation of the reforms, and building up the necessary administrative capacity, the EU provides technical assistance to the beneficiary countries via two main instruments which are Twinning and Technical Assistance and Information Exchange.

i. Twinning Programme:

Twinning programme targets to assist the beneficiary countries to develop modern and efficient administrations, by assisting them in building necessary structures, human resources and management skills needed to implement the EU *acquis*. Within the programme, administrations and semi public administrations in the beneficiary countries are provided an opportunity to work with their counterparts who are experienced in facilitating the transposition, enforcement and implementation of EU legislation in the member states.

Experts (civil servants) from the member states are sent to the beneficiary countries (in our case candidate countries) to transfer their experience they built in the well established administrations of the member countries so that the process of the legal convergence with the EU and development of institutional capacities for implementing the *acquis* would be accelerated.

In line with the priority areas of the *acquis* set out in the Accession Partnerships, parties prepare a detailed working programme covering the projects to meet a specific objective.

The experts in the twinning projects who are seconded from a member state are the Resident Twinning Advisers (RTA)¹³ and the project leaders.

ii. Technical Assistance and Information Exchange (TAIEX):

Another EU instrument in Europeanization process is Technical Assistance and Information Exchange (TAIEX). Like in the twinning, the beneficiary countries are provided advice on the transposition, administration and enforcement of the EU legislation. However, the time scope of TAIEX is shorter than that of twinning's and TAIEX is not project based.

The TAIEX involves expert missions and study visits in order to exchange information between experts and the beneficiaries¹⁴. During the study visits, the officials from the beneficiary countries are sent to member state administrations in order to look under the hood of the administrative procedures and behold the examples of best practices.

Expert missions, however, involve the visits of the experts from member states to the beneficiary states. During these visits, draft legislation is discussed; examples of best practices are presented; and where needed, assistance is provided.

¹³ A RTA “works full time for a minimum of 12 months in the corresponding ministry in the partner country to implement the project. Project Leaders are responsible for the overall thrust and coordination of the work” (European Commission, DG Enlargement).

¹⁴ The TAIEX mandate to provide assistance covers the following groups of beneficiary countries:

- Croatia, Iceland, Turkey, former Yugoslav Republic of Macedonia;
- Albania, Bosnia and Herzegovina, Montenegro, Serbia and Kosovo (as defined in UN Security Council Resolution 1244 of 10 June 1999);
- Turkish Cypriot community in the northern part of Cyprus;
- Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, the Palestinian Authority, Syria, Tunisia, Ukraine and Russia.

- Civil servants working in public administrations; at national and sub-national level and in associations of local authorities;
- The Judiciary and Law Enforcement authorities;
- Parliaments and civil servants working in Parliaments and Legislative Councils;
- Professional and commercial associations representing social partners, as well as representatives of trade unions and employers' associations;
- Interpreters, revisers and translators of legislative texts.

Although being intrinsically controversial, the different Europeanization conceptualizations can guide us in our case, which we take the transformation of Turkish SMEs in the candidacy period. However, since Turkish SME policy makers do not enroll in European rule creation but transform these rules in the national setting, we will base our analysis on enlargement-led Europeanization concept, which does not address the Europeanization as a two - way process. The direction of the Europeanization process of Turkish SME policies is only top down.

After denoting the Enlargement - led Europeanization concept and pre-accession strategy of the EU, the analysis of Turkish SME Policy transformation will be based on the arguments on how Europeanization occurs in candidate states¹⁵. The analysis will be made in Chapter 4. However, before elucidating how Turkish SME policies are Europeanized, I present the European SME policy in the next chapter.

¹⁵ These arguments are given in page 67:69.

CHAPTER 3

SME POLICY OF THE EUROPEAN UNION

This chapter is composed of three parts. The first part describes the various roles of SMEs in the economy and concludes that, because of their flexible and innovative character, SMEs are momentous actors of today's world; and European Union strives to use SMEs as a tool not to lag behind its competitors, mainly the United States.

The second part presents the historical evolution of the SME and enterprise policy of the European Union from the days of European Community to today and focuses on the last decade. The third part, describes the current European Union Support mechanisms for SMEs.

In this chapter, the evolution of the SME Policy of the EU is described in detail to elucidate further how Europeanization of a candidate state's SME policies can be examined. In order to make an analysis of Europeanization of domestic SME policies in a candidate country, one should first have a grasp of European SME policy.

3.1 Roles and reemergence of SMEs in the economy:

SMEs have been historically important especially in the period till the industrial revolution, since business was conducted by small artisans and craftsmen composed of family members engaged in manufacturing activities. However, with the invention of the steam machine, there has been an increase of mechanization, leading to a shift from the use of human labour to the production with machines. These machines were able to produce large volumes of outputs in comparably less time, which led to mass production and therefore emergence of enterprises that produces in large-scales. This understanding led to Fordist type of production, which combines mass production and mass consumption and became the most favored tool to stimulate economic prosperity in developed countries.

However, there emerged problems by time because of the rigidity of long term and large scale fixed capital investments related to mass production systems, which in turn impeded flexibility of production design and flexibility in labor markets (Özcan, 1995:31). Thus, strikes and labour disruption occurred widely in the late 1960s and the early 1970s. Furthermore, the petroleum shocks and raw materials problems in 1970s and 1980s further deteriorated the situation. Consequently, in the aftermath of the crises big corporations had sharp cuts in their profits, and thereafter they were unable to meet the demand for their products even though the demand was also plummeted. Production seemed to decrease in mostly large enterprises, which used an extensive amount of technology supporting mass production.

Nevertheless, the experience of SMEs was quite different. Despite the closure of many small enterprises in the early years of the crises as a result of raw material crises and stagnation, there has not been an important regression in the numbers and employment volumes of the SMEs in the post-crisis period. They could even create new employment opportunities due to their flexible structures after a short time (Savaşır, 1999: 3). The flexible nature of the SMEs let them resist to crisis conditions more easily. Because of their rapid manpower movement, they adapt to new market conditions more quickly, and contribute to creation of employment after recession periods more quickly.

In light of these, flexible production was encouraged as a new form of production (post-Fordist type of production) and capital accumulation, leading to the reemergence of small enterprises in late 1970s. Considering the seriousness of the employment problem today, this reemergence is very instrumental in job creation (Fida, 2008).

Moreover, in terms of innovative production and development of a knowledge based society, SME's role should not be ignored. SMEs can be considered as a fertile environment that nurtures entrepreneurship (Taymaz, 1997:18) because of the independent character of entrepreneurs who is the main agent of technological progress, and the flexible form of production¹⁶. Combined with the less bureaucratic administrative structures that can be encountered in large enterprises, dynamic, SMEs can produce innovative and marketable outputs especially in newly emerging industries such as bio- technology and computer software. Because SMEs often get the knowledge

¹⁶ Adapted to consumer preferences and unstandardized form of production processes.

inputs from other third party firms or research institutions such as universities, knowledge spills over from a firm conducting the R&D or the research laboratory of a university (İskender Işık, 2005:2). Accordingly, SMEs' role in the creation of a knowledge based society became prominent.

SMEs also:

- Can customize products due to customer demand.
- Can and create product variety with relatively fewer investments.
- Act as a school in vocational training.
- Can create employment with less investment cost. (Especially in terms of business start ups)
- Can make complementary production to large enterprises (Koç, 2008:15).

Accordingly, it was understood clearly that it was not the size of a firm (large or small) but the creation of new businesses (a stand-alone business or a new branch) that create new jobs and stimulate economic growth (OECD, 1994: 9). Thus, the small firm took a central role in sustaining and conditioning the economy (Curran and Blackburn, 1994:17). Since then, local and national development perspectives related with SMEs have been utilized for job creation and revitalization in backward peripheral and rural areas and in declining industrial regions. The use of local resources under local control for predominantly local benefit, and the redistribution of the benefits within the locality were perceived as a necessary step for a bottom-up development (Özcan, 1995: 9). The role of small firms in bottom- up development since they redistribute the benefits they created

into locality came into prominence in European Union along with the whole world in light of such arguments.

3.2 Historical Development of European Union's SME Policies

3.2.1. "1983": Year of SMEs and Craft Industry and the Introduction of SME Action Plans

Although there have always been elements regarding the SMEs in various policy fields, EU's first well defined and comprehensive SME policy was formed in 1983. This year was recognized as the "Year of SMEs and Craft Industry in which the first "Action Plan for SMEs" was introduced.

In line with the first Action Plan for SMEs, three years later, the Commission set up a working party, an independent "SME Task Force" in order to coordinate all relevant activities within the Commission. The aim of this Task Force was promoting the harmonization of policies at the national and the Community level assisting to set up an infrastructure at the European level for the solution of SMEs' problems and in particular developing a communication and training strategy for SMEs (Commission Staff Working Paper, 1985).

Following the Council Resolution of 1986, an "Action Programme for SMEs" was formed in 1987, which was an important step in the development of an enterprise policy envisioning the provision of favorable environment for SMEs. (The Programme

facilitated the removal of administrative barriers for SMEs, adoption of a comprehensive company law, enhancement of the taxing conditions a response to the specific needs of SMEs such as training.)

In 1987, The Euro Info Centres were established to provide up-to-date information on European Directives and Regulations, public sector contract opportunities, business opportunities, funding, research and development initiatives.¹⁷

3.2.2. Inclusion of SMEs in the Maastricht Treaty

A very important step for the enterprise policies in the EU's history was the establishment of the concept of SMEs in the Treaty on European Union (1992, article 157). The treaty emphasized the necessity of the industrial competitiveness:

The Community and the Member States shall ensure that the conditions necessary for the competitiveness of the Community's industry exist. For that purpose, in accordance with a system of open and competitive markets, their action shall be aimed at [e]ncouraging an environment favourable to initiative and to the development of undertakings throughout the Community, particularly small and medium-sized undertakings.

Following the Maastricht Treaty, various measures and programmes were initiated by EU institutions (mainly the Commission) and the member states. All the parties, national, regional and local authorities, the social partners and Community institutions were included in the development of SME policies. For example, Integrated Programme for SMEs and the Craft Sector” which was initiated in 1994 aimed at bringing

¹⁷ Euro Info Centres were replaced by Enterprise Europe Network (EEN) which is financed by Competitiveness and Innovation Framework Programme.

together, the Community enterprise policy, the elements of other Community policies such as the structural funds, research and development, training and certain aspects of Member States' enterprise policy.

The Amsterdam Treaty also envisioned the establishment of The Business Environment Simplification Task Force, known as BEST, to improve the business environment for SMEs and simplification of legislation and the regulatory and administrative burdens in member states (European Union Press Release, 16 September 1997). Within this context, a Work Group was established to prepare a report on the development of business environments of SMEs.

3.2.3. Multiannual Programs for SMEs

Based on the action programmes, multiannual programmes (MAPs) for SMEs were reinforced by the community institutions in order to improve the administrative and legal environment of enterprises. The first Multiannual Programme enclosed the period of 1991-1993. All the four¹⁸ MAPs had the targets of:

- Improvement of the administrative and legal environment of legal environment of enterprises including indirect taxation,
- Easing access to Community information,
- Developing instruments permitting direct contact between entrepreneurs,

¹⁸ 2nd MAP enclosed the period of 1993- 1996
3rd MAP enclosed the period of 1997- 2000
4th MAP enclosed the period of 2001-2005

- Ensuring consideration of SME interests in the various Community initiatives and policies,
- Encouraging SMEs to adapt to structural change and to changes brought about by the Internal Market,
- Promoting a better financial environment for enterprises,
- Promoting better observation of the economic development of the enterprises (European Commission, 1996).

In 1994, the Commission embraced a Working Program for small-scale businesses. (European Parliament, 2009) to achieve the targets determined in the MAPS.

3.2.4. Lisbon Strategy and the European Charter of Small Enterprises:

Although these developments helped to take certain steps to address the needs of the SMEs of the Union; efficiency problems and burdens on financial access were still evident. Persistent weak average growth rates and high unemployment and/or inactivity rates in the EU, compared to those in the United States, and the emergence of new economic giants such as China and India, raised concerns regarding sustainable economic growth among the member states of the EU (Amable et al, 2009: 33). The EU SME policy was then criticized in terms of “lacking coherence and appearing scattered rather than focused” and the “absence of a unifying project” (Dannreuther, 1999: 439).

Taking these problems into account, it can be said that the most revolutionary action for SMEs and entrepreneurship was set in the beginning of the new millennium, known as the

Lisbon Strategy. In March 2000, the Lisbon European Council agreed on a number of objectives and tools for stimulating the EU economy to become “the most competitive and dynamic knowledge-based economy in the world” within a period of 10 years (European Council, 2000). The Strategy was the result of a reaction to Europe’s perceived insufficiency in the numbers of new as well as high-growth technology based on small businesses that generate growth and jobs (Audretsch et al., 2009: 463). This was an in-depth strategy for Union’s economic and social development in the face of the new challenges: globalization, faster technological change and increased competition.

In order to find solutions to these new challenges, three policy measures were proposed under this programme:

- Supporting knowledge and innovation;
- Making Europe a more attractive place to invest and work;
- Creating more and better jobs (European Council, 2000).

To prepare the ground for the a competitive and dynamic economy, the creation of 15 million new jobs by 2010 was targeted. By taking in to consideration of SME’s role in job creation and innovative production, SMEs came to the forefront of the EU agenda once again with the Lisbon Strategy. Dynamic SMEs are perceived as the agents to make Europe more robust to confront the challenges and the uncertainty in the competitive and globalized world.

As the first step, a self-commitment from the Member States to improve the business environment for small enterprises, European Charter for Small Enterprises, was approved by the EU leaders at the Feira European Council on 19-20 June 2000 just two months after the Lisbon Council. Under the Charter, Member States and the Commission took action to support small enterprises in ten key policy areas:

1. Create an environment for entrepreneurs and family businesses to thrive and entrepreneurship to be rewarded.
2. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance.
3. Design rules according to the “Think Small First” principle.
4. Make public administrations responsive to SMEs’ needs.
5. Facilitate SMEs’ participation in Public Procurement and better use State Aid possibilities for SMEs.
6. Facilitate SMEs’ access to finance and support timely payments in commercial transactions.
7. Help SMEs to benefit more from the opportunities offered by the Single Market.
8. Promote the upgrading of skills in SMEs and all forms of innovation.
9. Enable SMEs to turn environmental challenges into opportunities.
10. Encourage and support SMEs to benefit from the growth of markets.

Source: European Charter for Small Enterprises, European Union Official Web Site

This was the result of an understanding of the common deficiencies of European SMEs which were unable to:

- Make their problems and concerns known by the government, lacking of efficient communication channels,
- Exchange their good practices with their counterparts in an enlarged Europe,
- Access to appropriate learning opportunities to keep their skills and competence updated
- Access to financial instruments.

For the implementation of the charter, “a better business environment within the Internal Market, including the lightest possible administrative and regulatory burdens on

businesses and access to finance” (European Commission, 2003b: 2) was required. The EU was then called into develop more positive attitudes towards entrepreneurship. Moreover, the fourth multi-annual programme was introduced as an instrument for implementing these ten principles. The programme enclosed the period between 2001-2006.

To assess the progress in supporting Europe’s small and medium sized enterprises, and the level of the positive attitudes towards entrepreneurship, a series of documents¹⁹ were published by the Commission and its services. The reports were aimed to examine the level of the Union’s commitments and the level of the business friendly atmosphere that is being created.

3.2.5. A new SME definition:

In this period a serious problem on the Union-wide SME policies was the lacking of a common definition of an SME. By then, all Member states had their own criteria to designate the indicators of SMEs. This caused a complexity in the determination of the right union-wide policies which fit with the necessities of each member state.

¹⁹ Some of those reports were:

- Report on the Implementation of the European Charter for Small Enterprises; (COM (2003)21.of 21 January 2003.)
- Report on the implementation of the European Charter for Small Enterprises in the candidate countries to accession to the EU; (SEC (2003)57.of 21 January 2003.)
- “Creating an entrepreneurial Europe: The activities of the European Union for small and medium-sized enterprises (SMEs)” ; (SEC (2003) 58.of 21 January 2003.)
- “The SME Envoy: an active interface between the Commission and the SME Community” (SEC (2003) 60 of 21 January 2003.)

Given the extensive interaction between national and EU measures to help SMEs in areas such as regional development and research funding, it was vital that the measures related with SMEs in a single market with no internal boundaries to be grounded on a common definition to foster their cohesiveness and effectiveness, and to limit defects of competition.

To clarify a comprehensive strategy covering the needs of all member states, European Commission adopted a recommendation On 20 May 2003 concerning the definition of micro, small and medium-sized enterprises to be applied for all future EU measures in support of SMEs. It raised the financial limits at which an enterprise ceases to qualify as an SME, and introduced new exceptions to the requirements for autonomy (European Commission, 2003c:39-41).

Directorate General for Enterprise and Industry of the European Commission designates the objectives of the new SME definition as follows:

- To define more congruous thresholds
- To promote micro enterprises
- To improve access to capital
- To promote innovation and improve access to R&D
- To take account of different relationships between enterprises

According to the new definition, an enterprise is “any entity engaged in an economic activity, irrespective of its legal form” (European Commission, 2003c: 39).

Table 1 New SME Definition of EU

Enterprise category	Headcount	Turnover	or	Balance sheet total	Autonomous
medium-sized	< 250	≤ € 50 million		≤ € 43 million	25% of or more of the capital or voting rights of another enterprise
small	< 50	≤ € 10 million		≤ € 10 million	
micro	< 10	≤ € 2 million		≤ € 2 million	

Source: Commission Recommendation, 2003/361/EC: 39-41

The new definition came into force in 1 January 2005. Although use of the definition is voluntary for both enterprises and member states; in order to be eligible to apply to the financial aid or specific programmes, the definition is very essential since it clarifies the thresholds of an SME. One of the main objectives of the new definition is to make certain that support devices are imparted only to those enterprises which are really in need of them. The definition also contains several anti-circumvention measures designed to bring the advantages of SME support programmes to real SMEs.

3.2.6. Relaunch of the Lisbon Strategy:

In the last months of the 2003 and the first months of 2004, the Lisbon Strategy was reviewed and in accordance with the findings of this review, a report was presented concluding that; even though some progress was made, most of the goals were not achieved. The report inserted that this failure was due to an “overloaded agenda, poor coordination and conflicting priorities” (Kok et al, 2004:6). The report showed the

deficiencies in knowledge society, the internal market, the business climate, the labour market, and environmental sustainability and in some way attributed most of these deficiencies with the poor coordination SME policies:

“SMEs are major sources of growth and new jobs. Entrepreneurship is thus a vocation of fundamental importance...Increased knowledge and an open internal market does not automatically drive innovation, competitiveness and growth. It requires entrepreneurship to design new products and services and take advantage of market opportunities to create value for customers” (Kok et al, 2004: 28).

The report concluded that further action was necessary to reduce the total administrative burden to increase the business climate, facilitating the rapid start-up of new enterprises and creating an environment more supportive to businesses.

In the light of this report, the Lisbon Strategy was relaunched in the Brussels European Council of 23 March 2005:

...”To that end, it is essential to relaunch the Lisbon Strategy without delay and re-focus priorities on growth and employment. Europe must renew the basis of its competitiveness, increase its growth potential and its productivity and strengthen social cohesion, placing the main emphasis on knowledge, innovation and the optimization of human capital” (Article 5).

To achieve the objectives, all the member states and Union institutions were called to further mobilize all available national and community resources including the cohesion policy. One of the other decisions in the Council meeting was the inclusion of the policies that contribute to the achievement of Lisbon priorities in the financial perspective for 2007- 2013. Establishment of support mechanisms for innovative SMEs,

including high tech start-ups, stimulation of impetus to innovation by establishing a new mechanism for financing innovative SMEs with a high growth potential were among the vital strands of the relaunch (European Council, 2005: 3).

“The Commission and Member States are also called on to make best use of support networks for SMEs; to this end, they should swiftly identify, with national and regional social partners and, as far as possible, with chambers of commerce, the rationalization and cooperation measures required” (European Council, 2005: 8).

SME's, thereby were again acknowledged as the main engines of sustainable growth in the mid-term review of the Lisbon Strategy.

3.2.7 Small Business Act:

After the adoption of the Charter and subsequent Council decisions, member states have step by step improved the business environment for SME's; especially by focusing on easing the business start-up procedures. For example, The 2006 Spring European Conclusions introduced “one stop shops for setting up a company in a quick and simple way that reduces the average time for setting up a business (European Council, 2006: 9).

The midterm review of the EU's Modern SME policy from 2005 to 2007 (European Commission, 2007b) showed that the Member States and the EU have made progress in creating an SME friendlier business environment and the Commission's progress in cutting out the red tape.

Moreover, despite observable progress, EU SMEs had still lower productivity compared to and slower growth than their counterparts in the United States (European Commission, 2008b:3). Also the situation faced regarding to the employment creating of the surviving new firms and financial access was comparably lower in the European Union (Eurobarometer, 2007:21).

In light of the relaunched Lisbon Strategy and the midterm review of Modern SME policy and the taking the deficiencies of the European Charter for Small Enterprises into consideration, the Commission initiated a new agenda named “Small Business Act” (SBA) for strengthening SMEs’ sustainable growth and competitiveness. The Commission made this initiative on an “expressed strong support” from the March 2008 European Council and public hearing (Communication from the Commission, 2008:3). The name “act” highlighted the will of politicians who concedes the essential role of SMEs in EU economy.

The new Small Business Act put forward:

“.. Achieving the best possible framework conditions for SMEs depends first and foremost on society’s recognition of entrepreneurs.” The SBA thus affirmed that the perception of the risk taking and the role of entrepreneurs had to change and be supported by media, politicians and the administrations (Communication from the Commission, 2008:3).

Building on the European Charter for Small Enterprises, SBA introduced the “Think Small First” principle which signified the importance of being SME- friendly based on the conviction that “rules must respect the majority of those who will use them”.

The Think Small First principle was backed up with ten principles:

1. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded
2. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance
3. Design rules according to the “Think Small First” principle
4. Make public administrations responsive to SMEs’ needs
5. Adapt public policy tools to SME needs: facilitate SMEs’ participation in public procurement and better use State Aid possibilities for SMEs
6. Facilitate SMEs’ access to finance and develop a legal and business environment supportive to timely payments in commercial transactions
7. Help SMEs to benefit more from the opportunities offered by the Single Market
8. Promote the upgrading of skills in SMEs and all forms of innovation
9. Enable SMEs to turn environmental challenges into opportunities
10. Encourage and support SMEs to benefit from the growth of markets

To translate these principles into the practice, both member states are invited to take many actions which can be summarized as:

- Stimulating entrepreneurial mindsets among young people by introducing entrepreneurship as a key competence in school curricula,
- Make sure of quick adoption of the proposals relating to the reduction of administrative burdens in Community legislation
- Develop financing programmes that address the funding of SMEs
- Provide SMEs with advisory services to defend themselves against unfair commercial activities
- Encourage the internationalization of SMEs and encourage coaching of SMEs by large companies in order to get them into international markets (Communication from the Commission, 2008:5-18).

3.3 European Union Support Programmes for SMEs

In order to let the principles in the Small Business Act (and for the older times, the European Charter for Small Enterprises) be carried out, many EU wide support initiatives were introduced for SMEs, in the form of financial assistance (grants, loans, guarantees) and non- financial assistance.

The support is given either directly or via programmes that are carried out at national or regional level, such as the European Union's Structural Funds. Besides, a series of non-financial measures in the form of programmes and business support services are introduced for SME assistance. According to European Commission's Enterprise and Industry Directorate General the assistance schemes can be divided into four categories: (European Commission, 2009b: 2).

3.3.1 Thematic funding opportunities:

This type of funding targets the achievement of specific objectives which are designed and implemented by the Departments of the European Commission in the fields such as environment, research, education.

SMEs are encouraged in certain topics for collaborative projects to apply directly for the programmes, mostly provided that they present value-added, sustainable and trans-national projects. The funding is in the form of subsidies, which do not cover all the costs of the project. Rather, co- funding is the general rule, allowing assistance covering only a

certain portion of the total costs. Depending on the programme, industrial groupings, business associations, business support providers and/or consultants can also apply for the projects (European Commission, 2009b: 2).

3.3.2 Structural funds

Structural funds are one of the most considerable funding instruments of the Union which aims to minimize the disunity in the development levels of the regions and to uphold economic and social cohesion within the EU. The funding is given through the projects under specified programmes managed in the regional and national level and direct aid is only given to SMEs from economically less developed regions.

Structural funding on SMEs has a number of objectives that can be categorized as: specific and final. Within the context of specific objectives, the priority target is the development of the SME sector itself. Structural funds are designed for SMEs to stimulate new business start ups and increase the growth potential of the existing SMEs. The funding generally involves a combination of the aid given directly to SMEs (demand side) and other indirect SME support structures (supply side) (European Commission, 2009: 2).

SME funding is also perceived as an instrument to reach the final objectives of the structural funds, which can be summarized as:

- Overcoming the problems faced the regions lagging economic development,

- Minimizing the problems caused by the decline of traditional industries and high unemployment,
- Diversifying and modernizing rural economies,

3.3.3 Financial instruments

European Commission has set up a number of measures for the financing of SMEs , mainly the innovative and growing ones. The basic characteristic of this financing is that these financial instruments do not provide direct funding to SMEs, however, the funding is canalized through financial intermediaries such as banks, credit institutions or investment funds. What the Union tries to do is to encourage these intermediaries to develop their SME lending capacity.

Some of the most important financial instruments are:

a) Competitiveness and Innovation Framework Programme (CIP):

The Competitiveness and Innovation Programme has been adopted to strengthen competitiveness and innovation capacity of the Union, by providing better access to financial and technical assistance to SMEs. The main objective of the Programme is to promote a business climate which encourages the use of information technologies, and dissemination and use of new knowledge by SMEs. The timeframe of the programme is 2007- 2013.

This programme is organized under three schemes²⁰ managed on behalf of the European Commission by the European Investment Fund (EIF). These schemes shares risk and reward with private equity investors provides guarantees to guarantee schemes in order to increase the supply of debt finance to SMEs, and supports the capacity of financial intermediaries in some member states. The programme has a total budget of over €1 for the period between 2007 and 2013 (European Commission, n.d.).

b) Joint European Resources for Micro and Medium Enterprises (JEREMIE):

It is an initiative that is carried out by the European Commission, European Investment Fund with the European Investment Bank. Micro-enterprises are given a particular importance for the funding (European Investment Bank Group, 2011).

c) Joint Action to Support Micro-finance Institutions in Europe (JASMINE):

This action is a complimentary to Jeremie initiative that takes finance institutions as subjects of scope. It provides technical assistance to microfinance institutions in order to transform them to sound and credible financial intermediaries with the ultimate target of advancing the accession of financing by SMEs. The initial capital of the programme is €50 million.

d) European Investment Fund's (EIF) own investments:

EIF uses instruments that form from capital investments in venture capital funds and business incubators and provision of guarantees to financial institutions that credit SMEs.

²⁰ 1)The High Growth and Innovative SME Facility (GIF)

2)The SME Guarantee Facility (SMEG)

3)The Capacity Building Scheme

e) European Investment Bank (EIB) loans

European Investment Bank Group declares “one of the top operational priorities as supporting the investments of SMEs, the engine of Europe’s economy. Approximately €30 Billion is allocated for SMEs. These loans too are canalized to SMEs through financial intermediaries.

3.3.4 Support for the internationalization of SMEs:

9 percent of the Support Programmes focus on the removal of international trade barriers (European Commission, 2010c: 63). International activities take many forms such as imports, exports, foreign direct investments, technological cooperation with foreign enterprises and international e- commerce. Support within this scope is often indirect again. Some of the support programmes are:

- EU Gateway Programme
- EU- Japan Industrial Cooperation Programmes
- Executive Training Programme

After, elucidating the SME policies of the EU, the next chapter addresses how these policies have been transmitted to Turkey, and how Turkey responded to this transmission.

CHAPTER 4

EVOLUTION OF SME POLICIES OF TURKEY

This chapter aims to analyze the European Union accession process' influence on Turkish SME policies. To be able to distinguish this influence, it makes a historical analysis of Turkish SME policies starting from the early periods of the republic, discussing what has been done for SMEs and for which reasons. The evolution of SME policies, which are shaped by the essence of the governments' programmes as well as the international conjuncture, is analyzed. The Republican Peoples Party (RPP) period, Democrat Party Period, great depression and the petroleum crisis are among the timeframes to be denoted. Then, the chronical deficiencies of the Turkish SME policy just before the candidacy are given.

Both the historical evolution and the chronical deficiencies of the national SME policies before 1999, provide a basis for showing the impact of candidacy led transformation, by demonstrating the continuities and changes in SME policies in Turkey.

The second part keeps the track of Turkish SME policy in the candidacy period. By making a yearly evaluation, it shows the evolution of the SME policy in the light EU

SME policy. The analysis is be made on the EU's main documentary instruments²¹ for accession process which forms a basis for elucidating the conditionality on Turkish SME policy.

The second part presents that, although the first years of the candidacy period were full of criticisms because of the deficiencies of the SME Policies by EU, after a period of alignment due to the successful execution of accession instruments mentioned in Chapter 2, Turkish SME policy was step by step approached to EU SME policy. It argues that, because the EU played its agenda setting role continuously, the snapshot of Turkish SME policy in 1999 is significantly different than the snapshot of 2011, which led to a change in EU's discourse in its evaluations regarding the policy area.

4.1. Continuities and Changes in Turkish SME Policy till the EU Candidacy

After denoting the importance of SMEs in economic development in Chapter 3, in this part the history of Turkish policies regarding SMEs is presented. Making a historical analysis of the policies on small and medium sized industry gives an opportunity to find an answer of what circumstances (conjuncture and actors) have shaped SME policy and to what extent their role in economic development is given due consideration. Starting with the early periods of the republic, the continuities and changes in the policies regarding SMEs are analyzed.

²¹ These documentary instruments are mentioned in Chapter 2.

4.1.1. Early Republican Era and the Republican People's Party:

In the early republican era government tried to revitalize the guild system, the small firm organizations which was a holdover of from the Ottoman period, by conditioning it with modern business techniques. From the policies introduced in the first thirty years of the republic, one can observe that the small businesses were not neglected and paid attention in the policy making process. However, the large enterprises were given top priority (Tüzün and Tüzün, 1990:10)²². Small businesses (passed as Craftsmen and Artisans in the old documents) which constituted the 50 245 enterprises of the total 56 250 enterprises in the first industrial census (1927), were organized under the Trade Corporations (Esnaf Odaları) according to Chambers of Industry and Commerce Law of 1925. After the turmoil of the war years, they encountered many problems that impede their production. The biggest problem they faced was their inability to get credits from the banks because of the primitiveness of the methods they used in book keeping and accounting. To solve their financial problems, Halk Bank and public funds (halk sandıkları) were initiated for giving credits to enterprises. This was the way to encourage business start-ups and solving small businesses' ²³ credit problems.

The most significant characteristic of the Republican People's Party's economic programmes was the embracement of the statism as the essence of the industrial policy (Inan, 1972: 65), which resulted in a significant amount of public investment. The aim was to create the industries that the private sector cannot operate in the conjuncture of

²² Most of the data in the Republican Party and the Democrat Party Periods were taken from Tüzün , 1990.

²³ In most of the older written sources, medium enterprises were not analyzed as a unit of analysis, and only small businesses are given part.

that period (Inan, 1972: 87). The government aimed to relieve the symptoms of the economic turmoil that was experienced after the 1930 crisis and the Second World War, by supplying the outputs of these public enterprises to the private ones to rejuvenate economy. The contraction of the import volumes after the Second World War affected the enterprises that are dependent on imported raw materials, which decreased the production capacity severely, therefore leading to many enterprises (mainly smaller ones) to bankruptcy.

In the years after the second world war, the trend in the world was the “Fordism” as the source of sustainable economic growth which was based on mass production and mass consumption”. Turkish policies in that period seems to be influenced by this understanding of economic growth. To be able to produce in mass amounts, there was the need for large enterprises. Therefore many support mechanisms were made available for large enterprises. Small enterprises were considered to be an archetypical and declining sector in which pre- modern labour relations and technologies hindered the process of economic growth. The tendency towards gigantism was dominant among public policy makers who try to imitate the industrial growth experience of the former group (Taymaz, 1997:2). Because the economic concerns were based on “growth” rather than “development”, the efficacies of the small enterprises which were mentioned in the first part were underestimated.

4.1.2. 1940s and 1950s (The Democrat Party Era)

Democrat Party (a party organized in 1946 and gave an end to the single party period, and elected in 1950) followed different patterns than RPP. One of the main principles of the Democrat Party's program was the limitation of the state's dominance in the Turkish economy. For them, it should be the private venture and capital that constitutes the backbone of the economy (Tüzün and Tüzün, 1990: 13). Democrat Party in rhetoric aimed to encourage the small enterprises of agricultural sector along with the large enterprises (Tunaya, 1952: 34). Nevertheless, the developmental considerations were also not evident in their support for small enterprises. The policies were focused on the financial limits of the businesses rather than their needs in technical assistance in production.²⁴

In this era, the reason behind the small businesses' continuous existence despite the financial and technical problems they encounter and the low quality level outputs they produce, can be explained by the protectionist policies, which isolate the national industry from foreign competition. Despite the import duties created a rather profitable environment for both large and small businesses, the bottlenecks in the import of the investment goods was making it difficult for the businesses that use the simple domestically produced machines (Tüzün and Tüzün, 1990:14).

²⁴ The main indications of this were the increase of the funds of Halk Bank and the allowance for it to set up new branches. Moreover via the Esnaf Kefalet Cooperatives credits and loans were given to small enterprises which for a short period of time, solve their financial problems.

Although their approaches were different, the policies of them regarding the small industry applied in the early republican era and the Democrat Party were similar. In Democrat Party era, the policies were oriented to build a business base in Turkey, and “by the end of the 1950s, the Turkish economy had developed a second generation of industrialists to draw upon” (Barkey, 1990:60). Large firms were seen as the source of economic growth in parallel to the international trend of Fordism. (Produce more, consume more, and grow). The creation of large corporations was necessary to reap the benefits of economies of scale. Small enterprises were perceived as a complementary source of employment and production which compose the side industry for large enterprises.²⁵

4.1.3. 1960s and 1970s

When we come to the second half of the 1960’s we can see a very important progress for Turkey in general and for small industries in particular. After the criticism of the Democrat Party for their opposition to any kind of economic planning and because of the turmoil experienced after military intervention of May 1960 (Hale, 1981:111), the necessity of planning arose. State Planning Organization was established in September 1960 to draw up five-year plans covering all aspects of economic development, as well as

²⁵ There were not many policies aimed to improve the working conditions, to help in producing value added products and to develop the skills of the labour force of SMEs despite their production techniques and equipment and machinery were technologically backward of the ones used in the developed countries.

long-term plans and annual programs. In all of the plans since the first one, the problems of small industry was dealt with²⁶.

When we come to the 1970s, we see the involvement of international organizations in the countenance of SME encouragement strategies in the entire world. In 1970s, after the petroleum crises, international organizations, (after it was seen that large enterprises' rigidity caused big problems in meeting the demand and therefore stagnation and a significant unemployment problem in the economy, as mentioned in the Chapter 3 before) the United Nations and the World Bank developed policies to make SMEs prevalent for developed and developing industries. In those times, SMEs were defined as the potential engine for achieving self-sustained growth and solution for the flows created by Fordism (Taymaz, 1997:2).

4.1.4. Liberalism and 1980s

In the 1970s and till the early 1980s, the labour intensive technological structure was emphasized as the major force behind the potential of SMEs to generate employment.

²⁶ In the first 5-year development plan (1963-1967), the policies regarding the small industry were:

- a) Giving credits to small enterprises for business start-ups, and reducing the credit costs they got, and increasing the funds allocated for them.
- b) Assisting them in marketing, quality management, selection of equipment and machinery, and access to the raw materials,
- c) Collecting them under Small Industrial Sites, and encouraging them to come together under cooperatives
- d) Rearrangement of Apprentice Institution (Çıraklık Kurumu)
- e) Congregating the small industry under a central organization and via this central organization leading the public enterprises to increase trade relations with small industry (as the suppliers of raw materials, intermediate goods).²⁶

The policies envisaged in the second and the third five-year programmes were similar with the ones envisioned in the first five-year development plan. All five year programmes till now are included in State Planning Organization's web site <http://ekutup.dpt.gov.tr/plan/plan.asp> access date 12.05.2011

However, in the early 1980s, the entrepreneurial spirit of SMEs began to be stressed. The SME sector was then attracted attention for its flexibility and creativity as a trend in the world.

Moreover, the export oriented policies of the Turgut Özal's times also reflect the importance given to entrepreneurship. Turgut Özal followed a neo-liberal policy and wanted to inject a mood of optimism about entrepreneurship and international trade to all segments of the business community (Öniş, 2004:123). A peculiarity of this time period was the replacement of the selective industrial policies which concentrates on pre-defined priority sectors (öncelikli sektörler) with neutral industrial policies, without any discrimination on sectors and private, public and foreign investors (Şenses and Taymaz 2003:3). As a result of the export oriented growth strategy, Eximbank was established in order to give credits to exporters, export oriented manufacturers, and Turkish entrepreneurs who operate in a foreign country. SMEs (especially the medium ones) had also taken these loans. However, there are not so many resources which proves the existence of a SME specific policy; Turkey failed to implement adequate productive and technological policies to accompany its export promotion (Özcelik and Taymaz, 2004).

4.1.5. 1990s and the pre-candidacy weaknesses of SMEs

Being aware of that Turkey was getting on for the final phase of the Custom's Union within a few years, The European Union related concerns had big impacts on the policies devised for SMEs. By joining the Custom's Union, Turkey started to

harmonize its commercial and competition policies with those of the EU, as well as extend most of the EU's trade and competition rules to the Turkish economy.²⁷

Because of its peculiarities, the Customs Union brought both opportunities and threats for Turkish Businesses. For the exporters who had already met certain standards, and who had well- set knowledge of doing international business and foreign markets, the Customs Union was a big opportunity to expand their market because of the lowered cost of conducting foreign trade operations with the introduction of decreased tariffs (Tariffs had been lowered gradually for some products since the Additional Protocol²⁸ that was adopted in 1973). However, for the most of the Turkish producers, especially for the smaller ones, this was not the case. Customs Union meant increased competition with the international business giants, who supply best quality outputs (goods and services) with low price to the market. For many of the SMEs, especially for the micro and small ones (generally family businesses and small manufacturing enterprises) to keep pace with the standards were nearly impossible, considering the lower productivity and quality levels of the products.²⁹

²⁷Decision No 1/95 Of The EC-Turkey Association Council Of 22 December 1995 on Implementing the Final Phase of the Customs Union (96/142/EC) Delegation of the European Commission to Turkey
http://www.avrupa.info.tr/Files/File/EU&TURKEY/Custom_Union_des_ENG.pdf

²⁸ Additional Protocol "Official Journal of the European Communities" ,No:L 361/1 , 31/12/1977 p.4-20

²⁹ According to Tezer's (1990, 133) findings:

- a) SMEs had non- negligible productivity problems which was an indicator of the inefficient use of the national resources in macroeconomic terms, and the incompetitiveness of them in microeconomic terms.
- b) SMEs were still labour- intensive production units whose insufficiency in the usage of investment goods decrease the productivity of the labour force.
- c) Their inability in the supply of capital goods brought about technological disabilities in the production process. The financial situation of them was not enough for the procurement of capital goods.
- d) Also, the difficulties of them in the supply of raw materials caused pauses in the production process which reduces the overall productivity (the ratio of the quantity and quality of units produced per unit of time.)

These outcomes were to a high extent due to the financial and technical problems they encountered (Karabıyık, 1997:61). The financial credits and loans they raised were not enough for them even for sustaining their existing production, not to mention about the output accretion, equipment renewal, quality up-scaling, product innovations³⁰ (Tezer, 1990:134). Moreover, the criteria used in the distribution of these financial support tools by the credit institutions was not supporting output quality. Loans were given to enterprises on the basis of the value of their total fixed assets: equipment, machinery, fixtures except land and building (Karabıyık, 1997:61), rather than the production projects they offered. This was blunting the innovativeness of the SMEs. There were not many support tools for research and development operations of the enterprises which was a sign of the lacking of the developmental concerns still.

Despite the multiplication of the strategies by the state institutions that are devised for SMEs in the 90s, there was not a common strategy and action plan that was followed by all of the institutions. Each institution had its own programme and definition of an SME. For some institutions the main criteria to define an SME is the number of employees whereas for some the total value of fixed investments. This was complicating a holistic approach to solve the problems.

³⁰ In 1993, the share of SME credits in the total volume of credits was 3-5% percent in Turkey, Whereas 30% in EU and 50% in Japan

Table 2 Old SME Definitions of Institutions

INSTITUTION	CONTENT	DEFINITION CRITERIA	MICRO ENTERPRISE	SMALL ENTERPRISE	MEDIUM-SIZED ENTERPRISE
KOSGEB	Manufacturing Industry	Number of Employees	-	1-50 employee	51-150 employee
HALKBANK	Manufacturing Industry, Tourism, Software development	Number of Employees	-	-	1-250 employee
		Total Fixed Investment (Euro)	230.000	230.000	230.000
UNDER-SECRETARIAT OF TREASURY	Manufacturing Industry, Tourism, Agriculture Industry, Education, Health, Software development	Number of Employees	1-9 employee	10-49 employee	50-250 employee
		Total Investment, Total Investment Subject to SME Incentive Certificate (Euro)	350.000	350.000	350.000
UNDER-SECRETARIAT OF FOREIGN TRADE	Manufacturing Industry	Number of Employees	-	-	1-200 employee
		Total Investment (Euro)	-	-	1.830.000
EXİMBANK	Manufacturing Industry	Number of Employees	-	-	1-200 employee
TUIK and DPT		Number of Employees	1-9	10-49	50-99

Source: Under-Secretariat of Treasury, Under-Secretariat Of Foreign Trade, KOSGEB, EXİMBANK, T.HALK BANKASI

Due to discrepancy of SME definitions³¹, SMEs were exposed to different assessments by institutions when demanding services. This situation caused gaps between the perspectives of service providers and of those who demand services, reduced the effectiveness of implementations, and constituted an important obstacle in providing transparency of services.³²

Given the historical evolution and the chronic deficiencies of SME policies, the following section describes how Turkish SME policies have been Europeanized in the candidacy period. Because our unit of Analysis is Turkey, a candidate country, our perspective will be top-down Europeanization.

4.2. Europeanization of SME policies in the candidacy period

Turkey, after 12 years³³ of its application for full Membership, was declared as a candidate country to European Union in Helsinki European Union Council on 12 December 1999. The Helsinki European Council stated: “Turkey is a candidate State destined to join the Union on the basis of the same criteria as applied to other candidate

³¹ Because of this difference in the definition of SMEs, we can not make a time –series analysis on many indicators that measures the role of SMEs on economic development. We can not complete a table of an indicator by looking at the statistics of different institutions for several desired years because of lacking a common definition.

³² SME Strategy and Action Plan 2004 English version p.25
Retrieved from www.dpt.gov.tr/DocObjects/Download/2297/strateji.pdf

³³ Turkey applied for full membership in 1987 on the basis of EEC Treaty’s article 237. However, Turkey EEC relations dates back to long before , to 1959 in which Turkey made its first application to join EEC.

States. Building on the existing European strategy, Turkey, like other candidate States, will benefit from a pre-accession strategy to stimulate and support its reforms.”

After being a candidate country, Turkey has to a high extent been affected by the framework used by the European Union in preparing SME policies, both in terms of content and methodology. Turkey, which sought to become a European Union member and a potent country with an influential say in global politics, imitated and *motu proprio* borrowed from the European SME policy.

In parallel with the arguments of Chapter 2 about the driving forces behind Europeanization, EU transformed Turkish SME policy in a top-down manner. I argue that:

- i. The sophisticatedness and credibility of EU conditionality on European Union SME policy asserted by accession instruments,
 - ii. The perception of EU practice, which pays regard to the global economic conjuncture, as a remedy to deficiencies of Turkish SMEs ,
 - iii. The degree of the technical, financial and political costs, which are relatively low compared to many other obligations in the fields such as human rights, agriculture, environment; and benefiting from EU SME support mechanisms,
- are the driving forces behind the Europeanization of Turkish SME policy.

Firstly, the Europeanization process of Turkish SME policies gained speed after it was declared as a candidate country, resulting from the increased perception of the

importance of the accession conditionality, in the period which the likelihood of membership was perceived to be highest of all times (Müftüler- Baç, 2005:17). The policy makers seem to have been aware of their obligations to move the accession process forward, and the results of the non compliance with the conditionality. Therefore many SME reforms were carried out to meet the related conditionality.

As an indicator of this argument, Turkey was more inclined to carry out the SME policy reforms to gain ground in the accession process, especially in the first years after the declaration of candidacy (1999) and the start of negotiations (2005). Turkey carried out a great number of the SME reforms in 7 years which led to endorsement of compatibility of Turkish SME policy with that of the EU by the screening report of 2005.

Secondly, the success of EU SME policy, which aims to increase the performance and competitiveness of SMEs by offering them new growth and development possibilities, and which pays regard to global economic conjuncture, is perceived as effective solutions for the deficiencies of Turkish SMEs mentioned in this chapter. Therefore, the compliance is accepted by the policy makers as in the own interests of Turkey.

Another stimulus for the acceleration of Europeanization of process, especially in the policies that bring huge financial costs is the entitlement of Turkey as a beneficiary of pre-accession strategy to stimulate and support its reforms. Reforms in Turkey regarding many policy areas started to be supported through structural adjustment facilities and the Council (2001)³⁴ declared its objective to help Turkey to undertake major structural

³⁴ Accession Partnership 2001, 8 March

reforms in line with the '*acquis communautaire*'. With candidacy, Turkey started to benefit from the SME support mechanisms of the EU. Just after gaining the status of candidacy, Turkey started to receive "Pre-Accession Financial Assistance".³⁵ Turkey also gained the opportunity to participate in Community³⁶ programmes and agencies, and was given the right to attend the meetings regarding SME policies between the candidate countries of then.

Lastly, because the EU accession process created the opportunity for the policy makers to carry out many reforms under the name of meeting the EU SME conditionality, EU SME policy have gone under a radical transformation. Many revolutionary actions; such as introduction of the new common SME definition, and supports on the grounds of innovativeness and marketability are carried out in the accession period with relatively less aversion. In other words, the EU conditionality reduced the costs of SME policy making.

From another point of view, because SME issue is not among the "sensitive issues", compliance with EU conditionality did not gave rise to public discontentment as much as it did regarding the judicial system, minority rights, civil - military relations. Europeanization of SME policies' political cost is relatively low.

Moreover, the change of SME policies does not brought about technical and financial costs as much as the changes it would do in deep- seated policy areas such as

³⁵ Turkey, Cyprus and Malta did not benefit from the EU's default pre-accession programmes of then: ISPA, PHARE and SAPARD, which were benefited by the other 5th enlargement countries. These three countries had the MEDA II (financial instrument for the implementation of the Euro-Mediterranean Partnership) funding instead.

³⁶ Lisbon Treaty eliminated the Community structure.

agriculture, environment, and energy. So that, the financial and technical costs of reform making is also relatively low

After denoting the arguments, a yearly evolution of SME policy is given below to promote my arguments.

4.3. A yearly evolution of Turkish SME policy in the candidacy period:

As detailed in the Chapter 2, some of the accession policy instruments to shape and monitor the candidate country for a certain policy area are: The regular progress reports that the Commission and the Parliament prepares regarding to analyze the candidate's level of assuming the obligations of membership; the screening process that the Union explains its ways of doing things regarding a policy area (mainly organized under a chapter); the benchmarks designated for opening and the closing of the chapter; the accession partnerships that the Union indicates the priorities for accession, the subcommittee meetings in which all the developments (mostly technical) and the recent practices are discussed.

The yearly evaluation of the SME policies in Turkey is analyzed below, according to these main driving forces of change: The accession instruments and being a beneficiary of European SME Support Mechanisms.

It can be observed that, although the first years of the candidacy period was with full of the criticisms, after a period of harmonization and alignment, Turkish SME policy was

step by step approached to EU SME policy, and thus gradually changed EU's discourse. The snapshot of Turkish SME policy in 1999 is significantly different than the snapshot of 2011.

4.3.1. Transformation of SME Policies in 1998-1999:

The Regular Reports of the Commission that were published before the candidacy decision³⁷ indicated the main deficiencies of the SMEs policies in Turkey. These two reports (1998-1999) pointed out that, although there were not many obstacles in entering and leaving the market (in terms of the existence of a functioning market economy), there were impediments for SMEs to access credit.

Accordingly, the 1998 report of the Commission directed Turkey to apply to take part in the third Multiannual Programme (MAP)³⁸ of the EU for SMEs which was covering the period between 1997- 2000. The report also related the problems that the SMEs encounter to the outdated production techniques (European Commission, 1998:38).

Additionally, the 1999 progress report asserted that the huge regional disparities were blocking sound economic development at that moment. On the ground of this criticism, it emphasized the importance of the enhancement of the promotion of SMEs, which would solve the problem of uneven income distribution (European Commission, 1999:26, 46).

³⁷ The first regular report of Turkey was published on the basis of the Cardiff European Council decisions, held in 15- 16 June 1998.

³⁸ MAPs were explained in Chapter 3, page 37.

Taking these deficiencies into account, the EU also recommended to set up a contact group for industrial co-operation, consisting of the main industry and SME federations which would “have a pivotal role to play in defining future strategy for EU-Turkish industrial co-operation, and would work on concrete co-operation projects, which could be realized in the framework of the European strategy for Turkey” (European Commission, 1999:32). However, this cooperation could not be realized at that year.

4.3.2 Transformation of SME Policies in 2000:

The 2000 Progress report also criticized the difficulties that SMEs face with in accessing the financial sector. On the grounds of this, it enunciated the necessity of the reform of the financial sector and the state support system, and the reduction of the public sector borrowing requirements.

Moreover, the Commission asserted that there was no distinction between large companies and SMEs in Turkey and the very distinct definitions of SMEs adopted by distinct Turkish institutions were not in line with that used by the Commission.

Taking these criticisms into account Turkey has taken some necessary steps to approximate the SME policy with that of the Union. The Decision on State Aid in SME Investments was issued in 21 December 2000 just after the publication of the progress report. The objective of the decision is stated in the Article 1 as, to support Turkish SMEs in accordance with the norms of EU and international treaties, (Official gazette

No:24291 of Jan 18, 2001). Turkey also started the “SME Action Plan Framework” which includes many policy initiatives responding the criticisms of the progress report (the Plan will be explained in 2004, the year it was published.)

4.3.3. Transformation of SME Policies in 2001:

Despite the negative atmosphere of the year 2000 and 2001 due to the subsequent economic crises, Turkey went on its SME reforms in 2001. These reforms were also welcomed by the Commission. Introduction of new SME support mechanisms such as the “network of industrial estates for small companies”; the activities of SME support institutions: KOSGEB, TESK, IKV and KOBİ Investment Inc; the designing of the Post Crises reform programme in consultation with the SMEs along with the social partners are considered as “progress” in the Progress Report of 2001.

However, the same report went on its criticisms about the improvement of the business environment and the difficulties of Turkish SMEs in their access to finance. The government was called into improving the conditions for business, especially the administrative simplification. As a response The Coordination Council for the Improvement of the Investment Environment (YOİKK) was established in order to “rationalize bureaucratic procedures, to reduce red tape and to improve the investment climate” (YOİKK, n.d).

The year 2001 also witnessed the publication of the first *Accession Partnership* of Turkey in 2001 after the declaration of Turkey as a candidate country. As described in

Chapter 2, Accession Partnerships, which is based on the pre-accession strategy showing the short and medium term priorities, is the main instrument providing the candidate country with guidance in its preparations for accession.

This first accession partnership for Turkey, which was published in the Official Gazette of the European Union on 23 March 2001 (the Council decision of 8 March 2001) did not indicate any priority areas for SMEs. Although not included in the accession partnership, in the light of the progress reports of the previous years, Turkey incorporated its objectives about SMEs in the industrial policy part of its first National Plan (National Programme, is a documental response to accession partnership as described in Chapter 2, page 19).

Turkey self criticized the status of its SMEs in its National Plan as:

- i. They had low technological production capacity,
- ii. They were lacking of the tradition of conducting R&D activities, and were relatively undeveloped in terms of the number of patents and the use of know-how transfer”
- iii. They were facing with severe financing problems (National Plan of Turkey, 2001: 361).

The National Programme declared that the new industrial policies will prioritize increased expenditure for R&D and for the development of a competitive environment and promote entrepreneurship. Moreover, regarding another point of continual criticism, the system of state aid for SMEs which was completely different than that of EU;

Turkey determined to issue a decision on State Aids in SME Investments which was an introductory step in harmonizing with EU's practices regarding aid for SMEs.³⁹

Furthermore, the National Programme asserted Turkey's objectives regarding SME policy as:

“Turkish Small and Medium Sized Enterprises will be encouraged to adapt to the Internal Market conditions of the EU, in accordance with the conditions existing in Turkey.

Turkey will try to participate in the EU's “Fourth Multi-annual Programme for Enterprises and Entrepreneurship (2001-2005)⁴⁰”. Through participation in the Program the necessary alignment and implementation of legislation will be completed. The Multi-annual Program will enable the SMEs of the candidate countries and the SMEs of Turkey to participate in EU activities and this will be beneficial for SMEs in increasing their competitiveness within the EU market.

Legislation will be introduced to establish mutual benefits and greater reliability between the main and subsidiary industry, to provide mutual long-term cooperation between them, and to render the main and subsidiary industries more competitive.”

Additionally, Turkey declared to adopt the related EU acquis as its final aim, which would subsequently improve the SME sector, in conformity with the internal market conditions (National Programme of Turkey, 2001: 370).

³⁹ This decision was issued by Undersecretariat of Treasure as a circular in 2003.

⁴⁰ This programme had been the first Community programme that Turkey took part.

4.3.4. Transformation of SME Policies in 2002:

Turkey, in the forthcoming period, gained the right to take part in all Community Programmes (Official Gazette No: 24863 of the Republic of Turkey of September 1, 2002) and went on transforming its SME policies.

As a milestone in Turkish SME Policy making, Turkey endorsed the European Charter for small enterprises as the basis for its actions to support and develop small enterprises (The Charter is explained in Chapter 3, page 40). Turkey started to use the Charter as the reference document in the area of SME policy, in parallel with the strategy set up at the Lisbon European Council, just like the European Union. Turkey endorsed all the components of the Charter and started to report the process on the implementation of it in May 2002.

Similarly, Turkey started to take part in the preparation of the Community wide implementation Reports. The first one was the "Report on the Implementation of the Action Plan to Promote Entrepreneurship and Competitiveness" (the CC BEST Report). Moreover, as a response to the calls of Commission since 1999, it ratified The Multiannual Programme on Enterprise and Entrepreneurship (MAP) for 2001-2005, and prepared itself to join the programme.

On the basis of the EU's criticisms about the lacking of e-commerce and internet access of many Turkish SMEs, a sub working group was urged by the Turkish Government to work on eBusiness/eCommerce awareness campaigns. Moreover, a business dialogue web site was established in order to give technical and administrative assistance as

regards eCommerce. (This was in the context of the eTurkey Initiative which is based on eEurope +Initiative of the European Union). Starting with 2002, internet access points and training centres for SMEs were increased. Turkish SME portal KOBİNET⁴¹ began to be used as one-stop Internet shop for enterprises.”

Although these developments were welcomed in the 2002 Progress Report, the Commission went on serving its notices that; the Turkish SME definition was still not aligned with that of the EU and the access to finance remained an important impediment for Turkish SMEs. Collaterally, it was reported that there was not a peculiar improvement in simplification of the business environment in the reporting period except easier access to information through web sites. Commission also criticized that there were still impediments to starting up new enterprises, and the process was full of bureaucracy in many levels, in particular for SMEs (European Commission, 2002: 102).

As a solution to these problems, the Commission recommended Turkey to build a national SME strategy, including an action plan to implement the Charter; and to establish a SME Task Force which consists of public and private stakeholders to follow up the works of this action plan (European Commission, 2002: 102). The plan is explained in the year 2004.

⁴¹ KOBİNET is an information sharing network in which SMEs get “information about business environment: marketing, management, taxes, human resources, internet and technology, finance, insurance and labor regulations. www.kobinet.org.tr

4.3.5. Transformation of SME Policies in 2003:

Unlike the first one, the second Accession Partnership which was published in 19 May 2003 entailed priority areas for SMEs and pointed out to Turkey as one of the short term priorities to “develop and implement a national SME strategy in line with the European Charter for Small Enterprises and the Multiannual Programme for Enterprise and Entrepreneurship” (Council of the European Union, 2003:48). The strategy was requested to include the improvement of the business environment for SMEs, particularly where access to finance is concerned. Moreover, The Council, just like what the Commission continuously criticized in the Progress Reports, requested Turkey to align its SME definition in line with the Union’s SME definition. In addition to this short term objectives, the Council also recommended⁴² continuing the simplification of the business environment for SMEs.

Turkey, as a response to this document, published its second National Program on 24 July 2003 (Official Gazette No: 25178 bis.). Turkey listed two major priorities, “Harmonization of the SME definition”, and the “Implementation of SME Strategy and Action Plan” in its National Programme. Regarding the SME definition, Turkey announced that, the Ministry of Industry and Trade, in consultation with the European Commission, was working for the preparation of necessary legislation to compose a SME definition in compliance with the EU’s SME definition.

⁴² The word “recommendation” is not used in legal terms.

Regarding the second priority area, Secretariat General for EU Affairs of Turkey initiated a “SME Strategy and Action Plan Working Group” which will be charged with both preparation and implementation of the Action Plan. This group was composed of representatives from the Ministry of Industry and Trade, the State Planning Organization, the Undersecretariat of the Treasury, the Undersecretariat of Foreign Trade, the Small and Medium Industry Development Organisation (KOSGEB), the Union of Chambers of Commerce, Industry, Maritime Trade and Commodity Exchanges of Turkey (TOBB), and the Confederation of Turkish Craftsmen and Tradesmen (TESK). This working group prepared a draft SME Strategy and Action Plan pursuant to European Charter for Small Enterprises and the State Planning Organization’s 8th Five Year Development Plan, and annual plans.

The Action Plan was a medium-term framework strategy document that aimed to bring Turkish SME policy in line with the enterprise and entrepreneurship policy of the EC, such as the European Charter for Small Enterprises and the Multiannual Programme for Enterprise and Entrepreneurship.

This plan formulated the priority areas of SME Policy and categorized the duty tasks of the relevant parties. State Planning Organization was authorized with coordination of the implementation. Moreover, Turkish Government also established the Advisory Committee, a consultative body for the monitoring and evaluation of the SME Strategy and Action Plan. The Plan was approved by the decision of High Planning Council with

the decision numbered 2003/57 in the date November 10, 2003 and was submitted to European Commission after official approval⁴³,

4.3.6. Transformation of SME Policies in 2004:

In the year 2004, important steps were taken to solve the financial access problems that SMEs face with. Turkish Government signed loan facility agreements with international financial institutions; €250 million loan facility with the European Investment Bank (EIB) and a \$300 million facility with the World Bank to support SMEs (Undersecretary of Treasury, 2004). In addition, the Chambers of Commerce Association, TOBB and KOSGEB transferred €120 million, which was to be used for extending credits of public banks to SMEs.

Moreover, as a step in the solution of another problem: the complexity of the business start up procedures and the bureaucracy faced in business development; the departmental practices of SME institutions, KOSGEB, TÜBİTAK were restructured, which led to simplification and reduction of the application procedures for SME support schemes. After that “the required documents for KOSGEB incentives have been reduced from 48 to 5 on average (European Commission, 2004: 121).”

Although 2004 Progress report went on its discourse regarding the lacking of a common definition for SMEs, it for the first time recorded “some progress” on SME policy by

⁴³ SME Strategy and Action Plan approved by the decision of High Planning Council with the decision numbered 2003/57 in the date November 10,2003.

touching upon The SME Strategy and Action Plan, the Advisory Committee and the reorganization of KOSGEB and TÜBİTAK (European Commission, 2004: 120). The report also welcomed the initiatives that stimulate entrepreneurial culture such as:

- Young entrepreneur counselling programmes;
- Establishment of 8 more Euro-Info Centers⁴⁴ ; and
- The “e-Transformation Turkey”⁴⁵ project which facilitated the access and operations of SMEs in technical and legislative infrastructure, education and human resources, production standards, e-Government and e-commerce.

Above all, the report recorded “significant progress on access to finance for SMEs” (European Commission, 2004: 121). This progress was Due to mentioned loan facility agreements with EIB and World Bank, and the extension of credits to public banks by SME institutions. This was the first time that the Commission expressed positive statements about financial access issue.

4.3.7. Transformation of SME Policies in 2005:

This is another milestone year in EU- Turkey relations. The European Council declared in its December 2004 summit to open accession negotiations with Turkey on October 3, 2005. The general principles governing the negotiations are explained in the Negotiating Framework of Turkey. In this document, the negotiations were specified to be based on

⁴⁴ Euro Info Centers have been explained in Chapter 3 Page 36.

⁴⁵ This project targets to transform Turkey into an information society and the large enterprises and the public sector are also in the scope of the project.

“Turkey's own merits” and the pace of them would depend on Turkey's progress in meeting the requirements for membership in political and economic arena as well as 35 policy areas, namely the chapters that the EU acquis is split into. Commission, after the 5th enlargement restructured the categorization of acquis, which was organized in 31 chapters in the 5th enlargement into 35 chapters. In the former categorization a whole chapter, Chapter 16 was assigned to SME policy. However, in the new setting, SME policy was put under the Chapter 20: Enterprise and Industrial Policy. (Please see Appendix A for the old and new chapters of the acquis). Although SMEs are officially put under the Chapter 20, many other chapters also directly or indirectly influence the policies related with SMEs such as Custom’s Union (Chapter 29), Science and Research (Chapter 25), Social Policy and Employment (Chapter 19), Competition Policy (Chapter 8) and Environment (Chapter 27). However, the focus of this analysis is Chapter 20, which has a wholistic approach to SME Policies. The developments regarding the Chapter 20, such as screening process, declaration of benchmarks, opening of the negotiation and meeting the benchmarks will be explained under the title of the relevant years.

The works about SME definition, the only untouched subject matter that was constantly criticized by EU, started in 2005. Turkish Parliament authorized the Ministry of Industry and Trade to adopt an implementing legislation that aligns the Turkish SME definition with the EU definition and the works related to the new unified SME definition started.

Another legal arrangement of that year for the SMEs was the Law Regarding the Professional Organizations of Craftsmen and Tradesmen⁴⁶. This law enabled SMEs (tradesmen and artisans) to conduct online registration procedures to Professional Chambers. Moreover, regarding the simplification of business start ups, local Commercial Registry Offices were spread into the whole of the country as a step for decentralisation and transfer of procedures.

Turkey went on picking up on the financial access issue in 2005. Numerous banks (both public and private) initiated SME loan tools with lower interest and longer payback periods. KOSGEB initiated a new micro- credit facility for the entrepreneurs who wish to establish a business but does not have a small amount of venture capital.

As the first cooperation between Turkey and EU Institutions within the scope of guarantees, a credit Guarantee Service was initiated in cooperation with the EIB under the MAP. This Service aimed at providing guarantees for SMEs who wish to carry out promising⁴⁷ projects and are in need of money for their investments. (The credit guarantee funds act as intermediaries between the bank and the entrepreneur which provides collateral for the SMEs receive.)

Moreover, to increase the efficiency of the support given by various support institutions, KOSGEB initiated the “Strategic Road Map Application”, which was a tool for assessing SMEs’ needs and supporting them in the light of these findings. KOSGEB analyzed SMEs according to their turnovers, sector, market share and employee-

⁴⁶ The Law No: 5362 entered into force on 21 June 2005 (adopted on 6 June 2005) and was published in the Official Journal No: 25852

⁴⁷ Projects are subject to pre-evaluation by project offices.

managerial structure. (Cansız, 2008:89). By the findings upon answers of the questionnaire composed of these indicators, businesses⁴⁸ were classified according to their needs, and they were asked about their future objectives, and how they would benefit from the possible support.

4.3.8. Transformation of SME Policies in 2006:

Besides all these positive statements in the 2005 progress report, Commission criticized KOSGEB's lacking of the necessary administrative capacity (which was then composed of 3 Directorates, 10 laboratories, 14 Technology Development Centres and 25 Enterprise Development Centres in several provinces of Turkey). The Commission also criticized the absence of regional development agencies for effective implementation of industrial policy (and relatedly, SME policy) at the local level (European Commission, 2005: 97-100). The works about the establishment of Regional Development Agencies (RDAs) started upon this criticism. Consequently, The Law Regarding the Establishment, Coordination and the Duties of the RDAs was adopted in 25 January 2006 and published in the Official Gazette No: 26074 of February 8, 2006. This is also a substantial step for SMEs because RDAs give financial, training and consulting services along with infrastructure services to SMEs, within an overall aim of achieving sustainable regional development. To improve the conditions of existing SMEs and to develop entrepreneurial spirit, RDAs give management, production, technology,

⁴⁸ Around 40,000 SMEs participated in this initiative between 2004-2005.

network promotion, information and communication, research, personal and sales services (Kayasü, 2006:4).

Additionally, another accession partnership was published in the beginning of the year 2006. This accession partnership document did not enclose any arrangements in the short term about the SME policy. However; the continuation of the simplification of the business environment for SMEs, and alignment with the SME definition used in the EU was envisaged as a medium term priority (Council of the European Union, 2006: 48).

Without the need to wait for a date that will be realized in the medium term, the works of SME definition had indeed been finalized in the last months of 2005. (The By-Law on Definition, Characteristics and Categorization of Small and Medium Sized Enterprises was published in the official gazette of November 18, 2005, even prior to the publishing of accession partnership in January 26, 2006. However, the by law was envisaged to enter into force on May 18, 2006.)

According to this, the new Turkish SME definition was as follows:

Table 3: New Turkish SME Definition

Scale	Number of Employees	Annual Tax Balance Sheet	Annual Net Sales Revenue
Micro	1 to 9	≤ 1 million €	≤ 606.000 €
Small	10 to 49	≤ 3 million €	≤ 3 million €
Medium	50 to 249	≤ 15 million €	≤ 15 million €

Source: By-Law on Definition, Characteristics and Categorisation of Small and Medium Sized Enterprises, Official Gazette: 18 November 2005, 25997 ;
Screening of Chapter 20, Enterprise and Industrial Policy, Country Session 4-5 May 2006

Which is in line with the EU's SME definition :

Table 4: EU's SME Definition

Scale	Number of Employees	Annual Tax Balance Sheet	Annual Net Sales Revenue
Micro	1 to 9	<2 million €	<2 million €
Small	10 to 49	<10 million €	<10million €
Medium	50 to 249	< 50 million €	<43 million €

Source: Commission Recommendation 2003/361/EC as published in the *Official Journal of the European Union* L 124, p. 36 of 20 May 2003

As it can be seen, the thresholds of the two definitions: as staff headcount, annual turnover and balance sheet total were the same except the difference in financial indicators. Also the threshold related to the autonomy of the enterprises was also

adopted by Turkey, which foresees that, for an enterprise to be categorized as a SME, it should not be a partner or linked to another enterprise and it should not have a holding of 25 % or more of the capital or voting rights of another enterprise⁴⁹. The former SME definitions, were mostly encompassing only the manufacturing sector and were not including the other sectors. The new SME definition took the service sector in the scope of SMEs. The new definition has been a vital step in making the related Turkish institutions come together under unified strategy acting in accordance with the SME strategy and Action Plan; and in increasing the effectiveness of SME support policies, within a transparency of services given to SMEs with similar needs.

Another peculiar event of the 2006 was the Screening of the Chapter 20, Enterprise and Industrial Policy, one year after the start of the negotiations. The explanatory meeting, in which the European Commission explains the EU acquis on the relevant chapter, was realized in 27-28 March 2006 and the country session in which the candidate country explains its degree of preparedness and its plans with regard to the chapter in question was realized in 4-5 May 2006. The screening report of EU identified SME policies of Turkey, to a large extent in line with the EU's SME policy (European Commission, 2006b:3-4). Turkish administrative capacity was found to be largely sufficient in the area of enterprise and industrial policy and the SME definition was said to be largely in line with that of the EU⁵⁰.

⁴⁹ For more detail, please see the User Guide and Model Declaration of the New SME definition published by the European Commission Enterprise and Industry)

http://ec.europa.eu/enterprise/policies/sme/files/sme_definition/sme_user_guide_en.pdf

⁵⁰ Except the lower turnover thresholds

The Screening Report emphasized that:

Turkey's industrial/enterprise policy sought to increase the competitiveness and productivity of its enterprises by improving the business environment, supporting SMEs and new entrepreneurship, supporting innovation, ICT and R&D, and by promoting an outward looking economy (European Commission, 2006c:3).

After Screening of the Chapter 20, the Commission explained its common position and indicated no opening benchmarks. This was due to the timely responding to criticisms and recommendations of EU regarding SME definition, financial access, simplification of business environment etc. However, regarding the provisional⁵¹ closing of the chapter “the revision of the Turkish Industrial Strategy Document dated 2003 according to the renewed Lisbon Strategy and 9th Development Plan” is put as the benchmark. Upon receiving the common position of the Commission, negotiations of the chapter were opened on 29 March 2007.

The progress report of that year touched upon the same issues with the screening report and as a revolutionary step, it also indicated that, the country had achieved a reasonable alignment to the *acquis* in the Chapter 20. This was a conclusion of step by step approach which majorly consists of: The endorsement of the Charter on Small and Medium sized enterprises, alignment with the EU SME definition, attending to

⁵¹ Article 23 of Turkey's Negotiating Framework states that : The Commission may recommend the re-opening of closed negotiations, in particular where Turkey has failed to meet important benchmarks or to implement its commitments. So the chapters can only be provisionally closed.

Multiannual Programmes and transposition of the relevant EU legislation to Turkish Legislation. This was a very important change in the discourse of the progress reports.

4.3.9. Transformation of SME Policies in 2007:⁵²

As another peculiar progress, support systems for SMEs were demonstrably changed in the candidacy period of Turkey. In this regard and in parallel with the European Charter on Small Enterprises, not all the SMEs, but the SMEs who have high growth potential, are technology and innovation oriented, and whose outputs meet certain standards are now supported in priority. “By- Law amending By - Law the on the KOSGEB Supports”, which was published in the Official Gazette No: 26529 dated May 22, 2007 is the legal ground of this. This By- law introduced a new support mechanism, named as “System Certification Support”. This mechanism allows the holders of Quality System Certificates (ISO 9000, ISO 14000, ISO 22000, HACCP, AQAP, EN 17025), to apply for a grant per each certificate to cover their expenditures in consultancy services, training needs, application fees and etc. incurred in obtaining such a quality system certificate.

Moreover, the new By- law introduced an article which states:

“The enterprises, who are the inventors of science and technology oriented outputs, shall be given technological research and development supports; in order to make them competitive in national and international platforms with the ability of producing and developing new products.” This By-law also aimed to stimulate the technological capacity of the SMEs and to increase

⁵² This is the year that Chapter 20 is opened to negotiations.

the transparency and accountability of KOSGEB with its new budget regulation (Ministry of Industry and Trade, 2007).

The Commission stated in the subcommittee meetings and the relevant reports that, Turkey had to revise its industrial strategy and SME strategy documents, as these were the key elements for the accession negotiations in the Chapter 20 (European Commission, 2007).

4.3.10. Transformation of SME Policies in 2008:

With reference to the 2007's Progress Report, the main policy document regarding SMEs, SME Strategy and Action plan was updated. It was necessary because most of the actions that the previous strategy envisaged were completed. The strategy was approved by the High Planning Council with the decision number 2007/25 of May 4, 2007⁵³.

The new SME Strategy and Action Plan which covered the time period of 2007- 2009 was much more innovation oriented than its predecessor (the one published in 2004) showing parallelism with the spirit of the Ninth Development Plan. It included measures

⁵³ The main priorities determined in the document were;

- encouragement of entrepreneurship,
- enterprise development,
- integration of SMEs into international markets,
- improvement of business environment,
- developing technological and innovative capacity.

such as training and incubators to boost SMEs' capacity to access knowledge from global suppliers and to stimulate collaboration with Turkish universities.⁵⁴

In addition, for the realization of medium term targets, KOSGEB prepared its 2008 – 2012 Institutional Strategic Plan which has been harmonized with Ninth Development Plan and SME Strategy and Action Plan.

The same year also witnessed the introduction of credit support programmes and machine and equipment support programmes of KOSGEB. As revolutionary developments, women had the opportunity to get more credits than their male counterparts, in the context of supporting women entrepreneur initiative. (Credit amount was 25.000 YTL for male entrepreneurs, while woman entrepreneurs were supported with 30.000 YTL).⁵⁵ Similar to the practice of the European Union, the upper limit for loans were increased, KOSGEB extended the maturity date and allowed all domestic and foreign banks to take part in its lending schemes. These were all in line with the protocols signed with European Union.

Competitiveness and Innovation Framework Programme (CIP):

However, in that year, the most revolutionary action of Turkey in terms of the SME policy was the enrolment of it in the Competitiveness and Innovation Framework

⁵⁴ <http://www.oecd.org/dataoecd/18/50/41559414.pdf> p.158

OECD, Science and Innovation, Country notes.

⁵⁵ Contribution of Kosgeb to 2008 Progress Reports

Programme (CIP). Turkey⁵⁶ officially joined the CIP in 2008. As explained in Chapter 3, page 51, CIP is a major Union Programme that aims at improving the competitiveness of SMEs by supporting innovations and easing access to finance of innovations. The Memorandum of Understanding between EU and Turkey was signed in February 12, 2008.⁵⁷ Just after this, The Law on Supporting Research and Development Activities (Law No: 5746) was adopted. This Law introduced the term “technopreneurship” into the Turkish SME terminology.

As regards internationalization of Turkish SMEs, Turkey also participated in the Enterprise Europe Network (EEN) which is financed by CIP and replaced Euro Info Centres and Innovation Relay Centres. By joining it, Turkish SMEs had the ability to find “competent and trustworthy” partners when expanding their businesses to another country (especially to European Union Countries)⁵⁸. After registering into a database of the companies interested in the same kind of cross-border business, the Turkish SMEs were given the opportunity to come together in the matchmaking events to make business together⁵⁹

In the light of these developments, the progress report of that year was rather positive compared to other years. Turkey was recorded to make “further progress” in the chapter

⁵⁶ Turkey is the third candidate country to join the CIP after Former Yugoslav Republic of Macedonia and Croatia.

⁵⁷ The ratification of the MoU by Turkey was completed on 20th of January 2009 by the decision of the Council of Ministers dated 20th of May 2009 No. 2009/15013. (Published in the Official Gazette No. 27235 dated 22th of May 2009.)

⁵⁸ <http://www.enterprise-europe-network.ec.europa.eu/services/access-finance>

⁵⁹ Within this network entrepreneurs are trained to present their business ideas to investors, business angels, venture capital firms and banks in order to receive venture capital and loans. EEN also informs the entrepreneurs about how to access public funds and grants for research and development, innovation, investment, consulting services, employment, training or exporting.

(European Commission, 2008:65). The Accession Partnership and National Programme did not include priorities directly related with SME policy. The only priority mentioned in the Accession Partnership of 2008 was the renewal of the industrial strategy which would interactively affect the SME policies.

4.3.11. Transformation of SME Policies in 2009:

As mentioned before, parallel to EU practice, service sector has begun to be included in the SME categorization along with the manufacturing sector. However, the necessary legal structure had not been laid down for SMEs in the service sector to utilize the support systems of Turkish Institutions. For this reason, Law No: 5891 which enables firms operating in trade and services sectors, alongside with the manufacturing firms, to benefit from the supports provided by the Small and Medium Industry Development Organization was published in the Official Gazette of Turkey May 5, 2009. This Law also restructured the KOSGEB.

After the adoption of the Law on Supporting Research and Development Activities (Law No: 5746), “there has been a notable increase in Turkish R&D spending, with a rising share from the private sector”(European Commission, 2009: 66). Technology Development Zones (TDZs) have been created to bridge the gap between research activity and business needs. As of May 2009, there were 31 TDZ⁶⁰s in Turkey which were mainly established by the universities. A list of TDZ can be found in Appendix B.

⁶⁰ Sites integrating academic, economic, and social structures at or near the campus of certain universities; advanced technology institutes; an R&D centers or institutes; or a Technopark involved in these same

4.3.12. Transformation of SME Policies in 2010:

2010 witnessed the most important step for the provisional closure of Chapter 20⁶¹. As requested by the closing benchmark in 2006, draft document on "Industrial Policy for Turkey", which is a revision of its predecessor published in 2003, had been prepared with the contribution of State Planning Organization and other related public institutions since 2007. As a matter of negotiations, the necessity of the compliance of Turkey's industrial strategy with that of the Union was carried into almost all of the platforms that the Chapter 20 is discussed. Not only the industrial strategy was prepared with the pressure of the European Union but also "the framework used by the European Union in preparing industrial policies made important contributions to the strategy determination process of Turkey, both in terms of content and methodology" (Ministry of Industry and Trade, 2010:13).

Turkey finalized this document "Turkish Industrial Strategy Document towards EU Membership" in 2010, which was approved by High Planning Council in December 7, 2010. The strategy paper included a comprehensive sectoral analysis (automotive, machinery, white goods, electronics, textile and garments, food and iron-steel sectors) of

areas of work. They are sites where companies using advanced technology or companies with a new technological orientation, produce and develop technology or software by through the facilities provided by the organizations mentioned above. They are involved in activities which transform a technological innovation into a commercial product, method or service and by this means contribute to the development of the region'(Technology Development Zones Law No.4691). As of May 2009,18 TDZs out of 31 were operational.

⁶¹ Although, the closing benchmark of the Chapter has been met,the chapter can not be closed because of the Additional Protocol.

Turkish industry. With the aim of removing obstacles to private sector's productivity, the industrial strategy indicated 8 horizontal policy areas as:

- Investment and business environment
- International trade and investment
- Skill building and human resources
- SMEs' Access to Finance
- Technological Development of Companies
- Infrastructure Sectors and Input Costs
- Environment
- Regional Development

The industrial strategy excessively referred to SMEs in its discourse. The activities planned regarding all the horizontal policy areas were by all means interactively related to SME policies, with an overall aim of industrial development. Therefore this Industrial Strategy can be considered as an indirect SME strategy.

Small Business Act:

As explained in Chapter 3, the Charter of Small Enterprises was turned into Small Business Act. Along with signing cooperation agreement with European Investment Fund which will give guarantee support to SMEs in 2010, Turkey has also taken part in the project on the “Implementation and Follow-up of the Small Business Act (SBA) in the Pre-Accession Region” with Western Balkan countries most of which are candidate and potential candidates for EU membership (Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Serbia as well as Kosovo under UNSCR 1244/99).

Small and Medium Enterprises Development Organization (KOSGEB), has been designated as the National Coordinator of Turkey within the framework of the Project. In the context of the Project, Turkey was made responsible for the follow-up of the implementation of the principles of the Act in beneficiary countries. These principles are: “Designing rules according to the ‘Think Small First’ principle” and “Enabling SMEs to turn environmental challenges into opportunities”. European Union reinforced Turkey and the Balkan Countries to join the implementation of the program, with the aim of the “improving business environment and enhanced functioning market economy” and “strengthening cooperation in the region through sharing experiences and mutual learning” and lastly for “better implementation of the *acquis communautaire* of Chapter 20, Enterprise and Industrial Policy” (European Commission, 2010 b).

4.3.12. Transformation of SME Policies in 2011:

As a revolutionary step for all Turkish enterprises, The Turkish Commercial Code, which was for long pending to be promulgated, was published in the Official Gazette on January 13. This new substantial law also brought about new regulations for SMEs. It obliges every SME to have an web site in which corporate announcements, financial statements and reports are published. It also enhances the use of international accounting and reporting standards while bringing easiness that prevents additional burden for SMEs on this issue. SMEs are now obliged to select at least one certified public accountant or an independent accountant. Upon these, training workshops were held for International Financial Reporting Standards.

Turkey adopted a new SME Strategy and Action Plan for 2011-2013. This new strategy was prepared in line with the SBA and defined 5 strategic areas:

- Promotion and support of entrepreneurship
- Development of the managerial skills and administrative capacities
- Protection of SMEs while the process of improvement of business and investment environment
- Development of the innovation and R&D capacities of the SMEs
- Simplification of SMEs access to finance.

Moreover, with a Prime Ministry Circular on the Implementation of the Principles of Small Business Act for Europe (SBA) in Turkey” which was published in the Official Gazette No. 27955 of June 5, 2011, public institutions and organizations in Turkey were called to take into consideration the principles of SBA, when they formulate and implement all kinds of policies, strategies, action plans and activities related to SMEs.

A new support programme, “Markets for Developing Enterprises SME Support Scheme” has been established for SMEs to join the stock exchange market.

To sum up, the SME policies of Turkey were shaped mainly by the economic growth/developmental approaches of the governments of then, as well as the international conjuncture till the EU candidacy. SME policies were used to be shaped by the government policies specified for the whole enterprises including larger enterprises. For instance, the great depression which severely affected the Turkish economy in its inception phase, also led The Republican Peoples Party Government embrace a statist

and growth oriented approach. Accordingly, the SMEs stayed in the background of public enterprises. Another example is the Özal Period, which adopted export oriented growth model to Turkey. In those years, SMEs, just like their “large” counterparts, were supported to increase their exports. Because there was not a SME specific policy which tried to strengthen SMEs in the fierce competition of liberalized economy, SMEs had encountered many problems due to lacking of a wholistic policy specified for their needs.

Insomuch that, it can be concluded; Turkey started to have a full-fledged SME policy within the period of candidacy.

After this brief summary, the next section presents the main findings of the thesis.

CHAPTER 5

CONCLUSION

The strikes and labour disruptions followed by petroleum shocks and raw material crises led to unfunctioning of the mass production techniques due to the rigidity of large scale fixed capital investments between the late 1960s and 1980s. Therefore, this period gave rise to losses in the profits the large enterprises had made, and in the extreme bankruptcy of many. This led to reemergence of the SMEs, which resisted to crisis conditions more easily, adapt to new market conditions more quickly and contribute to the creation of employment more swiftly. Thus, break-up of large business units into smaller ones has been considered essential for achieving flexibility in many sectors (Audretsch and Feldman, 1996) marking a new trend towards SMEs.

European countries, along with North America, followed this trend. Therefore, the EEC⁶², started to address this topic regularly, because it regarded SMEs as a mechanism to increase economic growth and competitiveness, and to create jobs. Not to lag behind its main competitors, US and Japan, EU began to intensify the development of SME

⁶² EC after 1993, and lastly EU since 2009. For the sake of simplicity, I will use EU hereafter.

policies since 1980s. It composed SME Task Forces, multiannual programmes for SMEs , and gave legal basis to policies on SMEs. EU in this period, tried to strengthen the position of SMEs in the societal structure, support industrial and economical competition and encourage innovation. When we come to 2000s, EU declared its objective to be “the most competitive and dynamic knowledge-based economy in the world” (European Council, 2000). SMEs in this respect are given more importance than ever. The Charter for Small Enterprises, followed by Small Business Act was designed to solve the problems of SMEs and give the necessary incentive and support to them.

However, as it is propounded in the thesis, the same trend was not followed by Turkish policy makers, as much as it was followed by their EU counterparts. Furthermore, we can not find so many evidences indicating the existence of a full-fledged SME policy before the candidacy period, which would ensure releasing the potential of Turkish SMEs. Instead, SME policies used to be shaped by the essence of the governments’ programmes and the policies specified for the large enterprises, disregarding SMEs roles in economic development. There was not even a SME definition enabling a holistic approach to policy design.

Thus, starting from the earlier days of the Republic, SMEs faced many difficulties from financial access to lacking of the technical resources for product development. Till the mid 90s, SMEs were still making production with technologically backward equipment and with less skilled labor force, working in poor conditions, and contributing too low to total value added⁶³.

⁶³ It was 24 % of the total value added in 1996, according to State Institute of Statistics.

On the other hand, Turkey has sought to become a member of the EU in the meantime. To realize this, Turkey had to meet a long list of conditionality and had to incrementally experience Europeanization. Especially after the declaration of candidacy in 1999, the conditions on membership were formalized and the volume of conditionality has step by step proliferated. To open the negotiations and ultimately, to become a member, Turkey was expected to construct, diffuse and institutionalize the formal and informal rules, procedures, policy paradigms, styles and ways of doing things. The ability to decide whether to allow these or not has been a powerful weapon in the EU's armory (Haughton, 2007:237).

In this regard, this research aimed to analyze how Europeanization has shaped Turkish SME policies. It is argued that, the candidacy led Turkey to adopt the framework used by the European Union in preparing SME policies, both in terms of content and methodology. This is due to Turkey's long running desire supported with:

- i. *The sophisticatedness and credibility of EU conditionality on European Union SME policy asserted by accession instruments:*

By Turkey's negotiation framework, accession partnerships, screening process and subsequent progress reports, sub- committee meetings, and other dialogue with EU, Turkey was made clear about its obligations in order to enter into another phase in accession negotiations, and the results of doing vice versa. The smooth functioning of the process is tied to the progress made. Therefore, as seen in the findings of the Chapter

4, most of the substantial reforms were started to be carried just before the opening of negotiations and in the screening process, in order not to halt the process.

ii. The perception of EU practice, which pays regard to the global economic conjuncture, as a remedy to deficiencies of Turkish SMEs:

EU practice on SME policies which was to be adopted, represented a higher standard to be reached for Turkey. Relevantly, the conditions that EU laid down was not perceived as impediments to membership by the policy makers, rather they were perceived as beneficial solutions to SMEs chronic deficiencies. Therefore the compliance to conditionality was regarded as to the interest of Turkish SMEs. Moreover, being a beneficiary of Union programmes aroused attraction by policy makers.

iii. The degree of the technical, financial and political costs, which are relatively lower compared to many other obligations in the other fields:

Because SME issue is not among the “sensitive issues”, compliance with EU conditionality did not gave rise to public aversion as much as it did regarding the judicial system, minority rights, civil- military relations. Europeanization of SME policies’ political cost is relatively low.

Moreover, the change of SME policies does not brought about technical and financial costs as much as it would do in deep- seated policy areas such as agriculture, environment, and energy. So that, the financial and technical costs of SME reform making is also relatively low.

In the light of the considerations above and because of perpetual exposure to EU's pre-accession strategy, EU candidacy has witnessed the Europeanization of Turkish SME policies. The indications of Europeanization are summarized in the following paragraphs.

First, as the comparison of before and after candidacy periods revealed, The EU's recommendations and formalized conditionality led to the formation of full-fledged SME and dependent policies. Now, SME policies are not shaped by the policies developed for all the enterprises especially the large ones, and do not compose only a small fraction of the industrial strategies. Instead, independent SME Strategy and Action Plans designed for them which are revised as often as needed.

Furthermore, EU candidacy led to a more participative approach in SME policy making. The old approach, which allowed only a few institutions in the designing process of the SME policies was abandoned. Policies are now designed within the contribution of all stakeholders and interest groups, from governmental institutions to representatives of the private sector and SMEs.

A new and holistic definition which provided the thresholds of being an SME was another revolutionary step. As in the EU practice, many other sectors including the service sector were included in the scope of SMEs with the introduction of new definition. In this sense, this unified definition led a unified approach for SME supports and eased the SME support institutions job in defining the criteria to give support to

SMEs in need. Additionally, being mostly parallel with the EU SME definition⁶⁴, the new SME definition eased the participation of Turkish SMEs to EU wide SME communities.

Turkey also embraced the support attitude of EU. In this context, not all the SMEs but only the ones with high growth potential are supported. Additionally, the priority is given to the SMEs which create a marketable innovation. This support attitude is also given legal basis. Moreover, the support is given in terms of the thresholds determined by new definition which is in line with EU SME definition.

In parallel, to increase the innovativeness and technological capability of SMEs, which is set as an objective in EU's Lisbon Strategy and then in Europe 2020 Strategy, Turkey started to provide financial and advisory services to projects carried out by SMEs. In this regard, many business- university research cooperations are supported and participation of Turkish SMEs to the common projects with the member states were encouraged. By viewing SMEs as the main ingredients of a knowledge based society, Turkey once again proved that it was following EU agenda.

Regarding the simplification of the business environment, Turkey also showed significant progress during the candidacy. To promote the entrepreneurship, the administrative burdens on start- up procedures for new enterprises were curtailed, and the e- registration systems were introduced.

⁶⁴ Please see Chapter 4 about the EU and Turkish thresholds of SME definition.

In sum, the candidacy period has been an interactive process generating changes in Turkish SME actor's policy styles, resources, preferences and discourses due to the changes in their perceptions regarding the role of SMEs importance in economy stimulated by EU conditionality. Because the new policies are parallelized with the SME policies of the EU, which aims to become a smart, sustainable and inclusive economy (European Commission, 2010) by taking the new international conjuncture into consideration more, the Europeanization of SME policies has served as a role model of integration.

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European Commission DG enlargement
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Ministry for EU Affairs, Accession Policy Directorate
www.abgs.gov.tr

The Coordination Council for the Improvement of Investment Environment
<http://www.yoikk.gov.tr/eng/>

Small and Medium Enterprises Development Organization
<http://www.kosgeb.gov.tr/Pages/UI/Default.aspx>

APPENDICES

APPENDIX A

APPENDIX A	
Old and New Chapters of The EU Acquis	
5th Enlargement	6th Enlargement
1. Free movement of goods	1. Free movement of goods
	7. Intellectual property law
2. Free movement of persons	2. Freedom of movement for workers
	3. Right of establishment and freedom to provide services
3. Freedom to provide services	3. Right of establishment and freedom to provide services
	9. Financial services
4. Free movement of capital	4. Free movement of capital
5. Company law	6. Company law
6. Competition policy	8. Competition policy
	5. Public procurement
7. Agriculture	11. Agriculture and rural development
	12. Food safety, veterinary and phytosanitary policy
8. Fisheries	13. Fisheries
9. Transport policy	14. Transport policy
	21. Trans-European networks (one half of it)
10. Taxation	16. Taxation
11. Economic and Monetary Union	17. Economic and monetary policy
12. Statistics	18. Statistics

13. Social policy and employment	19. Social policy and employment (including anti-discrimination and equal opportunities for women and men)
14. Energy	15. Energy
	21. Trans-European networks (one half of it)
15. Industrial policy	20. Enterprise and industrial policy
16. Small and medium-sized enterprises	
17. Science and research	25. Science and research
18. Education and training	26. Education and culture 10. Information society and media
19. Telecommunication and information technologies	
20. Culture and audio-visual policy	
21. Regional policy and coordination of structural instruments	22. Regional policy and coordination of structural instruments
22. Environment	27. Environment
23. Consumer and health protection	28. Consumer and health protection
24. Cooperation in the field of Justice and Home Affairs	23. Judiciary and fundamental rights
	24. Justice, freedom and security
25. Customs union	29. Customs union
26. External relations	30. External relations
27. Common Foreign and Security Policy (CFSP)	31. Foreign, security and defence policy
28. Financial control	32. Financial control
29. Financial and budgetary provisions	33. Financial and budgetary provisions
30. Institutions	34. Institutions
31. Others	35. Other issues

APPENDIX B

TECHNOLOGY DEVELOPMENT ZONES (TDZs)

Nr 65	TDZ	University	Province	Establishment Date
1	ODTÜ Teknokent TDZ	Middle East Technical University	ANKARA	2001
2	TÜBİTAK Marmara Research Center Technopark	TUBİTAK-TTGV	KOCAELİ	2001
3	Ankara TDZ	Bilkent University	ANKARA	2002
4	İzmir TDZ	İzmir High Tech. Institute	İZMİR	2002
5	GOSB Teknopark TDZ	Sabancı University	KOCAELİ	2002
6	Hacettepe University TDZ	Hacettepe University	ANKARA	2003
7	İTÜ Arı Teknokent TDZ	İTÜ	İSTANBUL	2003
8	Eskişehir TDZ	Eskişehir	ESKİŞEHİR	2003
9	Selçuk University TDZ	Selçuk University	KONYA	2003
10	Kocaeli University TDZ	Kocaeli University	KOCAELİ	2003
11	Batı Akdeniz Teknokenti TDZ	Batı Akdeniz University	ANTALYA	2004
12	Erciyes University TDZ	Erciyes University	KAYSERİ	2004
13	Trabzon TDZ	KTÜ	TRABZON	2004
14	Çukurova TDZ	Çukurova University	ADANA	2004
15	Mersin TDZ	Mersin University	MERSİN	2005
16	Göller Bölgesi TDZ	Süleyman Demirel Üniver.	ISPARTA	2005
17	Ulutek TDZ	Uludağ University	BURSA	2005
18	Gaziantep University TDZ	Gaziantep University	GAZİANTEP	2006
19	Gazi Teknopark TDZ	Gazi University	ANKARA	2007
20	Trakya University Edirne TDZ	Trakya University	EDİRNE	2008
21	Fırat TDZ	Fırat University	ELAZIĞ	2007
22	Erzurum Ata Teknokent TDZ	Atatürk University	ERZURUM	2005
23	Pamukkale University TDZ	Pamukkale University	DENİZLİ	2007
24	Yıldız Teknik University TDZ	Yıldız Teknik University	İSTANBUL	2003
25	Ankara University TDZ	Ankara University	ANKARA	2006

⁶⁵ There are 12 other TDZ which are established but inactive yet.

26	İstanbul University TDZ	İstanbul University	İSTANBUL	2003
27	Sakarya University TDZ	Sakarya University	SAKARYA	2008
28	Boğaziçi University TDZ	Boğaziçi University	İSTANBUL	2009
29	Cumhuriyet TDZ	Cumhuriyet University	SİVAS	2007
30	Dicle University TDZ	Dicle University	DIYARBAKIR	2007
31	Bolu TDZ	İzzet Baysal University	BOLU	2009