Turkey: Enhancing Access to Finance

Making Turkish Enterprises Competitive, Firm by Firm

Overview
Utilizing medium- and long-term finance from the IBRD, more than 650 Turkish small and medium enterprises (SMEs) have overcome the main obstacles to their growth by having continued access to finance. Since 2007, US$700 million has been used by firms all over Turkey for both working capital and investment purposes, either through expanding their capacity by buying new equipment or through civil engineering for upgrades/rehabilitation.

Challenge
Promoting the development of SMEs is crucial in fostering entrepreneurship, competition, innovation, and growth in Turkey, as they represent the backbone of the Turkish economy. SMEs in Turkey account for 99 percent of all enterprises, and 80 percent of employment, and are estimated to account for up to 57 percent of total value added in the economy. The development of medium-term finance contributes significantly to SME performance in terms of sales, investment and employment generation. In Turkey, constrained access to finance is perceived as the single most severe obstacle to growth by SMEs.

Approach
The project was conceived as a long term credit line channeled through two intermediary banks providing loans directly to SMEs, including those located in targeted underserved areas in the eastern and central parts of Turkey. Access to favorable medium-term finance was envisaged to contribute to an expansion of productive activities resulting also in job creation in a wide range of SMEs.

Results
The firms funded by the project have contributed to the economy in Turkey and have weathered the global financial crisis well. Through the program, the companies benefited from a competitive cost of capital which helped them strengthen their long-term business opportunities, and more
Most of the SMEs that have used the funds from the project came from the textile industry, tourism sector, energy sector, and rubber and plastic production. The following results have been achieved between July 2007 and December 2010:

- Medium-term finance has been utilized to the tune of almost US$700 million by SMEs – a large representative segment of the Turkish economy;
- Over 770 loans have been approved to confront and mitigate the impact of impeded access to finance and the reeling effects of the global financial crisis;
- Geographical coverage extends to most parts of Turkey, with an emphasis on underserved areas such as the Eastern and Central regions;
- Reflows of US$75 million from loan repayments have multiplied the benefits, as these funds have been “recycled” to make an additional 151 loans to 125 SMEs;
- It is estimated that more than 9,300 jobs have been created.

Map

Click to see project locations mapped:

Bank Contribution

The Investment Climate Assessment carried out in 2010 cemented the view that access to finance for SMEs was constrained. The original loan of US$280 million (Euro 200 million equivalent) was topped up twice with additional financing totaling US$450 million to ensure continued access to finance.

Partners

The Bank team works closely with both participating banks – Halk Bank and Industrial Development Bank of Turkey (TSKB) – responsible for the implementation of the project. In addition, the Bank regularly interacts with the project beneficiaries to ensure that the full benefit of Bank financing is realized.

Moving Forward

The Project has showcased SMEs as a viable sector for formal financing from the banking sector. Turkish banks are already ramping up lending to SMEs as it is also in line with the
benefits' plans to diversify their portfolios.

Beneficiaries

Erdal Gülçan, partner of GÜLCAN Furniture: “When we started growing our business, we did not think about a loan whatsoever. We planned to start production in a new facility with our own resources in 2012. But the bank we have been working with told us “Let’s lend you some money so that you can build your factory more quickly and start operation earlier”. Before then, we used to operate in an industrial factory of 7,500 m2, which meant that we had to select 5,000 customers out of 20,000 potential customers. We had to be selective because we could not finish jobs in time. Today we are in a four-story 28,800 square meter facility, and are able to produce for customers in the city, in other cities, and even abroad. Our customer number increased drastically up to 10,000. We hope to become a global brand in the longer run.”