

THE DISINFLATION PROGRAM
AND
SMALL- AND MEDIUM-SCALE ENTERPRISES

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Globalization--the continuing process of economic integration and financial liberalization that began to spread throughout the world during the 1980s-- has led to the emergence of relatively small companies that can swiftly adapt to ever changing conditions and innovations. It is well-known that large-scale businesses lack the agility to keep up with changes in the economic and political environment. In addition, it is enormously costly for big companies to stay abreast of the latest technological innovations. Small-

and medium-scale enterprises have become universally important due to their ability to adjust quickly to the vagaries and vicissitudes of the economy, fluctuations of the markets, and financial crises. In this age of giants, smaller enterprises are beginning to be appreciated as essential for the stability of economic and social life, embodying the philosophy of "*small is beautiful*."

As of December 31, 1997, 99.5 percent of all manufacturing businesses in Turkey were small- and medium-scale enterprises employing from 1 to 200 persons, which contributed 28.6 percent of total value added.

Small- and medium-scale enterprises produce the following benefits for Turkey:

- They create employment,
- They train qualified personnel needed for industry.
- They ensure a competitive environment which is open to new entrepreneurs.
- They are scattered all over the Turkey and play an important role in eliminating regional imbalances and promoting economic activity.
- They help lessen distortions at both the regional and individual level.

But some problems must be solved before these enterprises can produce their maximum benefits and ensure sustainable economic growth.

The small- and medium-scale enterprises of Turkey are mainly family enterprises. They encounter the following problems:

- They lack the technology needed for production.
- Their capacity is low and their costs high.
- They are inadequately capitalized and suffer from financing problems for lack of the information needed for risk management.
- They have difficulty in finding and hiring professional and skilled manpower.

Naturally, these problems are closely related to present economic developments. For this reason, Turkey's stabilization policies and their outcomes will be very important in improving the situation of small- and medium-scale enterprises.

In addition to the strong competition arising from the process of integration with the European Union, these enterprises have seen their financing needs and their vulnerability to domestic and international crises increase as a result of the recession of 1999. This is why the small- and medium-scale enterprises should join in supporting the ongoing program to reduce inflation and secure the macroeconomic balances.

In the present environment, where global crises appear to be headed off by positive developments in the world economy, an optimistic atmosphere prevails in the Turkish economy generally, and there have been many fundamentally positive developments in the real and fiscal sectors. Legal arrangements have been made in the banking and social security systems. Turkey has signed a Stand-by Agreement with the IMF. The government has endorsed the exchange rate and inflation targets, and has taken measures to restore the public finances.

The success of Turkey's program during the year 2000 is clearly traceable to the rapid decrease in interest rates, the resumption of real growth, and especially in the quickly declining inflation rate.

Reducing inflation to single digits is very important to the small- and medium-scale enterprises.

Successful implementation of the program will produce the following benefits:

- Since inflation distorts distribution of incomes, a lower inflation rate will increase the purchasing power of households and improve their living standards.
- In addition, small- and medium-scale enterprises will have larger market shares as a result of these increased incomes.
- Because they are scattered all over the country, small- and medium-scale enterprises may boost the revenues and capital stocks of entrepreneurs in the underdeveloped regions.
- Enterprises' exposure to interest rate and exchange rate risks, and increases in their production costs, will largely be avoided.
- The elimination of much uncertainty about the future will promote wiser investment decisions.
- The employees of small- and medium-scale firms will see their salaries rise in real terms.

- Once the macroeconomic balances have been restored and Turkey has become a member of the EU, the small- and medium-scale enterprises will be the major beneficiaries.

But the small- and medium-scale enterprises must take an active role in obtaining for themselves a greater share in the extended market.

Concrete steps to be taken include:

- They must institutionalize themselves, shedding their identity as family businesses. This means they must adopt the administrative and ethical standards appropriate to institutions.
- They must hire qualified professional managers to cope with rapidly changing market conditions and technologies.
- They must choose between continuing business as a small-scale enterprise, or developing a strategy for becoming a medium-scale enterprise.

At the present stage, the main effect of the growing number of "Sectoral Foreign Trade Companies" will be to make small- and medium-scale enterprises to operate more rationally. The implementation of the "Sectoral Foreign Trade Companies" scheme will gather the small- and medium-scale enterprises under a single roof, giving them easier access to international markets by increasing their competitiveness and efficiency.

Globalization makes these arrangements especially vital for the small- and medium-scale enterprises in order to:

- Enhance their contribution to the economy in the increasingly competitive world environment, and
- Enable them to exploit their export potential.

Obviously, it will soon be possible for not only the "Sectoral Foreign Trade Companies" but also all the small- and medium-scale enterprises to enjoy economies of scale. This is all the more reason for the small- and medium-scale enterprises to urgently work on solving their structural problems and embrace new organizational models.

A number of management consulting firms and research centers established to help small- and medium-scale enterprises can play an important role in giving them a competitive edge in the international markets.

In addition, the **Decree on Governmental Support to Investments in Small- and Medium-Scale Enterprises** will be very important in encouraging these enterprises. The stated goals of the Decree are to protect and promote small- and medium-scale enterprises in conformity with development plans and annual programs, to improve their production and quality standards, to promote job creation, and to prepare them to compete in the Customs Union. In order to participate, small- and medium-scale enterprises must obtain an "Investment Promotion Certificate" through the Halk Bankası making them eligible to obtain credit from the "Investment Promotion Fund" and take advantage of several tax exemptions.

The measures aimed at increasing the domestic and international competitiveness of small- and medium-scale enterprises are certain to:

- Increase GNP,
- Eliminate inter-regional discrepancies, and
- Improve income distribution.

Another important benefit will be seen in the financial sector and particularly the banking sector.

Banks are the most suitable source of financing for the small- and medium-scale enterprises, which generally lack a strong capital base. At the present stage the financial support of Halk Bankası and Eximbank are extremely important. In addition to their own resources, Halk Bankası and Eximbank are using domestic and external resources to meet the financing needs of eligible small- and medium-scale enterprises. More than half of Halk Bankası's total credits go to small- and medium-scale enterprises. The share of credits extended to small- and medium-scale enterprises, directly by Eximbank and indirectly by other commissioned banks is around 40 percent. The credits granted by these two banks to the small- and medium-scale enterprises represent 7.2 percent of the total credit portfolio of the banking sector. And in addition, T. Sınai Kalkınma Bankası, Sınai Yatırım Bankası, Emlakbank and Vakıfbank offer credit facility to small- and medium-scale enterprises from time to time.

Other banks may also extend some commercial credits to the small- and medium-scale enterprises. But such credits are sadly inadequate and are unlikely to be increased unless the present positive economic trends continue.

But the small- and medium-scale enterprises which represent a large part of Turkey's manufacturing sector should not be ignored by the Turkish banking sector, which has seen interest rates decline and profit margins shrink due to structural reforms and the decisive steps taken to reduce inflation under the monetary program. Providing bank credit to the productive and internationally active small- and medium-scale enterprises will benefit the banks significantly. They will increase the returns on their assets and operate with a stronger assets structure if they will stop concentrating their credit by lending preferentially to big firms.

For all these reasons, the present conjuncture of domestic and international developments appears most favorable for the small- and medium-scale enterprises. These enterprises, which perform essential socioeconomic functions in the community and contribute greatly to output and employment, promise enormous benefits for the Turkish economy under the present positive conditions, both in Turkey and abroad.

To the benefits of technical assistance, consulting services, governmental promotion of investment, and advantageous credits granted by banks, which till now have been the main incentives for the small- and medium-scale enterprises, are now added the equally strong positive effects of the recent stabilization policy and structural reforms.

The present favorable environment is the golden opportunity for the small- and medium-scale enterprises to renew their technological equipments and solve their organizational and financial problems. They must not let it slip through their fingers. It is absolutely vital for these enterprises to position themselves to make the best use of the economies

of scale and get the upper hand in both the domestic and international marketplaces.