

# E-FINANCE FOR SMEs IN TURKEY

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## TABLE OF CONTENTS

|  |           |
|--|-----------|
| <b>DEFINITION OF SME .....</b>   | <b>2</b>  |
| <b>FINANCIAL SERVICES USAGE OF SMES.....</b>                               | <b>3</b>  |
| <b>E-READINESS.....</b>  | <b>5</b>  |
| HOW BUSINESS SEES E-COMMERCE IN TURKEY.....                                | 5         |
| <i>Turkey and the New Economy: The Outside Environment .....</i>           | <i>5</i>  |
| <i>Turkey and the New Economy: Inside the Company.....</i>                 | <i>5</i>  |
| METRICS FOR E-COMMERCE ENABLING INFRASTRUCTURE .....                       | 5         |
| <i>Ownership.....</i>  | <i>6</i>  |
| <i>Turkey's Index Values in 1995, 2005 and 2010.....</i>                   | <i>6</i>  |
| <b>E-FINANCE AND ENABLING INFRASTRUCTURE INITIATIVES .....</b>             | <b>6</b>  |
| PRIVATE SECTOR LED E-FINANCE AND ENABLING INFRASTRUCTURE INITIATIVES ..... | 6         |
| <i>Internet in a Box .....</i>   | <i>6</i>  |
| <i>Security .....</i>  | <i>7</i>  |
| <i>SME Segmenting and Credit Scoring.....</i>                              | <i>7</i>  |
| <i>Payment and Settlement Services.....</i>                                | <i>7</i>  |
| <i>Internet Banking .....</i>  | <i>8</i>  |
| PUBLIC SECTOR ENABLERS AND INITIATIVES .....                               | 8         |
| <b>CONCLUSION .....</b>  | <b>10</b> |

## ABSTRACT

This paper aims to give a snapshot of the Turkish environment for finance and e-finance of SMEs.

There are several parties who are working on initiatives to enable e-finance or, to a greater extent, forming platforms that prepare the community for e-finance. An orchestrated approach would certainly speed the process, however at this stage the efforts are in silos. The most feasible and yet very important part of the efforts go to creating awareness among SMEs on the benefits of accessing the right information at the right time via the Internet for finding new ways of financing.

A large percentage of companies who are not doing e-commerce, believe that it is not suitable for their sector or product or it is not necessary since they do not sell to the end-customer. However, there are a number of third parties creating electronic marketplaces for many products from raw materials to semi-finished goods, bringing together partners, suppliers and purchasers, and intermediaries, allowing communication and coordination all across the supply chain electronically. They do their best to get the largest or best known companies / parties of the sector in to attract more players and have this new mechanism work properly.

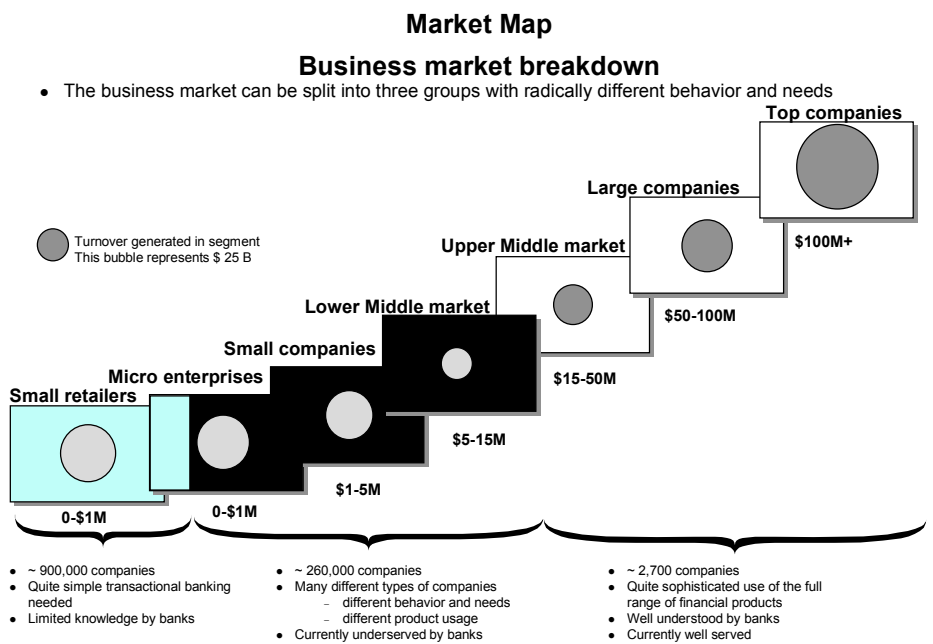
# E-FINANCE FOR SMEs IN TURKEY

## Definition of SME

There is no universal definition of SME and the term covers a wide variety of definitions and measures. The most common definition in OECD countries is based on employment figures; correspondingly, an SME has less than 500 employees. The Eurostat definition used in 19 European countries refers to fewer than 250 employees, and it is currently the most widely accepted definition. Some countries use different definitions for manufacturing and services SMEs, with the latter usually defined to be smaller. Some countries distinguish between autonomous SMEs and those connected to a larger enterprise or group, or identify an SME in terms of management structure.

In Turkey, the widely accepted definition points to those with 1 to 50 employees as 'small' and those companies with 50 to 100 employees as 'medium'. In financial terms, an SME would have less than 15 million USD as revenue. Another criteria for an SME has been accepted as "an SME should not be owned by a non-SME firm (or ownership should not exceed more than 25%).". Other non-numeric, rather qualitative traits of an SME are adopted as: the owners are usually the managers, the management style is not hierarchic, usually it is a family business, not quoted on stock markets and most of the time they have financing constraints and find it difficult to trade abroad.

SMEs and micro enterprises dominate the Turkish Market. They represent 99% of the number of companies and 75% of employment, and 46% of business turnover. Following diagram shows business market's composition and how it is categorized by size and number.

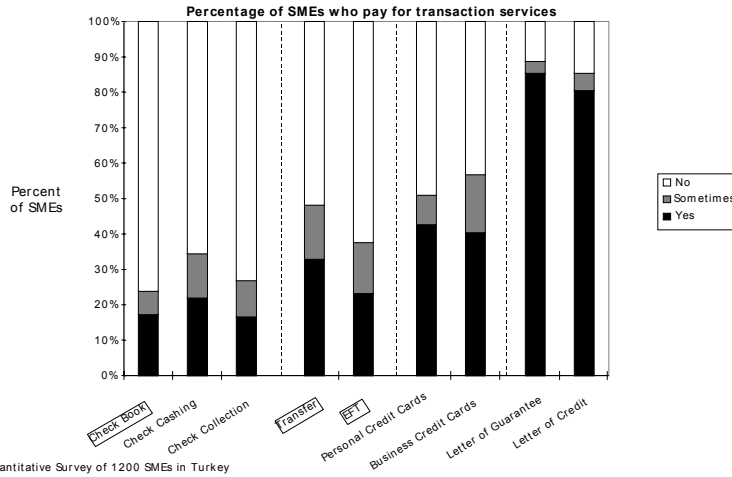


Note: Bubbles represent share of total turnover  
 Note: Small Retailers are Wholesale and Retail Trade, repair of motor vehicles, motorcycles and personal and household goods with less than 5 employees  
 Sources: Statistical Yearbook of Turkey, DIE, 1996, General Industry & Enterprises Census, DIE, 1992, Monitor Analysis  
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# Financial Services Usage of SMEs

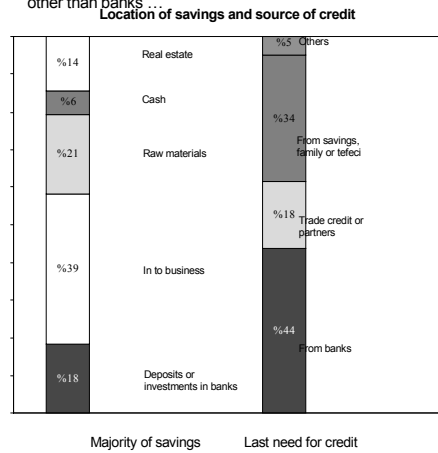
Following two graphs summarize the key features of the relationship of SMEs with banks.

## Market Map Payments



## Market Map Bank Usage - Loans and Savings

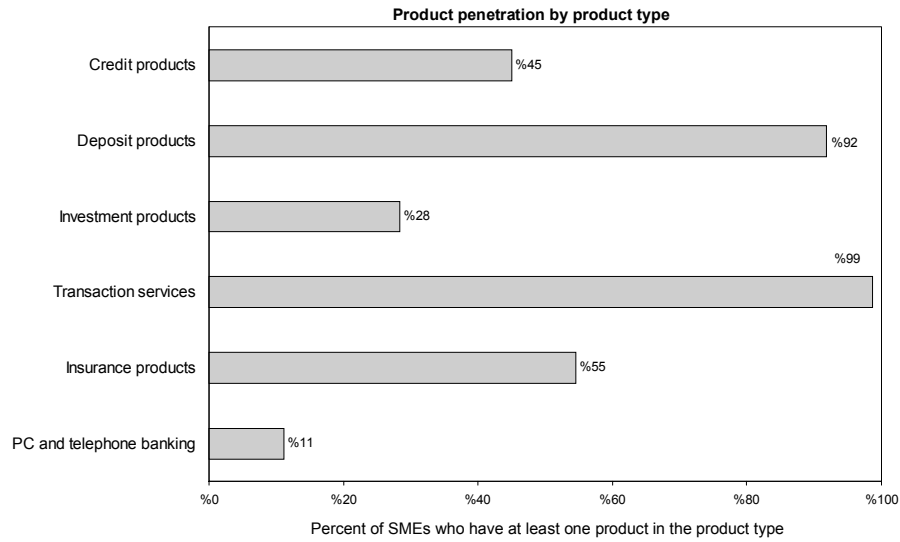
8% of SMEs are in the banking system, but SMEs fulfill their financial needs mainly through means other than banks ...



- After funding their business, 40% of SME savings is left over -of that only 18% is invested in the banking sector
- Only 44% of SMEs received their last credit from banks

Source: Quantitative Survey of 1200 SMEs in Turkey

## Market Map Product usage



Source: Quantitative Survey of 1200 SMEs in Turkey  
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24

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Due to the high inflation environment present for many years, long term funding, i.e. project finance, is not a mature discipline in the country. However, in the past couple of years, some banks received the World Bank loans to specifically lend money to SMEs with convenient payback options (with the guarantee of the Turkish Undersecretariat of Treasury). Similar lendings have been offered by some mainly development banks as TSKB<sup>1</sup> with special loans from International Finance Corporation and European Investment Bank.

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<sup>1</sup> The largest Turkish development bank whose shares are held by major commercial Turkish banks.

## E-Readiness

### How Business Sees E-commerce in Turkey<sup>2</sup>

IBS's survey of 210 business users of the Internet shows how businesses view e-commerce and assist in setting Turkey's Internet practices in an international context. IBS survey "Business Internet User Survey 2000", compared the situation in Turkey in mid-2000 with the results of a study carried out by Opinion Leader Research for Andersen Consulting in 11 EU countries and the US in mid-1999. These figures show that attitudes in Turkish business are some way behind those in the industrialized world. Some key comparisons are given below:

#### Turkey and the New Economy: The Outside Environment

|  | Percentage Agreeing |                |
|--|---------------------|----------------|
|  | Turkey 2000         | Europe/US 1999 |
| E-commerce transforms ways to do business                | 49                  | 70             |
| E-commerce offers real competitive advantage             | 38                  | 70             |
| Will be more reliant on e-commerce in 5 years            | 52                  | 59             |
| E-commerce poses severe competitive threat               | 20                  | 40             |
| E-commerce intensifying competition                      | 38                  | 44             |
| E-commerce currently helps you access new markets        | 51                  | 40             |
| E-commerce enables you bring products to markets quicker | 45                  | 41             |
| E-commerce will not take off until Internet more robust  | 54                  | 37             |
| Security is a barrier to e-commerce development          | 32                  | 68             |
| Cost reduction is key to development                     | 66                  | 60             |
| Low PC penetration is a barrier to growth of e-commerce  | 53                  | 49             |
| E-commerce will assist your foreign trade                | 52                  | 59             |
| Government should promote Internet access                | 65                  | 88             |
| Your company will have gained in 5 years                 | 41                  | 64             |

Source: IBS and Andersen Consulting

#### Turkey and the New Economy: Inside the Company

|  | Percentage Agreeing |                |
|--|---------------------|----------------|
|  | Turkey 2000         | Europe/US 1999 |
| E-commerce is significant in current operations      | 22                  | 33             |
| Company has plans to exploit e-commerce              | 41                  | 72             |
| Will be more reliant on e-commerce in 5 years        | 52                  | 59             |
| Senior management committed to developing e-commerce | 47                  | 50             |
| E-commerce requires new skills and retrain           | 56                  | 86             |
| Introducing e-commerce requires culture change       | 42                  | 83             |

Source: IBS and Andersen Consulting

### Metrics for E-commerce Enabling Infrastructure

Interpro Market Research Center published a report on ICT market in Turkey for the year 2000. The report, "ICT Market 2000", estimates that the market size is 16.3 billion USD, up over 40% from last year's figure of 11.4 billion USD. The report predicts PC sales to be at

<sup>2</sup> The tables and content in this section are taken from the IBS Group's Internet Business User Survey published in June 2000. More detailed information can be obtained from IBS the address of which is Abdi Ipekci cad. Kizilkaya apt. 59/6 Macka 80200 Istanbul Turkey; tel no: +90 212 231 0481; www.IBSResearch.com. Due to the lack of comprehensive surveys on SMEs, projections need to be made from this survey whose targeted population are the top 1000 companies in Turkey in terms of revenue.

800K and laptop sales at 35K. It also predicts that the Internet services market will increase over 180% since last year.

“*Report on Internet Subscription Statistics*” report, published by the weekly IT magazine BTHaber and Interpro Market Research Center, predicts the number of subscribers as 1.2 million as of August 2000, and predicts that the number will reach to 3 million at the end of the year.

96% of the respondents of “*IBS Business Internet User*” survey said that their company used e-mail. Only 25% of respondents said all their company’s employees could use e-mail.

### Ownership

|  |                                     |
|--|-------------------------------------|
| PC   | 5,561,000                           |
| Internet Connection                        | 1.2 million subscriber(August 2000) |
| Number of ISP                              | 80 (four ISPs command 65%)          |
| Number of Domain Name Under Country Domain | 26017 (January 2001)*               |
| Number of Internet Host                    | 50,000 (December 2000)**            |

\*Middle East Technical University DNS Service

\*\*State Planning Department

### Turkey’s Index Values in 1995, 2005 and 2010

| Values                                   | 1995       | 2005       | 2010       |
|--|------------|------------|------------|
| Population                               | 62,530,000 | 70,000,000 | 75,000,000 |
| GDP (billion USD)                        | 130.7      | 400.54     | 621.75     |
| Electronic Production (billion USD)      | 4.5        | 26         | 50         |
| Electronic Consumption (billion USD)     | 8.5        | 31.99      | 54.825     |
| Number of PC                             | 780,000    | 9,000,000  | 19,000,000 |
| Literacy Rate                            | %88        | %94        | %97        |
| Number of Internet Connection            | 45,602     | 2,000,000  | 11,500,000 |
| Technical People (number of individuals) | 249,430    | 480,000    | 650,000    |
| GDP per person (USD)                     | 2,090      | 5,722      | 8,290      |
| Electronic Consumption per person (USD)  | 136        | 457        | 731        |

## E-Finance and Enabling Infrastructure Initiatives

### Private Sector Led e-Finance and Enabling Infrastructure Initiatives

Private sector, mainly the banks and IT companies play a major role in forming e-enabling platforms and e-finance services. Some examples are:

#### Internet in a Box

A private bank (Disbank) has launched a campaign which bundles hardware, software for accounting and bill production, e-banking services, insurance for the premises, PC training and technical support, special newspaper advertising rates<sup>3</sup>, free advertising offers on the bank’s websites, special rates for travel agencies and tax consultancy. The price and payment conditions of the package is seriously convenient. The package is introduced as the best buy for SMEs to meet their banking and commercial requirements. There are also similar offerings in the market by other banks, some targeting special industry segments, such as the pharmacies.

In addition, ISPs and IT companies have special offers for SMEs. These offers in general include special payment options, leasing and tailored technology trainings. A typical ISP offer includes unlimited internet access, a static IP address, domain name, web space and e-mail

<sup>3</sup> The bank is owned by a conglomerate, which has high stakes in Turkish media sector.

addresses. There are also special portals for SMEs where financial news and interpretations, macroeconomic data and information on tenders opened may be easily accessed.

## **Security**

In order to provide electronic signatures and personal identification technologies, five leading banks have started an initiative to establish a certification authority. Some banks are considering IDENTRUS certificate issuance for the Turkish market. Several banks have implemented Public Key Infrastructure (PKI) for commercial transactions.

## **SME Segmenting and Credit Scoring**

Increasing number of banks have setup separate strategy focusing on specialized needs of SMEs. Some banks have created sales organization which was both proactive in its approach and sensitive to SME customer needs.

Several banks have made huge investments for Customer Relationship Management (CRM), datamining and datawarehouse applications to better understand and develop new services for their customers. By segmenting SME customers, some major banks such as Yapı Kredi Bank, Garanti Bank developed standardized services that are especially suited for particular sectors, e.g. reserving personalized services for the most profitable customers while encouraging use of automated services for less profitable customers. Yapı Kredi Bank segments its SME customers by sector, size, behavior and profitability.

Leading banks in SME, such as Yapı Kredi Bank have implemented a credit scoring system in cooperation with Dun&Bradstreet to improve risk management in lending to SMEs. The system assigns a single quantitative measure to the potential borrower representing an estimate of the borrower's future loan performance. SMEs are evaluated in terms of;

- management quality, expertise, trustworthiness
- commercial activity : Products and service picture.
- financial wealth of the company : Income statement and balance sheet information
- relative performance of the company in its sector

## **Payment and Settlement Services**

Credit card is the main choice of settlement for business-to-consumer (B2C) e-commerce transactions. Seven banks launched separate co-branded virtual credit card (i-Card, Netcard, Webmondial, Sanal Kart, TelewebCard, eCard), suitable for online use only. To encourage e-Commerce, some banks are offering discount pricing and no liability for unauthorized use of the card together with enabling its cardholders to redeem points accumulated from shopping online. Most of the banks are offering Business Card for small businesses to separate personal expenses from business-related expenses. Citibank introduced purchasing card for the purchase of business-related goods and services.

Five banks are offering Internet Credit Card Processing services and Virtual POS, for online merchants to authorize, process, and manage credit card transactions. There are more than 350 online merchants who sell wide range of products and services on the Internet. SSL is used for the security of financial transactions. Three banks' virtual POS services support SET based transactions. Some banks are planning to implement The Visa Authenticated Payments Programme that accommodates 3-D SET and 3-D Secure, a newly developed protocol for the authentication of e-commerce payments.

Electronic Bill Presentment and Payments (EBPP) systems are beginning to be used in payment transaction between companies and banks. Several banks are offering Direct Debit Collection Service for automatically collecting payment by debiting customers' accounts and Money Transfer Service by sending payment instruction files directly to the bank. Banks are beginning to change their attitude towards the application of the Internet in their core B2B high-value transactions. Denizbank launched a B2B payment card application for settlement of Internet B2B transaction. Currently three supplier in IT sector is using this service.

## **Internet Banking**

Financial services are offered through multitude of delivery channels (Internet, wap, digital TV etc.). Most of the banks have web sites containing information on their products and services. More than fifteen banks are providing sophisticated Internet banking services, with functions such as account information, money transfers, bill payment services, FX and mutual funds trading.

## **SME Marketplaces and Portals**

Koc Group and Microsoft Turkey established a business portal, kobiline.com, targeting small and medium sized enterprises. Site services are expert advice, consulting, product catalog, company info, order taking, product search, buyer search, seller search, research report, news on business, management, economy, regulations, human resources, free e-mail and web space, e-training, e-organizer, ASP services (accounting, human resource management).

Another business portal targeting SMEs is toptanpazaryeri.com, established by strategic partnership of eleven companies in IT, finance, media, consulting and logistics sector including Alcatel, Gartner Group, Garanti Bank, Coface, Global Express. Site aims to be the major B2B site and the contact center of Turkey for international trade.

Turkex.com, an international trade portal, claims to be the most comprehensive source of Turkish exporters and export products from food to footwear, offering catalogue search and online order services.

## **Public Sector Enablers and Initiatives**

There are several initiatives some of which are handled/operated solely by government controlled parties, whereas many others are operated jointly by private companies and government bodies. Generally their model is based on supplying the trade related information for the SMEs to support them to enter global markets, rather than directly subsidizing them financially. They are perceived by all parties involved to be very helpful in medium and long terms.

KOSGEB (Small and Medium Industry Development Organization), an organization under the Ministry of Industry and Trade, is one of the major players in this area. Its mission is to support SMEs in increasing their capabilities to do business electronically and therefore helping them to develop international trade. KOSGEB is the main founder of an e-commerce gateway organization for SMEs, the KOBINET, which is the Turkish extension of EU's SME Information Network. The organization has members from both public & private sector with the objective to introduce SMEs to global markets. Trade chambers, Istanbul Stock Exchange, several financial foundations, embassies and trade offices abroad are among its members. The organization's mission is to supply information to SMEs on the internet and global markets and to support them for their IT infrastructures. It targets to guide / inform the regulatory bodies for e-commerce regulations. The services provided include:

- ⇒ Partnership services: In connection with the EU SME Partnership programs, provide access to technical, financial, commercial and investment partnership / cooperation offers in 80 countries. At the same time, giving the opportunity to place similar offers in 80 countries.
- ⇒ Directory of companies: There is a well populated database of company profiles, providing search facilities by product/service and company name, with search results including the revenue, employee headcount and type of the company.
- ⇒ Information bank: Provides almost all information that anybody related to SMEs might need, including a wide range of topics from the governing laws to financial publishings.

KOBINET has started out as a virtual exhibition where the small business can find many of the things they need with a long term vision to build the B2B marketplace.

The Trade Points Programme is another key enabler. As the Turkish arm of the UNCTAD's Trade Point Development Centre, this programme facilitates access to the latest information and telecommunication technologies by making them available to trade operators in developing countries and to SMEs worldwide - at a reasonable cost - through the chain of Trade Points, with the overall objective of reducing the risk of exclusion and increase participation in international trade. IGEME (Export Promotion Centre of Turkey) has been approved and has been operating as a Trade Point since June 1999, with headquarters and four branch offices. IGEME's services are defined and provided with the view to contributing to the development of SMEs to participate in the emerging global electronic marketplace at low cost. The services bring together the local business community including the customs officers, shipment companies, banks and tax advisors under a common umbrella for the easy access of SMEs to an integrated service structure.

National Productivity Centre provides consultancy services for SMEs at very low costs. Topics like reorganization analysis, renewal of manufacturing systems or feasibility studies for relatively small investments cease to be costly or unreachable tasks for SMEs.

The 8<sup>th</sup> 5-year plan prepared by the State Planning Organisation was approved by the parliament in 2000. The plan recognises information society, information technologies and software production as very important areas.

Undersecretariat of Foreign Trade established a committee for coordination studies in electronic commerce. This committee produces reports addressing legal and technical issues related to e-commerce. Undersecretariat of Foreign Trade's wide area network (IHRACAT-NET) is used by exporters from 42 points across the country for preparing and forwarding the customs documents to customs offices online. This capability enables fast completion of necessary operations and data correction for 24 hours a day and 7 days a week.

TOBB (The Union of Chambers of Commerce, Industry, Maritime Trade and Commodity Exchanges of Turkey) started two separate information network initiatives to connect its Chamber of Commerce and Commodity Exchanges.

The Customs Undersecretariat has started the Custom Modernisation Project (GIMOP) and Custom Automation Project (GIBOS) with the support of the World Bank. Both projects aim to provide better service to the trade community and to ensure

- more effective tax collection
- selective but more effective customs control
- uniform implementation of customs legislation
- more effective human resources management
- more effective and rapid production of foreign trade statistics

The project links Headquarters, Regional and Local Customs Offices. Pilot application has been implemented successfully in Ataturk Airport Customs Directorate since July 1998. Traders will be able to submit their declarations from kiosks in customs offices as well as from their own offices by "EDI" (Electronic Data Interchange) or on Internet to Computerised Customs Activities system (BILGE, a software program developed to carry out all real-time customs formalities of goods to/ from customs territory in a computerized media).

The Turkish Informatics Foundation (TBV), an influential NGO with objectives to transform Turkey into an information society, is now working on a project that targets to standardize the documentation between banks. The second phase of the project will cover messaging between any two businesses.

## Conclusion

Before emphasising the last words as a conclusion, it will be beneficial to remind the necessity of application of synergy creating efforts among the public and private institutions, and within themselves. Given that necessity, Electronic Commerce Coordination Committee (ETKK), an organisational body functioning under Science and Technology High Committee that directly reports to the prime minister, shall be organizing, covering, directing all electronic commerce or related initiatives within the country, and taking an imperative role to accumulate knowledge and experience in the field as an umbrella organization. Otherwise, significant number of non-governmental and commercial organizations compose, and will do so, their path along with their future expectations without any synergy, certainly causing excessive efforts in vein, in an environment where financial resources are already quite limited.

Although the level of e-readiness of Turkish SME market is uneven, their awareness about the contribution that e-commerce can make to their development prospect is growing rapidly. Compared to large firms, the inability to correctly assess the impact and benefits of e-commerce makes SMEs more cautious about the required investment. Despite their dominant numbers and importance for economy, SMEs are facing great difficulty in obtaining formal credit or equity. Due to high inflation environment present for many years, long term funding, i.e. project finance, is not a mature discipline in Turkey. Most of commercial banks and investors are regarding SMEs as high-risk borrowers due to insufficient assets and low capitalization, vulnerability to market fluctuations, lack of accounting records and inadequate financial statements. However, even though there is no solid program, for instance, to educate the SMEs in how to generate financial reports, there are several initiatives that open the way for them.

Thousands of SMEs cannot realize the strength of their competitive advantages simply because they do not have access to trade-related information: they do not know where the markets are for their products, or they cannot make their products known to would-be customers because they do not have the equipment and software necessary, or because such access is too expensive. The existing partnership projects are especially advantageous for SMEs, who benefit not only from the network effects of investment made by the large firms taking part in the project and from the spreading of costs and risks, but also from pooling of knowledge and experience, while at the same time avoiding the negative effects of hierarchy and dependence.

Electronic commerce will permit enormous savings in time and money and will give countries and firms a clear edge over their competitors. Moreover, electronic commerce permits instant identification of import/export opportunities, and the creation of links between potential importers/exporters. Eventually, an increase in the awareness of SMEs' own potential to make their business better and more efficient, so its realisation, and particularly an increase in the volume of exports, certainly contribute to macroeconomic development of a developing country in the path to the league of welfare states.