



Supporting Small Business Development in the Province of Manisa, Turkey: The Role of KOSGEB



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Foreword

The success of a country's economic development largely depends on whether it succeeds on a local and regional scale. There is a great need to create a collaborative environment for joined up working of all the local, regional and institutional actors. Delegation and strengthening local activities at the national level not only increases the effectiveness of central policies but promotes democracy and creates equal opportunities for social cohesion as well.

Local and regional governments, local agencies and other local actors are therefore key elements in ensuring economic and social development. Local development policies and local initiatives should be strongly integrated into national strategies.

The OECD Local Economic and Employment Development (LEED) is carrying out research in many countries to identify best practices of local development. Turkey's decision to participate in the LEED project "Building Capacity to Design Local Development Strategies" is paving the way for similar research and application in many of its provinces, beginning with Manisa, where the project has been implemented.

KOSGEB (Small and Medium Enterprises Development Organizaton) is one of the local actors in Manisa Province. KOSGEB's mission is to increase the share of SMEs involved in economic and social development by providing qualified service and support so as to improve SMEs' competitive power and disseminate a culture of entrepreneurship.

Under this new approach, and in parallel to its extended mandate and coverage, KOSGEB has entered into an important period of change. The New Supports Programs within KOSGEB's new vision have been designed with a participative approach, in which the opinions, needs, demands and expectations of SMEs and sectoral organisations have been considered every step of the way. Through its support programmes, KOSGEB plays an important role in the local development of the provinces.

We believe that the findings and recommendations in this report will bring a new perspective to SME-related policies in Turkey for creating new local development strategies and contribute to the targets set for 2023, the 100th anniversary of Turkey.

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Acknowledgements

This case study reviews the role of KOSGEB (Small and Medium Enterprises Development Organization, Turkey) Service Centre in Manisa Province in supporting business and entrepreneurship development as part of the region's wider economic development strategy. The review took place in the context of the enlarged mandate of KOSGEB, whose responsibility is no longer limited to providing support to SMEs in the manufacturing sector, but covers other economic sectors as well. A field visit to Manisa Province took place at the end of 2010 with the objective of interviewing key local stakeholders, those responsible for SME and entrepreneurship development, as well as those from the business community. The findings of this report also draw on a background report provided by a local expert prior to the field mission. In addition, a quick assessment of the implementation of the EU Small Business Act for Europe was conducted in Manisa Province in 2011.

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Acronyms and abbreviations

BIS	Business Innovation Centre
ESIM	Testing and Analysis Services
EU-SMEG	EU SME Grants Programme
FDI	Foreign direct investment
GIP	Emerging Companies Market
IP	Investment Preparedness
İŞKUR	Turkish Employment Agency
IVCI	Istanbul Venture Capital Investment
KGF	Credit Guarantee Fund
KOSGEB	Small and Medium Enterprises Development Organization (Turkey)
MOIZ	Manisa Organised Industrial Zone
NADA	North Aegean Development Agency
NDP	National Development Plan
RDA	Regional development agency
SBIR	Small Business Innovation Research
SCO	Service Centre Office
SEER	Strategic Economic Evaluation Research
SME	Small and medium-sized enterprise
VAT	Value added tax
VC	Venture capital
VET	Vocational education and training

Executive summary

KOSGEB's goal is to promote a strong, innovation-led economy which encourages enterprise and assists high-growth business to flourish. This requires co-ordinated action, as any intervention must work to re-balance the economy and provide targeted assistance for manufacturing, emerging sectors, inward investment and international trade. The provision of a range of publicly funded products and services designed to help businesses overcome key challenges, and the assistance they need to improve, can be an important part of accelerating growth and overcoming the barriers which hold back business-led growth and the development of a thriving and sustainable private sector.

Many areas like Manisa suffer from a local lack of sophisticated demand in terms of expressed SME requirements. This leaves considerable scope for demand and supply side initiatives set within KOSGEB's framework that will assist in shaping intervention and promoting a coherent approach to SME development. KOSGEB can show leadership by doing this in a way that will improve competitiveness at both the firm and regional level by addressing constraints and maximising the use of the opportunities for growth and SME consolidation within a stronger regional economic structure.

Since SMEs tend to be labour-intensive, they create employment at relatively low levels of investment per job created. As localities within Manisa are characterised by a low rate of capital formation, micro businesses and SMEs will continue to play a vital role. SMEs tend to be more effective in utilising local resources, using simple and affordable technology; SME owners tend to show greater resilience in the face of recession by holding on to their businesses, as they are prepared to accept lower compensation, wages and returns. This reflects the need to build an enterprise culture and find innovative ways to assist SMEs.

Through business linkages, partnerships and subcontracting relationships, SMEs have great potential to complement larger organisations. A strong and productive industrial structure can only be achieved where SMEs and large enterprises not only coexist, but function in a symbiotic relationship. However, the linkages between SMEs and large enterprises are weak in Manisa. SME development policy, therefore, creates the potential for enhancing linkages within the economy and engaging SMEs, which often serve as a training ground for entrepreneurship and managerial development.

KOSGEB can develop services in a range of ways to build and strengthen these linkages in Manisa. The high degree of flexibility for adapting policy to local needs is an advantage which allows new innovations and programme initiatives to be piloted in Manisa. KOSGEB is an important and respected network partner in Manisa, capable of reaching further into the business community and thereby influencing the future enterprise culture in practical ways that strategically target development finance supports.

This report focuses on three critical areas:

1. SME access to finance;
2. skills for business development and growth; and
3. programme evaluation and impact assessment.

For each of these themes, an assessment of the current approach is provided analysing its strengths and weaknesses, a series of recommendations are presented in order to tackle weaknesses and build on strengths. The recommendations are illustrated by international learning models demonstrating how similar issues have been successfully addressed in other countries.

Improving SMEs' access to finance

Challenges

One of the key challenges in the case study region is the low financial literacy of many micro and small businesses, which may prevent these firms from adequately assessing and understanding different financing options. They are also more likely to have difficulty understanding and accessing complex loan application procedures.

In regions where the share of informal economy is relatively large, accounting and financial statements are often not transparent, making such firms a higher risk as borrowers and thus less attractive to lenders. This perpetuates the informal financing routes and inhibits SMEs from reaching their full growth potential.

The external sources of finance, informal (family and friends or supplier finance) and formal (debt or equity), both play a complementary role in the growth of SMEs. The lack of equity finance is a binding constraint for many SMEs, in particular for larger ones, while extending additional debt financing for undercapitalised SMEs may be counterproductive. This was evidenced in discussions with a large multinational business in Manisa.

Firms in regions such as Manisa often depend on informal sources of funding (such as savings, loans from family and friends) in the very early stages of their development. External formal sources (such as lines of credit, grants, bank loans and equity) become more important as these firms grow. KOSGEB has recognised that the availability of such sources can have a crucial impact on the growth path and prospects of SMEs, both regionally and nationally.

However, the financial crisis and revised risk-weight functions by lending institutions have created even greater problems for SMEs' access to finance. Banks know that relationship lending entails high internal transaction costs. This limits their motivation to reach out to SMEs with finance rates and conditions that small firms could accept. Government policy and agencies such as KOSGEB, working together in partnerships, can expand the frontier for SME finance.

The current and future credit position is tight, especially for SMEs. Agencies can work more closely with banks to further develop credit approval systems, with the aim of improving risk awareness from all sides, reducing SME rejection and default rates. Banks have traditionally been providers of additional products and support from transactional products to management advice and it is important to maintain close relationships with the sector. It is also important to gather evidence of financial ambition in local SMEs and

encourage more SMEs to submit information in a form that can assist their case for support. This is all part of a joint effort to develop projection-based funding, working with banks to place more emphasis on models which use predictive variables rather than simply current and past condition variables. Evaluations of earlier initiatives in Turkey, such as those of TOBB (Union of Chambers and Commodity Exchanges) in the early 2000s, show that such interventions can make a difference.

Recommendations

- Under the current financial climate and resource constraints, it will be important to maintain the level of services and continue to extend the availability and reach of the credit loan guarantee in order to assist start-ups and SMEs in accessing finance, as this remains the biggest issue for most of these businesses.
- KOSGEB Manisa Service Centre is already working on more closely monitoring the results and outcomes of its assistance rather than simply reporting the activity and expenditure levels. This evidence can be used to publicise success stories, both locally and nationally, and to provide an evidence base for new initiatives on the supply and demand side.
- Supply-side initiatives, through the provision of funding programmes, will not solve the problem of SME access to finance alone. Greater engagement and leverage on the demand side is necessary within a stratified set of service offerings. Greater engagement should be required from SMEs in return for the credit guarantee, including participation in further training and attendance at events and workshops on business finance, as this will improve their survival and growth prospects.
- The demand-side question merits the launch of an Investor Preparedness programme, complete with a diagnostic tool to indicate the assistance appropriate for SMEs at different stages of their growth potential. It will also connect to management education and university links for additional resources and capacity building.
- The involvement of large organisations and corporations is crucial, given their role in the economy and their ability to assist in accessing finance and other resources for growth. There is capacity to engage with other development agency partners to explore finance mechanisms, their involvement in supply chain networks and the potential financing of spin-offs and start-ups.

As SMEs grow and expand internationally, KOSGEB's client base will continue to broaden and new financial issues will arise. To address these issues, KOSGEB can work to further develop the pathways that have been established through partnerships with KGF Credit Guarantee Fund; KOBİ Venture Capital Investment; ESİM – testing and analysis services; iVCi, Istanbul Venture Capital Initiative; and GIP (Emerging Companies Market), helping SMEs to access advisory expertise and additional sources of finance, such as venture capital, equity funds and business angels. This would form part of a ladder of assistance.

- This stratified set of services will require additional training and update modules for KOSGEB's staff on finance for growth and investor preparedness, as part of a new initiative. The potential for secondments and joint projects with banks and universities should also be explored.

- Links with other agencies, financial market actors and the chambers of commerce will be central to the effective delivery and targeting of efforts. A convention should be held to discuss the stratified approach and the idea for the Investor Preparedness Programme and pilot workshop event. This event could present proposals for improving access to finance services and highlight examples from successful approaches elsewhere. It could also generate ideas for new innovative finance packages, for high-growth SMEs such as a funding competition for key sectors and priority clusters, learning journeys to diaspora contacts, leading sources of investment for equity and educational packages for leadership training.

Skills for business development and growth

Strengths and challenges

Entrepreneurs in Manisa Province show a high level of entrepreneurial alertness. They are quick to identify interesting business opportunities and demonstrate a great deal of readiness to exploit the most promising ones. This is a first step towards strategic awareness, although, as explained below, the latter appears to be lacking in the case of small business owners in Manisa Province.

At the institutional level, the general availability of skilled employees is an important requirement for SME owners wishing to develop their companies. In this regard, Manisa Province has a well-established infrastructure for vocational education.

With regard to skills-related support offers, KOSGEB is generally aware of the challenges that SMEs face during business development and growth, as seen, for example, in KOSGEB's programme structure and training needs assessment, conducted in Manisa Province. In its previous programme structure, KOSGEB also offered a strategic roadmap concept, thus, in principal, allowing for the possibility of strengthening strategic development in small firms. Under the current programme, and more specifically within the "General Support Programme", KOSGEB offers support for training, consultancy and the employment of qualified personnel.

At the same time, a number of challenges have been identified, including: limited strategic awareness, management skills and management knowledge of small business owners. Overall, the picture emerging for Manisa Province is one where SME owners show a pronounced lack of strategic awareness regarding the challenges connected to business growth and development. This helps to explain the **low uptake of KOSGEB's programme offers, apart from financial support**. At the organisational level, the lack of strategic awareness of small business owners in Manisa Province is reflected through: *i*) "muddling-through" behaviour with a focus on day-to-day business operations and a lack of interest in extending their management skills; *ii*) informal human resource management, including informal recruitment practices and a dominance of informal and on-the-job training; and *iii*) a reluctance towards formalising management structures.

At the institutional level, it became apparent that the emphasis placed on hiring employees from well-known and trusted sources is likely linked to a lack of trust in public services such as the Public Employment Agency. It also indicates, however, a possible **skills mismatch in the labour market** when it comes to the needs of small (and large) firms. Manisa Province is characterised by a constant outflow of highly qualified labour force, mainly young university graduates who prefer to work in Izmir and other Turkish cities, while low-skilled workers, without high ambitions, remain in the region. Additionally, the Vestel representative stressed an inflow of low-skilled, unemployable

people to the region. Not surprisingly, both large and small firms highlighted a lack of skilled personnel. However, while large companies have the resources to conduct in-house training and move beyond informal on-the-job training, offering formal training programmes, the limited resource base of SMEs restricts their ability to pursue a similar strategy.

With regards to this, although KOSGEB also offers skills-related support programmes, uptake is extremely low.

Recommendations

Recommendations for KOSGEB's Manisa Service Centre

KOSGEB's Manisa Service Centre is well integrated and known to the main stakeholders in Manisa Province, which is an excellent starting point for designing complementary offers and fine-tuning the existing programme portfolio to regional needs. Overall, KOSGEB's Manisa Service Centre will have to work on creating awareness in local SMEs about the need for systematic skills development of owner-managers and employees. There also appears to be a need for improved workforce training that is more closely oriented to the needs of SMEs in Manisa Province. The understanding that entrepreneurship is not simply about starting a business but that it increasingly influences employability, highlights the importance of training schemes for young adults and entrepreneurs. In this context, generating entrepreneurial attitudes among company managers and staff is an important ingredient in the process of raising a firm's readiness for business development and growth.

More specifically, KOSGEB's Manisa Service Centre could:

- **Increase SME owners' awareness** regarding management skills, formal personnel training and the formalisation of management structures through role models and mentoring. Arguably, this is a difficult task as it relates to mentalities and mindsets which are difficult to influence and change, especially in the short term. However, SME owners need to understand that business development must go hand-in-hand with personal development. This implies that they themselves need to continuously adjust their personal and business goals, know their personal strengths and weaknesses, and ask for assistance in this regard. Moreover, they need to give their employees responsibilities within the growing firm and/or broaden the management basis of their firm. One way of creating and increasing awareness of training needs for developing and growing the business could be the use of mentors, who have successfully grown their own company.
- **Develop a training programme to prepare SMEs for the supplier role.** Many SMEs in Manisa Province are part of a supply chain, and benefit from training programmes for suppliers offered by large companies such as Vestel and Bosch. KOSGEB's Manisa Service Centre could offer support to train SMEs in the "pre-phase", focusing on supplier readiness, and offer advice and workshops on how to manage existing supplier relationships. Such a programme could be administered together with the chambers of commerce and vocational schools and/or in collaboration with large companies.

- **Offer integrated support packages for companies ready to develop their business.** As outlined above, sustainable business development and growth requires strategic awareness of entrepreneurs. KOSGEB could support this attitude by complementing its existing financial support with mandatory consultancy and/or training elements instead of offering separate programme lines, emphasising the importance of co-operation and team management. This would help entrepreneurs develop their individual and organisational skills required for growing the business.
- **Target region-specific themes and sectors for skills development.** KOSGEB's Manisa Service Centre could tailor KOSGEB's existing offers to specifically support ecological production in agribusiness and food processing (e.g. future and market potential) or geothermal energy (e.g. potential business field, option for business modernisation).

Recommendations for KOSGEB

With regard to regional development, thanks to its regionally specific client base and close links to small companies, KOSGEB potentially has the capacity to develop regionally specific overviews of SMEs and SME development, their characteristics, sector distribution and specific needs. KOSGEB is well positioned to (further) develop region-specific support which would help support the economic development of Turkish provinces.

- The visit to Manisa Province highlighted the need for a targeted support approach, which takes into account the themes and sectors outlined above. Related to this, there is a need for KOSGEB to support regional offices in identifying regional needs and consequently tailoring KOSGEB's support offers, in line with KOSGEB's strategic plan. This involves checking the existing support structure which offers support for themes (Thematic Project Support Programme). It remains to be seen, however, whether the broad and open design of this particular support measure creates incentives for SMEs to take on regionally promising themes which would allow the company to develop and grow, supporting KOSGEB's role as a regional player.
- KOSGEB should revisit its previously offered strategic roadmap approach in order to identify ways in which to simplify and integrate it into support packages aimed at fostering skills development for growing companies. A strategic roadmap focused on supporting the strategic awareness of SME owners is considered to be a valuable tool in fostering business development and growth.
- KOSGEB also faces one particular challenge in relation to training programmes due to new purchasing standards. If KOSGEB were to offer general training programmes aimed at SMEs with similar needs, such as suppliers, they must charge a fee when enrolment exceeds 12 participants. Although this needs to be taken into account when developing training courses, experience from other countries show that participation fees are actually recommended in the long run in order to impress upon SMEs the value of training and consultancy support.

Improving KOSGEB's evaluation system

Assessment

As the national agency for SME innovation and technology promotion in Turkey, KOSGEB has established itself as a key player in the economic landscape, having contributed successfully to the delivery of a series of strategic objectives through a range of intervention activities and assistance mechanisms for SMEs and partners. However, the organisation is now entering a new, crucial stage of development. This next stage will present new challenges, internal and external, as the organisation and the network matures after 20 years of activity. One of these new challenges includes ensuring that the staff and the organisation itself capture the knowledge acquired through previous interventions and use it to inform future decisions on delivery options and policy development.

Evaluation plays an important role in bringing forward evidence and demonstrating the extent to which objectives are being met, what interventions are effective and how. Audience expectations are rising and evaluation can have a vital catalytic role in the future development of the organisation, helping to show how KOSGEB contributes to economic development and growth.

Evaluation will generate evidence of effectiveness, promote learning by developing the staff's skills and encourage a more informed debate about SME and innovation support in Turkey. There are a number of other powerful reasons why a co-ordinated approach to evaluation should be promoted. It will:

- provide nationwide evidence to better understand and demonstrate the effects of KOSGEB's actions and the impact of the programmes and projects in the regions and nationally;
- provide insurance in an environment of increased scrutiny and meet the demands for independent evidence of achievements and value for money;
- improve decision making and performance management, and stimulate new ways of thinking;
- increase the confidence of staff, the Board and stakeholders and boost motivation by validating work priorities and resource allocation.

Evaluation can become a co-ordinating instrument for KOSGEB with an increasingly important role in developing the network and setting standards for the regional offices. For these reasons, evaluation should have a central role in the organisation's future business model.

Recommendations

A series of actions are recommended in line with the desire to introduce strategic impact evaluation. This is necessary to promote organisational learning and generate evidence of the robustness of data monitoring, the effectiveness of the client selection processes and the impact of national and regional interventions. Prior to preparing a detailed plan, the following initial series of actions is suggested.

- Ensure that the leadership buys into the evaluation process, implementing a series of initiatives to promote a culture of learning and evaluation in KOSGEB;
- set up an evaluation working group or central unit and recruit regional representatives to become local champions;

- prepare promotional materials, frameworks and guidance for staff and partners;
- run a series of promotional, informational road shows regionally for KOSGEB staff, involving promotional engagement with stakeholders and partner agencies in each region;
- initiate evaluative efforts, including trial data monitoring demonstrations and evaluation enquiries in a few pilot regions;
- use evidence from the pilot evaluations to develop a preliminary formal and priced evaluation plan as part of the next budget cycle;
- increase evaluation capacity and competence across the network through the commissioning and initiation of a basic training programme;
- check, critique and align monitoring and data reporting systems with new network standards to construct a programme of outcome- and impact-based evaluations;
- commence performance appraisals requiring the mandatory forecasting of economic effects (outputs and outcomes) and the use of evaluation evidence for impact assessment;
- incorporate incentives for evaluation into the approval cycle and budgeting;
- prepare detailed staff guidance materials (hard copies and online interactive materials) as well as a set of standards and methodologies to be used in evaluation;
- roll out training modules at different levels across the network and share examples of case studies and good practices from other agencies;
- engage with and shape evaluation activities and developments across agencies and with the central government, including the new regional development agencies;
- create a knowledge store of evidence and methodologies;
- provide regular public reporting of findings to encourage debate.

Chapter 1

Socio-economic and SME policy context in Manisa Province

Manisa Province in the Aegean Region of Turkey is neighboring the international port city and regional metropolitan centre of İzmir, and benefits from the presence of Turkish consumer electronics and white goods giant Vestel, established in Manisa since 1980s, as well as considerable foreign direct investment (FDI) including the Italian white goods company Indesit, German electrical goods company Bosch, UK packaging company Rexam and Imperial Tobacco. The Province also has a strong agricultural and food processing sector.

Industry

There is strong and growing industrial activity in Manisa. There are 17 firms operating in Manisa that are on the list of the top 500 industrial companies in Turkey. There are numerous agriculture-based industrial firms. There are also a limited number of high-tech firms in electronics. The industrial activity in Manisa is mainly concentrated in organised industrial zones. There are four organised zones in addition to those in the centre of towns like Akhisar, Salihli and Turgutlu. The history of the Manisa Organized Industrial Zone (MOIZ) goes back to 1969.

There are 65 firms and 141 plants operating in the MOIZ, creating more than 24 000 jobs. The distribution of firms in the zone are: non-ferrous metal (24), white goods suppliers (19), automotive suppliers (17), electronics (16), plastics (15), metal ware (11), mold (10), ferrous and steel (9), food (8), textile (6), packing (6), forestry (5), white goods (5), chemical (3), heating products (3), press (2), tobacco (1), petrochemical (1), cement (1), ceramic (1) and glass (1). Manisa's Organised Industrial Zone was selected as the most environmentally friendly, organised zone in Turkey in 2008. The industrial zone also provides plants with local clean, reliable and continuous energy at low cost. There is a power plant operating within the zone which runs on natural gas. There is a railway network within the area which connects to the İzmir-Manisa railway for logistical purposes. The zone also provides investors with services like legal permissions free of charge (i.e. building licenses, certificate of permissions for buildings). Low production costs like labour, energy, land and logistics appear as the main drivers of industrial competitiveness in the MOIZ.

A part of the industrial activity takes the form of SMEs supplying intermediate goods to big firms like Vestel, Bosch, etc. The clear advantages are that SMEs are dedicated to the production of intermediate goods, at quality standards, required by a large firm without facing any marketing problems. In some cases (Vestel suppliers), supplier SMEs are provided with a training programme which accelerates the firms' learning process. There are obvious risks associated with a **dependence on a sole client**. Should any contract violations arise between the parties, the production relationship may break off and the small supplier firm may face difficulties in finding a new buyer for its products. SME support infrastructure could address this challenge by increasing SMEs' competitiveness.

It has been noted that **energy costs** are low compared to the other regions of Turkey, but these costs still remain higher when compared with the European average.

Technological change and innovation

Low level of SME awareness of the need for innovation and technology development

Awareness of the need for innovation and technology development is not pervasive among SMEs. SME technology needs are mostly met by capital-driven technology transfer (firms buy new and more advanced machinery and equipment, and thus upgrade their technology levels). SMEs do not consider innovation as a competitive strategy and thus do not commit themselves to the expensive and uncertain process of R&D. There is, therefore, a low uptake of the innovation supports provided by KOSGEB.

One of the reasons for this is the existing business model in Manisa. As the CEO of Vestel stated, Manisa has a production structure based on many suppliers, vertically integrated into one big firm. Vestel, for example, chooses its suppliers, trains them and then guarantees to purchase from them for at least five years to help them survive. In this case, a firm's survival is not dependent on market competition and innovation, but on satisfying Vestel's needs. So the need for innovation stems not from supplier SMEs, but from big firms. Therefore, R&D project support programmes should take into account this structure as well as the R&D volume needed for an innovation project in high tech areas.

Thus, R&D support programmes should also be promoted to big firms and, in light of the high tech content (in some cases) and the expensive and uncertain nature of R&D projects, support provided by KOSGEB should be increased both in terms of quantity and expenditure.

Another reason for the low uptake of KOSGEB's innovation support is that SMEs lack the capability to develop an R&D project, even when they are well aware of its benefits. In order to develop a project culture in SMEs, creating a training programme on how to develop a sound R&D project and/or innovative culture within an organisation, and project management, is crucial.

A representative from a small enterprise stated that the firm had received a bulk order and was now faced with difficulty in meeting it. This difficulty may, in fact, lead the firm to engage in R&D activity and perhaps innovative solutions to meet this demand in a very limited amount of time. So, the need for R&D support for industry can sometimes be very urgent, and KOSGEB's R&D support should therefore be quick and flexible.

The role of Celal Bayar University

Technology development and innovation is a multifaceted process that requires knowledge generation, an open source to be exploited by firms. One of the main actors for knowledge generation is the university. Obviously, knowledge can also be obtained from other universities, but proximity to a knowledge source can lead to close collaboration between different parties during the innovation process. It has been observed that Celal Bayar University has a vision for development and is upgrading its standards to the international level. These improvements are expected to accelerate further knowledge generation processes by facilitating the faculty's access to the existing literature. For example, the library has been improved both in terms of physical capacity and the number of books; the university has membership to 18 online databases for international journals; and there is also an international orientation, although limited,

evidenced by the existence of 30 faculty members holding PhDs from US and European universities.

There are currently, or soon to be established, channels to transfer the knowledge to industry, such as:

- partnerships with the private sector in European projects;
- a plan for establishing a laboratory to serve the needs of the industry;
- Technology Development Region/Technopark.

In order to support the role of the university in the knowledge generation process and in upgrading to international standards, the ongoing efforts should be accelerated and further developed, i.e. supporting libraries, online databases and other facilities that enable faculty members to access knowledge sources, technopark, etc. Also, research activities should be encouraged and must be more tightly linked to promotion, as a precondition within the university.

The existing “faculty inbreeding”, which involves filling academic positions solely with people who have received their PhD from Celal Bayar University, could be reviewed. Faculty positions should be competitive and must be open to anyone. In fact, in order to develop the university’s knowledge base, the number of faculty members with academic degrees from major universities in Turkey and abroad should be increased. It is also expected that, in the long-term, upgrading the university’s standards will restore confidence in the university and help increase collaboration with the industry.

Knowledge generation, R&D and innovation in industry

There has been a significant increase in both the number of applications and patents granted in recent years, implying an increasing awareness of the need for innovation and technological change. Innovation and technology development is a priority, especially in big players like Vestel and Bosch. For example, Bosch is granted two to three patents every year.

Big firms are able to finance their R&D projects with grants from the Scientific and Technological Research Council (TUBITAK). There are also incentives to develop new products. Big firms develop some of their R&D projects in collaboration with their suppliers. This type of “user-driven innovation” has many advantages, such as eliminating the costs of marketing the innovation. Vestel shares its roadmap with its suppliers and allows them to work with other big firms. Innovative ideas can diffuse to other firms in this way.

The interaction between firms is not limited to relations between big firms and suppliers but between small firms as well (i.e. Erhan Arı case).

Some innovations in the financial sector were also observed. Due to harsh competition among banks, many financial instruments have been developed (i.e. SME Academy, etc.). Obviously, such developments in the financial sector are expected to fuel new projects and finance possibilities for SMEs.

University-industry collaboration for technology development

Despite these efforts, university and industry linkages still remain weak in terms of technology development and innovation. There are multinational firms in Manisa

competing in international markets, but there seems to be a ways to go for the university to reach international standards.

Similarly, small firms are disinclined to co-operate with the university. Some industry representatives expressed a lack of confidence in the university. Despite the vision and the improvements observed, Celal Bayar University is not regarded as a sufficient partner for technology development and innovation in SMEs.

However, most SMEs are not even aware that their need for technology development and innovation can be achieved through collaboration with the university. One industry representative stated that university professors should have first learned “production” in a business environment, in order for them to co-operate with the university, accusing professors of being unfamiliar with real world practice and only dealing in theories.

It is obvious that the industry in Manisa is not aware of the importance of the university-industry partnership for technology development (or in other areas). The university is aware of the issue to a certain degree but there is a lack of interaction and communication between the parties. Manisa’s Vision 2023 can target the development of university-industry collaboration. To this end, seminars can be organised for industry representatives by the chambers of commerce and industry and other business associations to develop awareness in the industry.

Human capital

The education level of the population in Manisa is predominantly at the primary school level, with around half of the population primary school graduates. Only 5% of the population has a university degree. It should be kept in mind that due to daily commuting between Izmir and Manisa, the human capital profile of the workforce might be different than what these trends indicate.

Vocational and technical education is primarily focused on machinery technology, electrics and electronics, and motor vehicle repair. There are five vocational schools in Manisa. The one in the centre was established in 2003 and currently has 450 students enrolled. Students spend three days a week in an apprenticeship training programme. The school also collaborates in a programme with Siemens in machinery technology.

The great majority of the alumni continued on to two-year vocational tertiary education while a few are pursuing a four-year tertiary education while working in industry. The school has a dormitory and a scholarship programme (expenses fully covered by the government) for highly successful students from poor families and commuters from villages.

The Vocational School in Manisa also has certification programmes, some of which are organised in collaboration with the Turkish Employment Agency (İŞKUR), in addition to the general formal education. There is also a teacher training programme for machinery; all machinery teachers in Turkey are trained at the Manisa Vocational School. This point is particularly important as it is an indication of the school’s accumulated knowledge and skills in this field. This training programme accounts for 30% of the school’s total curriculum. Courses are organised by topic, including computers, Autocad, Unigraphics and English, and is based on demand.

Tertiary education in Manisa is currently being provided solely by the public university, Celal Bayar. There are two plans for founding a private university, one by the MOIZ and the other by the Salihli Chamber of Commerce and Industry. Celal University

has 26 000 undergraduate students and 1 200 graduate students. The majority of students are from Izmir. It also participates in Erasmus programmes with some European universities, with staff as well as student exchanges. Celal Bayar University also offers night classes.

At the tertiary level, Celal Bayar University involves 15 vocational schools scattered throughout the towns of Manisa Province.

One of the most notable challenges in the education profile in Manisa is the high level of female illiteracy and the low share of university graduates, Master's and PhD holders.

There are also a few challenges concerning vocational education and training (VET). For example, students enrolled in vocational schools are not highly motivated to work directly in the industry as a labourer. The majority of students in VET wish to study at university, and some plan to study another profession in order to become a white collar worker. Secondly, there is a shortage of teachers. In addition, the curriculum in vocational schools is very inflexible and modifications require a long, bureaucratic process involving the intervention of the Ministry of Education.

Table 1.1. **SWOT analysis of Manisa's economy**

Strengths	Weaknesses
<ul style="list-style-type: none"> – A growing economy – A strong industrial base – Increasing labour and total factor productivity in economic activity – High export levels – High agricultural output – Young population – Increasing interest for technological change – High number of trademarks and industrial designs 	<ul style="list-style-type: none"> – Low income per capita – High illiteracy rate for women – Low schooling rate – Low education profile for population – Low productivity in agriculture
Opportunities	Threats
<ul style="list-style-type: none"> – Proximity to Izmir – Logistic facilities for export (rail, motorway, airport and port in Izmir) – Historical city – Productive agricultural land – Tourism potential (Mesir Paste, Spilyus mountain for recreation) – Small and medium sized firms – Development Agency – University – Foreign direct investments – Cheaper rent for land and office space 	<ul style="list-style-type: none"> – Proximity to Izmir – Exclusion of women in social and economic life – Pollution in Gediz River – Air pollution – A fast growing industrial district – Irregular urbanisation against agricultural lands – Conflicts in the co-ordination of public authorities for infrastructure – Immigrants with low education profile

Source: Based on Manisa Municipality SWOT Analysis.

Regional development and SME policy institutional framework

There is an established institutional structure of governance and policy making in regional development. The Manisa Vision 2023, a platform that brings together various stakeholders to help shape the future of Manisa, is a valuable initiative, proving that there is a will to enact regional development in Manisa. The North Aegean Development Agency (NADA) was established to govern and foster regional development at the strategic and operational level. At the policy-making level, KOSGEB is a vital actor in regional development, directly focusing on the development of small business through the provision of loans and grants.

North Aegean Development Agency

NADA was founded in 2009 to direct the local development process in the TR33 NUTS2 region, including the provinces Afyon, Kütahya, Manisa and Uşak. It is one of the 26 development agencies in Turkey co-ordinated by the State Planning Organisation. Its General Secretariat is in Kütahya Province and its investment support offices are located in all of the other provinces.

The agency's development strategy approaches development as an integrated process with economic, social, cultural and other dimensions, in particular through:

- supporting co-operation among representatives from the public and private sectors, non-governmental organisations and academics, linking their activities, and playing the role of co-ordinator and catalyst in regional development issues;
- conducting research to identify regional competitive advantages and potential development areas; and
- promoting and strategically guiding domestic and foreign investment in a planned way.

In order to achieve these goals, NADA provides financial and technical support to business enterprises, non-governmental organisations, public institutions and universities. Financial support may take the form of direct financial support, interest payments for credit or provision and non-interest credit.

NADA also provides technical support, including training, project design, counselling, assigning experts, and support for lobbying and international relations issues.

Although NADA's budget consists, to a great extent, of transfers from the central government, municipalities, the Governor's Office and chambers of industry and trade also make significant contributions. In this respect, the agency acts as an intermediary in the transfer of national resources for regional development. NADA is liable for maintaining these activities in accordance with the regional development plan and programmes, prepared in light of the national development plan and programmes.

Governor's Office in Manisa, Provincial Directorate of Planning and Co-ordination

Governors in Turkey act as representatives of the central government in a given province. The affiliated unit of the Governor's Office, the Provincial Directorate of Planning and Co-ordination, is charged with:

- conducting research to determine the economic and social structure of provinces, and preparing an inventory of provinces utilising the information collected from the relevant and private institutions;
- monitoring national development plan/programme activities and public investments for provinces engaged in annual programmes, identifying emergent problems that require co-ordination and reporting them to governors while identifying measures to help solve them; and
- providing a push to mobilise local resources and monitoring economic activities.

Manisa Vision 2023

The idea of “determining the future of Manisa together with all partners in the province” raised by Manisa’s Chamber of Industry and Trade was adopted by all public authorities and turned into a participatory platform called Manisa Vision 2023. Problems with the province’s agenda, opinions on expectations for the future of Manisa, and projects towards these ends were discussed by representatives from the Governor’s Office, municipalities, the Provincial Council, chambers of industry and trade and the university at various conferences and meetings. Investment projects are being diversified and enhanced in collaboration with neighbouring provinces. The vision of Manisa is stated as “A world city... where inhabitants live in peace, that achieved sustainable development, and integrated with universal values”. Its members explain the purposes of such a platform:

- to maintain sustainable increases in value added using existing resources;
- to create value added while protecting historical, cultural and natural reserves;
- to consider Manisa as an integrated whole with its towns, construct a brand for Manisa, without alienating it from the region; and
- to increase the standard of living in Manisa.

Some of the projects produced under this initiative were submitted for EU grants, including:

- Developing Grape Value Chain;
- Strengthening Sustainable and Competitive Olive Oil Production;
- Improving Pesticide Management and Policies (Beyazgazete, 2010).

KOSGEB

KOSGEB (Small and Medium Enterprises Development Organisation) provides the following support programmes:

- **SME Loan Interest Support Programme.**
- **SME Project Support Programme** related to production, management-organisation, marketing, foreign trade, human resources, accounting and financial issues, information management, and related fields.
- **Thematic Project Support Programme** to meet the needs of priority sectors as defined in the macro-strategy documents, and to enable SMEs to adapt to international regulations and priorities.

- **Co-operation-Collaboration Support Programme** to provide “collective solutions to collective problems” through collaboration among SMEs; to solve the problems encountered by SMEs such as procurement, low capacity utilisation, low competitiveness, and financing individual actions.
- **R&D, Innovation and Industrial Application Support Programme** to enhance R&D capacity and SMEs’ awareness of R&D and meet the need for commercialisation, industrial applications of R&D and innovative projects.
- **Entrepreneurship Support Programme** including:
 - *Applied Entrepreneurship Training* organised by KOSGEB or other institutions (universities, professional chambers, municipalities); the programmes target general as well as specific groups like youth, women and disabled people. No fee is required for participants.
 - *New Entrepreneur Support Programme*, designed for entrepreneurs having completed Applied Entrepreneur Training and those in the KOSGEB Service Centre Office.
 - *Service Centre Office (SCO) Support*: service centre offices are units founded and operated for the purpose of enabling enterprises located within their area to overcome the threats firms encounter during the initial years of their existence when they are most vulnerable, and to enable them to grow by providing business development counselling, low-cost office space, collective office equipment and office services. Municipalities, universities, governor’s offices, development associations, professional chambers and non-profit organisations can individually or collectively apply for the foundation of service centre offices.
- **General Support Programme** with the following objectives:
 - to provide SMEs with low-cost project preparation capacities and help those in sectors newly included in KOSGEB’s target group to benefit from KOSGEB support;
 - to direct SMEs to produce goods/services of high quality and productivity;
 - to ensure that more SMEs benefit from its support by revising its programmes;
 - supporting general business development activities in order to increase the competitiveness of SMEs;
 - to lead SMEs to develop promotion and marketing activities in order to increase their domestic and international market share.
- **Emerging Enterprises Market SME Support Programme** to provide SMEs which have the potential to develop and grow with:
 - assistance in being processed in the Istanbul Stock Exchange Market (iMKB) Emerging Enterprises Market;
 - the opportunity to procure funds from capital markets.

In the process of going public in the Emerging Enterprises Market, KOSGEB undertakes to pay the following items as a non-refundable means of support:

- market advisor’s fee;
 - independent auditing service fee;
 - Capital Markets Board registry fee;
 - Istanbul Stock Exchange Market Emerging Enterprises Market List acceptance fee;
 - Central Registry Agency (CRA) cost;
 - finder’s fee to be paid to the intermediary firm.
- **KOSGEB Credit Support Partnerships:** KOSGEB also provides SMEs with credit support through a number of partnerships, increasing access to additional sources of finance and advisory expertise such as venture capital, equity funds and business angels.
 - **Credit Guarantee Fund (KGF):** the KGF was created to provide security for bank loans granted to SMEs and was made possible through the Technical Collaboration Agreement between the federal government of Germany and the government of the Turkish Republic. The KGF is intended to secure the credits used by SMEs and thus help to solve security problems in these establishments. It carries the risk for loans used by SMEs, helping SMEs to use more credits at lower costs, on long-term scales. Entrepreneurship is thus encouraged and an extra source of revenue, which benefits SMEs and fosters an environment of economic growth and development, has been established. One of the fundamental aims of the fund is to help develop the entrepreneurial skills of young and female entrepreneurs by offering them borrowing security. The securities provided by the KGF are based on the following priorities: realisation of innovative investments, small enterprise investment in advanced technology and investment in exportation, new job creation and regional development.
 - **KOBI Venture Capital Investment:** founded in 1998, KOBI strives not only to invest in SMEs, but also to act as a partner, sharing risk and offering consultancy and training services to SMEs. During the first stage, a “Network of Business Angels” was established to meet demand for capital, organise angel investors and conduct financial matching. The goal of providing market advising to the Istanbul Stock Exchange Emerging Companies Market was added in 2011.
 - **ESIM – testing and analysis services:** the company serves the electrical and electronics sector of the Turkish industry. Its internationally accredited laboratories provide testing facilities for export goods, a service that is of high strategic importance for the Turkish economy. ESIM also provides consulting and certification services on a range of sector-specific topics.
 - **iVCi, Istanbul Venture Capital Initiative:** established in 2007, iVCi is Turkey’s fund of funds which aims to accelerate the development of venture capital. KOSGEB is one of the original founders of iVCi and its largest investor, together with the European Investment Fund. iVCi has committed to seven funds, all of which invest in Turkey and are managed by Turkish teams. This represents EUR 112.5 million of direct investment to these funds, leveraging more EUR 0.5 billion from other investors.

- **GIP (Emerging Companies Market):** the Emerging Companies Market was established as a distinct market within the Istanbul Stock Exchange as a platform for issuing securities, in an effort to raise funds in capital markets to aid companies with their development and growth potential. In 2009, with the enactment of the KOSGEB bill, the organisation was assigned “to provide the necessary refundable and non-refundable supports so that SMEs can enter the stock market.”

Other SME support programmes

In addition to the support provided by KOSGEB, central institutions provide support programmes (Table 1.2), from which any business enterprise can benefit:

Table 1.2. SME support instruments

Institution	Type of support
Institution for Agriculture and Rural Development Support	<ul style="list-style-type: none"> – Agricultural support programmes: <ul style="list-style-type: none"> – direct income support; – difference payments; – compensatory payments; – animal feeding support (19 different aids); – agricultural insurance support; – Environmental Support Project (including projects like erosion, controlled use of pesticides and fertilizers, organic production, etc.). – Rural development support: <ul style="list-style-type: none"> – rural infrastructure supports; – Project for Village Infrastructure; – Project for Municipality Infrastructure.
Treasury	<ul style="list-style-type: none"> – Customs exemption; – VAT exemption; – income and corporate tax reduction; – social security insurance employer share support; – interest payment support; – provision of investment land.
Undersecretariat of Foreign Trade	<ul style="list-style-type: none"> – R&D support; – market research and marketing support; – training and counselling support; – support for environmental costs; – employment creation support; – support for participation in the International Fair in Turkey; – support for participation in international fairs; – support for opening an office/store abroad, business and brand promotion; – branding internationally, establishing the image of “Turkish products” and supporting Turquality®; – design support; – support for the international activities of technical counselling firms; – reimbursement in the export of agricultural products.
Ministry of Finance	<ul style="list-style-type: none"> – Tax exemption for investments; – R&D reduction in tax; – other incentives for R&D; – income exemption for education enterprises; – VAT exemption for vehicles, oil search and investments with support certificate; – tax support for industrial districts; – tax support for Technopark; – tax support for free trade zones; – tax incentives in industrial districts; – exemptions of tax, fees for operations related to the provision of credit; – tax support towards increasing investments and employment; – tax support for investments and entrepreneurs; – reduced corporate taxes; – tax support for SME mergers; – free land provision for investments.
TUBITAK	<ul style="list-style-type: none"> – Industry R&D support; – projects market support; – initialisation of R&D in SMEs support; – support for technology and innovation-oriented start-ups; – support for international industry R&D projects.
Technology Development Foundation of Turkey	<p>One-year delayed repayment of financial credits without interest for:</p> <ul style="list-style-type: none"> – R&D projects (technology development, commercialisation, advanced technology projects); – environmental projects (environmental technologies, energy productivity, renewable energy support).
Development Bank of Turkey	<p>Bank provides finance facilities for enterprises in the education and health sectors but overwhelmingly for industry and tourism in the form of:</p> <ul style="list-style-type: none"> – project-based crediting; – financial leasing; – finance through partnership.

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Chapter 2

Financial assistance to SMEs

The importance of access to finance for SMEs

This chapter focuses specifically on how KOSGEB can work to improve financial assistance to SMEs. It provides an assessment of KOSGEB's role in facilitating SME access to finance in Manisa Province, identifying strengths as well as critical areas in need of improvement, and suggesting recommendations to improve performance as illustrated by international examples of best practice.

This chapter covers the following themes: a discussion on the importance of access to finance for SMEs; KOSGEB's activities and achievements in Manisa; further developments and lessons learnt from other countries, with case study examples of financial assistance intervention programmes; suggestions on the way forward for KOSGEB; and conclusions and recommendations.

Recent international surveys, such as those conducted by the OECD (see OECD work on SME access to finance), the World Bank and the G20 task teams show that SMEs face more severe financing constraints than large firms do. SMEs in all countries face a host of non-financial and financial constraints which are obstacles to business growth, with the smallest firms being most adversely affected. However, finance issues do not exist in isolation: lack of business and management skills can amplify financial barriers for SMEs.

In regions such as Manisa, there are many micro and small businesses with low levels of financial literacy, which can prevent these firms from adequately assessing and understanding different financing options. They are also more likely to have difficulty understanding and accessing complex loan application procedures.

In regions where the informal economy remains prominent, accounting and financial statements are often not transparent, which makes such firms a higher risk as borrowers and thus less attractive to lenders. This perpetuates the informal financing routes and again inhibits SMEs from achieving their full growth potential.

Capacity building of SMEs in terms of preparing financial statements and business plans, as well as improving their financial literacy and management training, has a positive impact on their development. Also, strengthening the horizontal linkages with other SMEs and vertical linkages with larger firms improves SMEs' market access. As will be discussed later in this report, there is scope to improve all of these considerations in Manisa.

The external sources of finance, informal (family and friends or supplier finance) and formal (debt or equity) both play a complementary role in the growth of SMEs. The lack of equity finance is a binding constraint for many SMEs, in particular for larger ones, while extending additional debt financing for undercapitalised SMEs may be counterproductive. This was evidenced in discussions with a large multinational business in Manisa.

Firms in regions such as Manisa often depend on informal sources of funding (such as savings, loans from family and friends) in the very early stages of their development. External formal sources (such as lines of credit, grants, bank loans and equity) become more important as these firms grow. KOSGEB has recognised that the availability of such sources can have a crucial impact on the growth path of SMEs and their prospects, both regionally and nationally.

However, the financial crisis and revised risk-weight functions by lending institutions have created even greater problems of SME access to finance. Banks know that relationship lending entails high internal transaction costs. This limits their motivation to reach out to SMEs with finance rates and conditions that small firms could accept. Government policy and agencies such as KOSGEB, working together in partnerships, can expand the frontier for SME finance.

The current and future credit position is tight, especially for SMEs. Agencies can work more closely with banks to further develop credit approval systems with the aim of improving risk awareness from all sides, reducing SME rejection and default rates. Banks have traditionally been providers of additional products and support from transactional products to management advice and it is important to maintain close relationships with the sector. It is also important to gather evidence of financial ambition in local SMEs and encourage more SMEs to submit information in a form that can assist their case for support. This is all part of a joint effort to develop projection-based funding, working with banks to place more emphasis on models which use predictive variables rather than simply current and past condition variables. Evaluations of earlier initiatives in Turkey, such as that by TOBB (Union of Chambers and Commodity Exchanges) in the early 2000s, show that such interventions can make a difference.

Assessment of KOSGEB's activities and achievements in Manisa

KOSGEB has worked well with banks in Manisa, especially in delivering credit interest supports for SMEs. However, it takes time to develop an enterprise culture and strengthen institutional links with SMEs, and the difference between latent and active demand for finance among SMEs is substantial. More is likely to emerge with appropriate engagement, advice and education.

KOSGEB's headquarters includes an SME Finance Department dedicated to SME finance issues. Local regional offices, as in Manisa, however, do not have experts on finance market mechanisms or specialist sources like venture capital and business angels. Indeed, the shortage of skilled staff in this field is a major constraint to engaging and nurturing more sophisticated SME demand. Partnerships formed between KOSGEB and KGF Credit Guarantee Fund; KOBİ Venture Capital Investment; ESİM – testing and analysis services; İVCİ, Istanbul Venture Capital Initiative, work to address this gap, and create a pathway for SMEs to access additional sources of finance and advisory expertise such as venture capital, equity funds and business angels.

Assistance is provided primarily through a series of supports under KOSGEB's national credit programmes, including SME support credit, employment credit and export credit. They all encourage SMEs and start-ups to access finance in a straightforward way and, as appropriate, to adjust public policy tools to meet these needs. Few sectors are excluded.

An earlier paper (OECD, 2010) recognised that at the regional level, there is considerable flexibility in KOSGEB's processes for working with SMEs and providing smoother access to credits. By working with the local culture, the regional office in Manisa has been successful in reaching the business market and providing valuable assistance in accessing finance, particularly through credits. This reflects the focus on addressing the persistent problem for micro and small businesses in the region.

There is also a clear shared sense of purpose with other partners and market players in tackling the access to finance issue. The main offering is a simple and straightforward

process that gives access to finance with guarantees from KOSGEB. In most cases, the credit facility received by SMEs includes a 6-month payment holiday followed by an 18-month repayment period. In this way, businesses can access the funds quickly, without extensive bureaucracy, often an inhibiting factor for SMEs wishing to engage with assistance agencies.

The credit guarantee facility is an important instrument in addressing SME issues in access to finance: it offers something for every firm and pulls businesses into the system, leading to further assistance and facilitating their growth. In this way, KOSGEB has been effective in reaching a large number of business owners and penetrating the market in a customer friendly way. This has immediate and long-lasting positive effects: it encourages greater respect for KOSGEB as a business-oriented organisation and increases the willingness of businesses to work with KOSGEB as the firm grows.

However, the open approach to credit access for SMEs by KOSGEB Manisa Service Centre is largely non-discriminate and does not delve into the real requirements or suitability of businesses for the level of assistance offered. In other words, many firms gain access to credit on terms that are not aligned with their development. This can have the counter-productive effect of limiting the further development of ambition and enterprise, unless there is follow-up with additional engagement and assistance.

The current approach is one of disbursement in an effort to generate activity with businesses and the funders, notably banks. However, access to finance should be based more on the additionality of the case concerned and the ability for that assistance to generate net impacts for the business as well as for the local economy.

Over time it will be necessary to tighten the criteria and consider an exit or withdrawal strategy for KOSGEB, allowing banks and other private sector sources to take over encouraging businesses to pay market rates. This is a very long-term strategy. It is likely that some of the businesses assisted may be able to access finance without the credit facility, but no monitoring or assessment data are currently available to test this assertion. The appraisal process for applicants could thus be altered to identify these variations, especially for larger and established SMEs, and to develop a stratified range of assistance offerings dependant on the scale of growth potential. This could also assist in targeting key businesses and priority sectors with high growth potential. It would also more closely link KOSGEB's tools and approach with the economic development agenda as well as other players, like the new regional development agency. This is an issue that will be relevant for KOSGEB in all regions of Turkey.

The current process in KOSGEB Manisa Service Centre is geared towards business efficiency rather than the net economic benefits generated. It is a very efficient process and effective in providing access to the credit facility but it remains a basic and unsophisticated approach. This is understandable, and even appropriate, at this stage of development in the region. The number of clients accessing the credit guarantee continues to grow and there are ambitious targets to reach many more businesses in the next few years.

As SME access to finance is a global issue, regardless of a market economy's maturity, it is appropriate to examine and learn from development approaches in other countries in order to develop more detailed recommendations.

Lessons from other countries

Lessons from research and experience in other countries reveal a future pathway for KOSGEB to consider, of developing assistance to address the issue of SME access to finance. This relates to a deeper understanding of the market development process and the particular current context with increased tightening of credit markets, lower economic growth prospects and turbulent political context.

Other agencies have recognised that obtaining and securing the right source of finance presents a challenge for many SMEs. For a business seeking finance, it may not always be clear what type of finance is most appropriate, i.e. whether the business is better suited to incur debt, for example by taking out a loan, or to sell shares in the business (equity).

All markets suffer from degrees of information failure, often accompanied by structural imperfections in the national system which inhibits access to finance. In previous years, it had been assumed that making finance more readily available would per se address the principal problem and unlock the growth of firms, regions and economies. Experience has shown that the issues are more complicated than mere access and provision; subtle psychological and educational factors are also at play for business owners and leaders. In other words, the problems with financing SMEs are present on both the supply and the demand sides.

On the demand side, entrepreneurs' aversion to giving information or offering an equity stake in the business in exchange for finance means that many owners prefer to keep their business small. Many do not have a detailed business plan containing realistic financial forecasts, which is vital if a business is to choose the right types of finance where a range of options is available. This is essential for basic financial management and funding future expansion.

It is also vital that businesses are aware of the supply-side support that exists to help them become familiar with finance options. This includes knowledge on becoming investment ready and assessing appropriate financing options, then preparing propositions and engaging with potential lenders and investors.

Such assistance has been found to alleviate anxiety, boost confidence and develop capacity within SMEs to make more informed choices and decisions. This is especially the case when transitioning an existing business into the next stage of growth, which presents more challenging issues and an array of choices.

At this stage, various types of finance, ranging from guarantees on borrowing through direct loans to equity shares and venture capital investment, can normally be considered. With a track record of successful trading and a solid basis for future growth, loans are often accessible and appropriate for larger, long-term purchases, while informal loans and overdrafts can continue to be used for day-to-day borrowing.

Equity finance also becomes an option at this stage and enables capital to be raised from external investors in exchange for a share of the business. The main providers of equity finance for SMEs in most markets are venture capitalists (private equity firms) and business angels. Business angels have emerged in many markets and are individuals or syndicates who invest in high-growth businesses in exchange for equity. They usually invest in the early stages of development in high-growth SMEs in a sector or geographical area where they have in-depth knowledge and will invest in high-risk opportunities if there is a potential for high returns.

Securing an equity deal can, however, be difficult and involves a complex due diligence process and costly fees. Agency and partner assistance to further develop such options in Turkey would provide a link for high-growth clients to accelerate development and possibly move on to larger venture capital funding in the future. It would also improve the supply chain possibilities for accessing contracts with multinational companies, such as Vestel, and strengthen economic foundations in line with all of KOSGEB's objectives.

Stratified assistance for market development

Government agencies in other countries have established assistance strata, in line with the market, temporarily filling gaps in the hope that the private sector will see the potential for reward rather than negative risk. Investors are reluctant to invest in SMEs because of the high risk and overhead costs; at the same time, as noted earlier, many entrepreneurs have a limited understanding of the various financing options and they often perceive the loss of control over their company as unacceptable.

Innovation and economic development agencies have recognised the benefits to entrepreneurship and innovation provided by access to a wide range of finance and funding options. Real efforts are also required on the demand side to ensure that SMEs become investment ready and have access to funding for growth beyond informal and internal family funds.

The European Commission has acknowledged in its communication "Financing SME Growth – Adding European Value" that "many entrepreneurs need guidance on the advantages and disadvantages of alternative forms of finance and on how best to present their investment projects to potential financiers. Investment readiness programmes, too, need to build on best European practice." The Chair of this group also emphasised that "coaching, education and investment readiness programmes should accompany any financial measures."

The lack of investment in early-stage SMEs is mainly due to low returns compared to the high risk. A recent study by DG ECFIN showed that in Europe, investors' perception of risk is magnified by the often poor quality of plans and presentations. This makes potential investments unattractive and blocks early stage funds. The report emphasised that the investment decision is largely based on the subjective appraisal of the entrepreneur's or management team's prospects. Thus, it is vital for business owners to understand the investor's needs and to present an attractive business proposal.

KOSGEB seeks to develop more SME growth and access to the appropriate types of finance to fuel this growth. To achieve this, it is vital to impress on entrepreneurs that value creation can occur when business shares are opened up to investors. As noted earlier, KOSGEB can collaborate with private and public sector partners to provide expert advice about the benefits of risk capital for growth.

Agencies like KOSGEB play an important role in assisting with communications which link the supply and demand sides. On the demand side, there are a number of ways in which it can serve as a catalyst and inspire SME change to improve the prospect of accessing more funding options. This again relates, at a fundamental level, to the importance of SMEs providing and presenting information in the right way. Many business plans and management teams may contain certain aspects of quality, but are either insufficiently developed or inappropriately structured and thus do not provide the

assurance that investors and stakeholders need. This results in the under-selling of business growth prospects and value that could attract finance.

Range of assistance programmes: Solutions for Business (United Kingdom)

Many countries have developed a suite of intervention assistance that can meet a range of SME access to finance needs. The EU provides a wide range of assistance, often meeting over 50% of the SME's costs, while many major economies such as the United Kingdom have specific assistance products to provide coverage and encourage new finance moves by businesses with growth ambitions. This often includes matching funds (50%) or scale of support (30-80%) for projects such as:

- **Introduction to collaborative R&D:** this could be small prototype product developments, service model pilots, etc. that allow ideas based on identified market potential to be tested. It can link entrepreneurs to one another; SMEs to universities or multinational corporations and large public sector organisations to open procurement opportunities.
- **Finance Advisor:** a consultancy support and financial mentoring programme for SMEs of up to ten days' duration. This provides structured mentoring to help a company boost competitiveness, speed up growth and improve the financial bottom line; identify medium to long-term strategic business challenges; define practical projects and programmes of work that will overcome identified blockages and challenges; agree on an action plan that commits the business to ensure changes are implemented; provide on-call support to implement the changes; and hold monthly meetings for six months. The action plan is expected to lead to other specialised assistance that the business may need, such as leadership training, marketing or other skills development in order to develop business capacity. The expected results are measured in terms of increased sales, turnover and profit, exports, safeguarded/new jobs, and transformation of SMEs into innovation and growth-focused businesses.
- **Finance for Business:** a source of loan and equity investment available through the Department for Business Innovation and Skills (BIS), an SME finance body which provides funds in various tranches across the spectrum for SMEs unable to raise finance on the commercial market but having viable business plans. These funds are aimed at new and fast-growing businesses, particularly in new sectors, which are unable to raise finance from commercial lenders and are perceived as too high risk by commercial financiers due to a lack of track record/collateral.
- **Grants for R&D:** a scheme that provides small grants to assist pre-start and start-up SMEs, used for incentives and funding at a critical stage of development. It increases business involvement in a range of R&D activity and helps overcome barriers where there is high risk and uncertainty around the expected results, and a lack of ability to commercially exploit the results.
- **Increase Productivity and Competitiveness Programmes:** advisory funding that offers the prospect of delivering a range of productivity improvement activities, 6 sigma, etc. manufacturing system review/improvements.
- **Rural Development Business Assistance Grants:** to make small business more profitable, innovative and competitive by providing support for: innovation and the adoption of new technologies; the development of skills, specialist training

and knowledge transfer; modernisation of agricultural holdings; adding value to products, or the development of new products; information and advisory services; collaboration and co-operation between producers and the rest of the supply chain; on-farm diversification; the establishment or expansion of micro-enterprise; and the development of sustainable rural tourism.

- **Understanding Finance for Business:** provides free advice and support from specialist advisors to ensure that business owners understand the options available to obtain the money necessary to start and grow a business. This has particular relevance in Manisa as it offers a diagnosis of financial needs and provides small and medium-sized businesses that lack an understanding of their financial options, the skills to develop a funding proposition and access to potential investors, with an introduction to potential sources of finance. It also helps to broaden and deepen businesses' awareness and knowledge of external sources of finance. Involvement with this scheme means that the business should be able to have a straightforward and accurate breakdown of its financial requirements, a better understanding of what type of finance is right for the company at its current stage of development, and potential access to suitable finance providers to discuss commercial viability and, if appropriate, secure funding. Research and evaluation has shown that this form of intervention assistance has a highly positive impact on the success of businesses' finance applications.
- **SME Leadership and Management Programme:** targets owners of an SME with the potential for fast or high growth, providing help to develop leadership and management skills which will improve the growth prospects of the business in the future. The programme starts with an assessment of the organisation's ability to grow, then offers a free skills needs analysis and helps to put together a personal development plan. This is followed by access to grant funding in order to conduct the training necessary to meet the identified needs. Follow up support is also provided to review the learning and development activity, assess progress against the personal development plan and provide additional advice on how best to use the newly acquired skills to develop the business and access additional finance.
- **Enterprise Finance Guarantee (EFG) Scheme:** supports new lending by banks to viable SMEs with working capital or investment needs. The EFG can be used to support new loans, refinance existing loans or convert part or all of an existing overdraft into a loan to release capacity to meet working capital needs. Businesses may seek loans which are repayable over a period of up to ten years. The aim is to improve companies' access to working capital in the current difficult economic climate and increase the number of start-ups and growth. There are eligibility criteria on the qualifying turnover and other viable business plan factors. Most businesses in most sectors would be eligible for the scheme subject to targeting priority sectors.
- **Small Loan Fund for Business:** provides small loans for businesses with viable business plans which have been refused bank finance, typically in combination with ongoing mentoring and support.
- **Innovation vouchers:** a voucher scheme to enable a business to buy support from a knowledge based institution in order to explore potential opportunities for future collaboration in developing and exploiting new ideas.

- **Sector Assistance Programmes:** targeting high-growth priorities in specific sectors such as automotive, chemicals, IT, value-added manufacturing, with loans at 50% of bank interest rates. SME projects are required to show a strong business case, demonstrating economic additionality and value for money while advancing new greener technologies.

Countries such as the United Kingdom have also recognised the necessity of providing demand-side assistance alongside the supply-side programmes. This has resulted in many investor-readiness initiatives which have often focused on the top end of SME finance, assisting businesses to approach venture capital or equity partners.

Case study example: United Kingdom

The United Kingdom models on investor-readiness contain tools for:

- assessing a business strategy, explaining the sources of financing and, more specifically, the advantages and disadvantages of different forms of finance;
- understanding lenders' and investors' requirements;
- SME diagnosis and structuring an attractive business plan;
- developing a quality set of presentation materials and setting out a roadmap;
- developing management process for fundraising;
- ensuring that the organisation has an appropriate business structure;
- connecting growing SMEs with lenders and potential investors.

The UK events are run in two stages. First, an introductory half day for awareness and networking and defining what could be appropriate for the business. Second, a full day on the specifics of:

- business planning (including route to market/“proof of commercial concept”);
- financial planning;
- management teams and HR issues;
- pitch preparation and presentation skills.

The workshops serve as the platform for more in-depth activity to develop a tailored funding proposition. Events include networking opportunities with business coaches, local finance providers and local businesses. Guidance can be extended through additional modules covering legal issues, intellectual property rights, internationalisation and other topics as appropriate to the business.

Case study: Northern Ireland

The Irish model builds on the UK approach and illustrates the criteria that can be set for SMEs to meet in order to receive assistance to access finance beyond basic signposting. The SME must demonstrate that it is in a position now or within the next three years to have:

- total sales of over GBP 100 000 per year;
- sales outside Northern Ireland greater than 25% of turnover, or greater than GBP 250 000 a year;

- salaries 25% above the regional median; and
- for tradable services, a minimum gross margin of 20%.

Case study: EU SMEG

Various country governments and EU schemes provide loan guarantees to encourage banks to make more debt finance available to SMEs, including microcredit and mezzanine finance, by reducing the banks' exposure to risk. For example, the EU SME-grants programme (SMEG) provides co-, counter- and direct guarantees to financial intermediaries giving SMEs access to loans, mezzanine finance and equity. Four routes, or "windows", give access to funding for:

- loan guarantees: guarantees for loans to SMEs with growth potential;
- microcredit: guarantees for loans of up to EUR 25 000 to micro-enterprises with a maximum of nine employees, particularly entrepreneurs starting a business;
- equity guarantees: guarantees to existing equity guarantee schemes and providers of mezzanine finance to support investments in businesses with up to 249 employees;
- securitisation: guarantees to support securitisation structures to assist financial intermediaries in mobilising debt finance for SMEs.

Banking and lending services represent the bulk of SME financing for small firms. Equity financing presents an opportunity for the development of complementary financial products. Interesting models can be developed that provide a select number of mid-sized firms with equity capital for growth with support from governments and development agencies such as KOSGEB. The financial crisis has necessitated interventions in many countries to aid SMEs which are unable to access finance and this step to interventions, which provides larger SMEs with access to equity finance, is a logical development for KOSGEB.

Case study: Inovar Programme, Brazil

The Inovar Programme in Brazil was designed in 2001 by *Financiadora de Estudos e Projetos* (FINEP), which provides funding to strengthen technological and scientific development in Brazil, in co-ordination with the Inter-American Development Bank. The objective of the programme is to support the development of new, technology-based SMEs through the establishment of a venture capital (VC) market and to enhance private investment in technology businesses. Inovar created a research/knowledge and information dissemination platform and develops managerial capacity for channelling and accelerating the VC investments in small-company funds in Brazil. The programme successfully achieved the creation of a VC portal with information on how to register for different programme components, with over 2 650 registered entrepreneurs, and over 200 investors. It also established a Technology Investment Facility where investors can perform joint analyses and due diligence on the VC funds, which resulted in over 50 joint due diligences with approximately USD 165 million committed/approved in 15 VC funds. The programme has also established 20 venture forums for SMEs to interact with potential investors and present business plans, resulting in 45 SMEs receiving over USD 1 billion in VC/PE investments.

Case study: United States

In North America, different states in the United States have a wide-ranging set of financial assistance programmes for SMEs, often linked to attracting new businesses into individual states and linked to fund-matching from federal sources, such as the business innovation research grants.

As an example, the Delaware Strategic Fund is the primary funding source used by the Delaware Economic Development Office (DEDO) to provide customised financial assistance to businesses in the form of low-interest loans, convertible loans to grants or other creative instruments. In Delaware, the Small Business Innovation Research (SBIR) will provide matching grants to businesses located in the state that have obtained a federal SBIR grant.

As in most US states, businesses receive tax credits as an incentive for growth and expansion, and cover all topics from investment in green industries and new technology, to process changes in the business, to the provision of loans at below-market rate of interest to businesses that will create or retain jobs in industries that promote energy efficiency or recycling. The Limited Investment for Financial Traction (LIFT) fund in Delaware is a loan programme that allows participating small businesses to defer interest payments on their line of credit for a two-year period. To be eligible, businesses must have been in business for at least three years, have an existing line of credit with a Delaware commercial bank and have 3-50 employees.

All states received an allocation of funds as part of the federal Small Business Jobs Act of 2010, which aimed to ease problems from the banking crisis which had reduced the availability of credit to SMEs. Individual states developed the Small Business Credit Initiative with specific programmes to boost institutional lending to businesses and leverage private venture capital in start-ups and high-growth businesses.

The state of Michigan created a fund named Pure Michigan Business Connect to help Michigan businesses in new ways. Pure Michigan Business Connect is a large public-private initiative matching people with resources and strengthening relationships to fuel economic growth, including:

- venture capital, debt financing, collateral support, other funding assistance;
- customised market research for high-growth businesses;
- HR executive and professional talent search assistance;
- training and business expansion support;
- entrepreneur services;
- export assistance;
- legal services;
- matchmaking between businesses to link local suppliers.

The state of Nebraska is one of the most interesting examples in the United States and offers a wide range of assistance to SMEs in accessing finance and promoting growth.

In Nebraska, the Talent & Innovation Initiative (TI2) is a comprehensive set of measures for SME growth that includes the Business Innovation Act to help businesses develop new technologies to enhance quality job opportunities in the state. It began in

2010 to provide competitive grants for research at Nebraskan institutions as well as new product development and testing, and help expand small business and entrepreneur outreach efforts. It expands grant opportunities within targeted industries to help businesses by providing matching funds for prototype development, commercialisation and applied research in the state, and providing assistance for micro-enterprise projects.

Also part of T12 is an Angel Investment Tax Credit to encourage investment in high-tech and other start-up enterprises in Nebraska by providing refundable state income tax credits to qualified investors who invest in qualified, early-stage companies. Capped at USD 3 million annually, the programme requires a minimum investment of USD 25 000 for individuals and USD 50 000 for investment funds. Eligible small businesses must have fewer than 25 employees, with the majority based in the state.

For loans, the Nebraska Progress Loan Fund (NPLF) is available for permanent loans to qualifying small businesses and can also provide interim loans for a term no longer than three years. Loan terms are determined on a case-by-case basis with a typical interest rate ranging from 0-4%, with most favourable terms given to businesses located in regeneration areas. Payments can be delayed for up to three years.

Other states, such as New Jersey, have established intervention funds which essentially act as state banks devoted to business growth. This again reflects the intensified efforts to assist SMEs with financing in times of market difficulty and international financial crisis. There are generous grants, loans and other economic assistance available to SMEs that are looking to expand, especially if they are creating qualified new jobs and making new investments.

These examples all provide valuable learning, endorsement and pointers for future developments that KOSGEB could consider in order to further improve SME access to finance in Manisa and other regions.

Conclusions and recommendations

KOSGEB's goal is to promote a strong, innovation-led economy which encourages enterprise and assists high-growth business to flourish. This requires co-ordinated action, as any intervention must work to re-balance the economy and provide targeted assistance for manufacturing, emerging sectors, inward investment and international trade. The provision of a range of publicly funded products and services designed to help businesses to overcome key challenges, and the assistance they need to improve, can be an important part in accelerating growth and overcoming the barriers which hold back business-led growth and the development of a thriving and sustainable private sector.

Many areas like Manisa suffer from a local lack of sophisticated demand in terms of expressed SME requirements. This leaves considerable scope for demand and supply-side initiatives set within KOSGEB's framework that will assist in shaping intervention and promoting a coherent approach to SME access to finance. KOSGEB can show leadership by doing so in a way that will improve competitiveness at both the firm and regional level by addressing constraints and maximising the exploitation of the opportunities for growth and SME consolidation within a stronger regional economic structure.

Since SMEs tend to be labour-intensive, they create employment at relatively low levels of investment per job created. As localities within Manisa are characterised by a low rate of capital formation, micro businesses and SMEs will continue to play a vital role in the economy. SMEs tend to be more effective in the utilisation of local resources,

using simple and affordable technology; SME owners tend to show greater resilience in the face of recession by holding on to their businesses, as they are prepared to accept lower compensation, wages and returns. This reflects the need to build the enterprise culture and find innovative ways to assist SMEs' access to finance.

Through business linkages, partnerships and subcontracting relationships, SMEs have great potential to complement larger organisations. A strong and productive industrial structure can only be achieved where SMEs and large enterprises not only coexist but function in a symbiotic relationship. However, the linkages between SMEs and large enterprises are weak in Manisa. SME development policy, therefore, creates the potential for enhancing linkages within the economy and engaging SMEs, which often serve as a training ground for entrepreneurship and managerial development.

KOSGEB can develop services in a range of ways to build and strengthen these linkages in Manisa. The high degree of flexibility for adapting policy to local needs is an advantage to allow new innovations and programme initiatives to be piloted in Manisa, where KOSGEB is an important and respected network partner, capable of reaching further into the business community and thereby influencing the future enterprise culture in practical ways that strategically target development finance supports.

Existing activities have been successful in offering something for every business and providing access to finance instruments, essentially credits. Certain specific actions can be developed that build on strengths and move activities to another level of targeting and sophistication without losing the basic credibility they offer to SMEs in Manisa. By doing so, KOSGEB can become a more influential agent for change and market development.

One approach, successfully adopted by agencies in other countries, is to segment the market and offer a range of access to finance services that covers the spectrum of demand (expressed and latent) and prioritises resources in terms of growth potential and return on investment principles. This would work to strengthen the local system and does not involve “picking winners”. It will, however, require clear positioning and communication in order to be effective in developing KOSGEB's staff and local partners. It will also make more explicit links between access to finance assistance and participation in other complementary partner programmes on, for example, management training and innovation.

By doing so within the agreed upon set of strategic objectives and focus, a new business dynamic, with greater expressed demand, will be created over time. One participant in this initiative plans to offer a demand-side programme which prepares SME owners and directors to assess investment options and construct the best case scenario for their business's growth.

An investor preparedness programme

Without demand-side intervention, the effectiveness of supply-side interventions can be compromised. As shown earlier, in other countries, investor readiness programmes have focused on preparing SMEs with high-growth potential for equity finance. However, in regions like Manisa there is a more fundamental need to raise awareness of all finance options and to better prepare SMEs for evaluating investment options. An investor preparedness initiative would need to include both an educational aspect and a link to specific supply-side intervention programme funds. This type of SME intervention support is necessary, as business owners would not otherwise be in a position to devote their time and money.

The rationale for KOSGEB to act in this way is clear: improved business performance in the SME sector is an essential requirement for a sustained increase in GDP growth, and access to finance for SMEs is central to facilitating growth in turnover, product and service and new market access. Many SMEs lack the skills and resources to resolve the issues which determine their success in securing development finance, so intervention to assist their progress is not only appropriate, but necessary.

This investment preparedness intervention is linked to an analysis of the SME population and potential growth companies, and supports the preparation of:

- business plans;
- strategies for funding;
- income and financial projections;
- financial structuring;
- funding and legal agreements.

Investment preparedness programmes can draw on outside experience and include training, guidance and advice, mentoring, technical support and networking. This shows a clear role for KOSGEB to work with partners in developing SME financial awareness and capacity building within an enterprise investment culture, focusing on survival and sustainability for growth.

Local KOSGEB executives and partners in Manisa (including through the service centre network and additional chamber outlets) and in other areas could work with growth SMEs to provide an independent assessment of their current financial status, ongoing viability and potential re-financing. This could lead to practical outputs including a written report with recommended actions for accessing appropriate sources of growth finance.

The Investment Preparedness (IP) approach and review process provides a useful diagnostic test which could identify other more appropriate responses to the immediate requirements of the business such as strengthening the management and interpretation of financial information. Although the core purpose of IP would be “to help businesses to raise finance”, there is an initial requirement for IP to establish the basic viability of the business and its growth prospects. The critical diagnostic and business support components are fundamental to identify and address barriers to investment. This can encompass management team skills and governance arrangements, the definition of business opportunities, the business model and routes to market, as well as presentation skills. Training for trusted intermediaries, such as accountants and advisors, could further enhance the market and investment-preparedness of SMEs.

It is recognised that resources are scarce; however, a demand-side initiative linked to the existing supply-side programmes can work to quickly provide additional assistance at modest cost. It will also improve the capacity and capabilities within the local Manisa team as well as the strength of partner engagement.

KOSGEB’s Manisa Service Centre is a small centre; however, it plays a significant role in assisting SMEs and working with partners to stimulate improved SME competitiveness and growth. To do so, KOSGEB must also evolve to become an agent for change in local areas such as Manisa rather than simply functioning as a disbursement agency, distributing credit guarantees to provide SMEs with more ready access to finance. Credit guarantees will always be important for fledgling micro and SMEs, but

further development and education is essential in growing more businesses of significant size and creating a critical mass of competitive, sustainable enterprises.

Growing businesses, and especially those contracting with large organisations, exporting or trading internationally, will encounter different finance issues as their market involvement deepens. These SMEs will need to develop new forms of market proposals or propositions to access additional finance. KOSGEB can stratify the assistance offering available to target particular categories of SMEs and their finance requirements.

There is a role for KOSGEB in preparing SMEs for further stages of growth. This involves a transition to consider the options in finance markets and the requirement for assistance that enables SMEs to become “investor ready”. KOSGEB could use the access to credit as a hook to engage high-growth businesses in further services and development assistance. In return for subsidised terms, businesses would be required to engage in other development services and attendance at events or trainings on finance issues, building a business team for future growth, phases of the business and how to make an investor ready proposal for other sources, such as investment banks, venture capitalists and business angels.

KOSGEB’s headquarters could facilitate these services and train specialist advisors to work in one or multiple regions to develop internal capability in these skills. KOSGEB’s headquarters has already participated in a number of international projects and events; this development could be added to the future programme and funding could be acquired from national and international sources.

The case for such developments can be based on evidence and a review of SME requirements. KOSGEB is actively looking to extend the monitoring and evaluation of intervention activities surrounding credit guarantees. The current approach is heavily focused on activities and outputs – counting participants and expenditure disbursement. Further developments can include an assessment of the return on investment and an analysis of the local net effectiveness of the interventions at project, programme and organisational levels. There are many success stories in Manisa that can be compiled as case studies to promote KOSGEB and demonstrate its role to other actors in the local economy.

As SMEs grow, more opportunities for working with other businesses emerge, particularly with large firms. Some major businesses such as Vestel have not had any contact with KOSGEB, yet they play a vital role in the economy as many other firms and SMEs are suppliers to these corporations. Vestel indirectly supports over 15 000 jobs through its local supply chain. Another 12 large companies in Manisa contribute slightly less but, nevertheless, significant employment, expenditure and investment and influence to the local economy.

Other examples of the role of large firms can be seen in other regions and centres across Turkey. It is thus important for KOSGEB to engage with such pillars of the business community and to develop relationships that could assist SME development and understanding of finance for growth. This includes access to finance through corporate sources and potential direct investment in supplier companies and encouraging spin-offs through financial support mechanisms, including direct investment.

Many large corporations may be willing to run joint initiatives with KOSGEB and facilitate access to finance for high-growth SME suppliers and interesting potential investments. This linkage for high-growth SMEs would strengthen supply chains and resistance to shocks, such as downturn on orders from a key customer.

In line with a stratified suite of services, start-ups and micro businesses would be offered different activities and assistance tailored to their development needs as assessed with KOSGEB staff. In finance, this would include IP training on the role of a finance director in a business, how to secure funding from banks and how to approach alternative sources with an appropriate investment proposition.

It has been suggested that a programme be devised for different client groups, segments and sectors in Manisa as a pilot to test their ability to contribute to a culture change and promote more sophisticated, sustainable and robust growth. This could commence with the IP programme which would be monitored and evaluated carefully from different perspectives. This would include internal KOSGEB evaluation that shifts the focus from the activities themselves to the generated outcomes and impacts for businesses which receive assistance from the credit guarantees and variations in the finance packages. This could be compared with a control group of businesses locally or in another region with the involvement of KOSGEB and potentially, one of the banks.

The current financial climate creates additional difficulties for SMEs in every country, so it is vital that agencies such as KOSGEB engage in practical real-time initiatives that expand the finance education and access to potential sources of funds for businesses at different stages of development and circumstances. Success stories can be pulled from experience in other countries and local examples using evidence from KOSGEB's Manisa Service Centre's impact from finance assistance already provided to businesses.

Recommendations

Several recommendations are listed below and form the starting point for a more detailed discussion on how to implement them.

1. Given the current financial climate and resource constraints, it will be important to maintain the level of services and continue to extend the availability and scope of the credit loan guarantee to assist start-ups and SMEs to access finance, as this remains the top issue for most of these businesses.
2. KOSGEB's Manisa Service Centre is already working on more closely monitoring evidence and the outcomes from its assistance rather than just reporting activity and expenditure levels. This evidence can be used to publicise success stories as case studies, both locally and nationally, and to provide an evidence base for new initiatives on both the supply and demand sides.
3. Supply-side initiatives through the provision of funding programmes will not, on their own, solve the problem of SME access to finance. Greater engagement and leverage on the demand side is necessary within a stratified set of service offerings. Greater engagement should be required from SMEs in return for the credit guarantee, including participation in further training and attendance at events and workshops on finance for business, as this will improve their survival and growth prospects.
4. The demand-side question merits the launch of an Investor Preparedness (IP) programme, with a diagnostic tool available to personalise the assistance appropriate for SMEs at different stages of growth potential. It will also connect to management education and university links for additional resources and capacity building.

5. The involvement of large organisations and corporations is important given their role in the economy and ability to aid in accessing finance and other resources for growth. There is the potential to engage with other development agency partners to explore finance mechanisms with their involvement in supply chain networks and the potential finance of spin-offs.
6. As SMEs grow and expand internationally, KOSGEB's client base will continue to broaden and new financial issues will arise. To address these issues, KOSGEB can work to further develop the pathways that have been established through partnerships with KGF, IVCI, KOBİ A.S. and ESİM, helping SMEs to access advisory expertise and additional sources of finance, such as venture capital, equity funds and business angels. This would form part of a ladder of assistance.
7. This stratified set of services will require additional training and updated modules for KOSGEB staff on finance for growth and IP, as part of a new initiative. The potential for secondments and joint projects with banks and universities should also be explored.
8. Links with other agencies, financial market actors and the chambers will be central to the effective delivery and targeting of efforts. A convention should be held to discuss the stratified approach and the idea of an IP programme and pilot workshop event. This event will present proposals for improving access to finance services and highlight examples from successful approaches elsewhere. This could also generate ideas for new innovative finance packages for high-growth SMEs such as a funding competition for key sectors and priority clusters, learning journeys to Diaspora contacts, leading sources of investment for equity and educational packages for leadership training.

Chapter 3

Skills for business development and growth

The importance of skills for business development and growth

Business development depends on overcoming critical growth factors, which are related to the entrepreneur, the business itself and its external environment (Box 3.1). Gibb and Davies (1990) identify four approaches to business growth which concentrate either on personality, business management, sector and broader markets, or organisational development. On an individual level, critical growth thresholds refer to the professional experiences of entrepreneurs, their management and leadership skills, their entrepreneurial alertness and strategic awareness, including plans and intentions for business development. This is related to adaptation and learning which demonstrates the crucial role of the entrepreneur's willingness to develop the business. While theoretically, initial growth is desirable to overcome the "liability of smallness" (Aldrich and Auster, 1986) and to secure a sufficient resource base, individual growth willingness plays an important role in shaping any growth paths. This refers to, for example, self-imposed psychological barriers in cases where entrepreneurs (wrongly) perceive that they have neither the opportunities nor the know-how to grow their companies. On the level of the company, critical growth factors include the product and services, the level of and access to financial and human capital resources, as well as organisational structures and management systems.

Box 3.1. Critical factors for business development and growth in small firms

Critical factors at the individual level

- Willingness to develop the company – strategic awareness.
- Management and leadership skills.
- Entrepreneurial alertness.

Critical factors at the company level

- Financial resources: equity capital, debt ratio, access to external capital and standing of entrepreneur.
- Personnel: number, competencies, level of (professional) education, recruitment procedures, training.
- Organisation: management systems, controlling, information and planning structures, delegation mechanisms, technological resources, innovation processes.
- Product/services: market share, customer base, supplier base.

Critical factors in the external environment

- Economic and regional factors: purchasing power, demand, market potential, sector development, economic situation, regional incomes, regional endogenous resource base.
- Policy and institutional structure: support policies and programmes, access to external resources (financial and human capital, social capital).
- Society: is growth accepted as an enterprise goal?

Source: Adapted from Welter, F. (2006), "Mythos Unternehmenswachstum? Ein kritischer und reflektierender Blick auf Wachstumspfade von KMU", in Meyer, J.-A. (ed.), *Aufbruch und Wachstum von KMU in neue Märkte. Jahrbuch der KMU-Forschung und -praxis 2006*, Eul, Lohmar, pp. 19-36.

The institutional infrastructure also influences growth paths. This refers to factors such as labour markets, financial markets and any laws or regulations which could affect the ability of entrepreneurs to obtain additional resources required for business development. The general macroeconomic situation also affects business development and growth, as new firms generally have a smaller resource base and less experience in dealing with, for example, sharp drops in demand because of a recession. And, of course, the social environment (for example, networks, support from the family) plays an important role in facilitating or constraining growth (Aldrich and Cliff, 2003; Brüderl and Preisendörfer, 1998). Growth possibilities also differ across regional environments, reflecting the endogenous regional resource base in terms of, for example, skilled labour, support programmes or university infrastructure, small and large firm linkages, the region-specific potential such as regional income (North and Smallbone, 1995; Sternberg and Tamasy, 1999) or the regional industry profile (Almus et al., 1999). Sector environments, specifically the lifecycle of a sector, also influence enterprise growth paths. Growth potentials are more likely in young and emergent sectors, whilst mature and shrinking branches offer fewer possibilities. Furthermore, various sector environments result in different investment strategies for successful growth performance (Smallbone et al., 1995).

This chapter will focus on assessing skills-related factors which are required for business development and growth in Manisa Province. The second section gives an assessment of the current situation in Manisa Province, focusing first on its achievements and strengths, then on challenges in terms of institutional infrastructure and support offers at the individual and firm levels: in other words, the supply side of skills and qualified employment. The following section introduces selected learning models from other OECD countries, and the final section summarises the main results and develops recommendations.

Assessment of the current situation

Achievements and strengths

Achievements and strengths at the individual level: entrepreneurship is connected to the alertness that an individual displays towards opportunities, whilst opportunity recognition and discovery incorporates the additional factor of an entrepreneur's individual beliefs (Kirzner, 1979; 1999). The concept of entrepreneurial alertness is defined as “scanning the horizon, as it were, ready to make discoveries” (Kirzner, 1997). In this regard, entrepreneurs in Manisa Province show a high level of entrepreneurial alertness. They are quick to identify interesting business opportunities and demonstrate a high readiness to exploit the most promising ones. This is a first step towards strategic awareness, although, as explained below, the latter appears to be lacking in the case of small business owners in Manisa Province.

Institutional achievements and strengths: at the institutional level, the general availability of skilled employees is an important requirement for SME owners wishing to grow their companies. In this regard, Manisa Province has a well-established infrastructure for vocational education. The vocational education school (VET), visited during the mission, provides professional trainings for young people in electronic engineering, motor vehicle repair and machine technology. Seventy percent of its courses result in a diploma, and the majority of students would like to proceed to university. If pupils do not pass the diploma courses for two years in a row, they are referred to training centres for craftsmen (modelled on the German dual system of apprenticeship and

vocational training schools). Large companies from the Manisa Organised Industrial Zone (MOIZ), such as Bosch, co-operate with the vocational school in training existing employees and in providing two weeks of initial training for new workers.

Moreover, the MOIZ is currently setting up a technical and vocational high school within the zone, with plans to also establish a university. Future plans include internship programmes within MOIZ enterprises, further education for suppliers and training offers for unskilled workers. This could potentially fill a gap in the market for SMEs which cannot train their own employees, although it remains to be seen whether small business owners can afford the training.

With regard to skills-related support offers, KOSGEB is generally aware of the challenges that SMEs face during business development and growth, as seen, for example, in KOSGEB's programme structure and training needs assessment conducted in Manisa Province. In its previous programme structure, KOSGEB also offered a strategic roadmap concept, thus, in principal, allowing for the possibility of strengthening strategic development in small firms. Under the current programme, and specifically within the "General Support Programme", KOSGEB offers support for training, consultancy and the employment of qualified personnel, financing in each programme 50% of the relevant costs up to TRY 10 000, TRY 15 000 and TRY 20 000 respectively (Lenger, 2010).

Challenges related to skills for business development and growth

Individual level challenges: for small businesses, strategic awareness is one of the main requirements for business development and growth at an individual level. Gibb and Scott (1985), who coined the concept, understood strategic awareness as the cognitive capacity and ability of a business owner to recognise and assess the company's "*status quo*" (where the company is) and to identify future strategic choices and implications as to where the "company might go", without resorting to formal tools of strategic analysis (although those, of course, can be supportive also in the case of small firms). The entrepreneur actively uses feedback and reactions on previous actions in order to evaluate business actions. This is often done more intuitively rather than reflecting a formal, visible planning and decision-making process. Such entrepreneurial behaviour is used more frequently in growth-oriented small enterprises, in established firms, by older entrepreneurs who can draw on years of entrepreneurial experience and verified sets of strategic options, and in larger enterprises where a formalised organisational structure favours this behaviour. The greater the entrepreneur's strategic awareness, the greater the probability that a small business owner will effect business development and growth.

SME owners in Manisa Province are quick to blame the external political and economic environment for problems occurring during business development and as the major impediment towards business growth. However, our discussions with small business owners and large companies also highlighted deficits at the individual level regarding the level of strategic awareness, management skills and management knowledge of small business owners. For example, the representatives from Bosch and Vestel pointed out a lack of analytical thinking, deficits in the use of management systems, particularly in the areas of customer satisfaction and quality management. Both companies therefore offer in-house training programmes for their own suppliers; Bosch for example, selects between three and five suppliers each year who undergo a two-year "supplier-enhancement" programme.

Overall, the picture emerging for Manisa Province is one where SME owners show a pronounced lack of strategic awareness regarding the challenges connected to business

growth and development. For example, the lack of strategic awareness also accounts for the lack of interest in co-operation with other business owners. When developing and growing a small firm, co-operation with other business owners can be of great assistance. Co-operation facilitates access to knowledge (i.e. on international markets) and allows small firms to pool scarce resources (personnel and finances), thus helping them to extend their knowledge base, enter new markets or extend existing ones and to offer a broader range of products and services. However, SME owners are often reluctant to co-operate, fearing a loss of control over their firm. SMEs in Manisa Province are no exception; and in addition, they also refrain from sharing experiences through business associations. Members of the MASIAD business association stressed that few businessmen are interested in such a membership; other business owners referred to the individualistic Turkish (business) culture as an explanation for their lacking interest in co-operation. Additionally, the lack of strategic awareness is reflected in complaints about the strategic roadmap approach KOSGEB offered until the summer of 2009.

This contributes to explain the **low uptake of KOSGEB's programme offers apart from financial support**. Our discussions with SME owners revealed that they prefer finance-related support from KOSGEB, showing a lack of interest in skills-related support. SME owners positively assessed KOSGEB's support offers for export financing, equipment and credits for modernisation, while they criticised KOSGEB's strategic roadmap approach as being too complex and complicated. Moreover, only 100 out of 7 000 SMEs which are registered with KOSGEB's Manisa Service Centre responded to KOSGEB Manisa's training needs assessment, once more demonstrating a considerable lack of awareness on any individual and organisational shortcomings in this regard.

Challenges at the organisational level: at the organisational level, the lack of strategic awareness of small business owners in Manisa Province is reflected through: *i)* “muddling-through” behaviour with a focus on day-to-day business operations and a lack of interest in extending management skills; *ii)* informal human resource management, which includes informal recruitment practices and a dominance of informal and on-the-job training; and *iii)* a reluctance towards formalising management structures.

(i) “Muddling-through” behaviour

Entrepreneurs muddle through by using a decision-making method of successive, restricted comparisons, where decision making and acting occur simultaneously. Over time, decision-making processes tend to become increasingly routinised, as entrepreneurs fall back on the behaviour they had once applied successfully, as long as they are facing familiar situations. Only in situations where entrepreneurs can no longer rely on familiar actions and behaviour will they adapt and change. Such a behavioural pattern is often to be found in new enterprises, non-growth oriented ones, micro firms and enterprises which operate in new business fields or hostile and volatile environments (e.g. Baker et al., 2003; Baker and Nelson, 2005; Welter, 2003, 2005).

Whilst a reliance on “muddling-through” may be a rational reaction when seeking to secure resources in a turbulent and unfamiliar environment, such behaviour is less suitable as a basis for the long-term development and growth prospects of SMEs, especially where entrepreneurs rely on informal sources of assistance and informal management methods. Not surprisingly, such behaviour is partly explained by the lack of control over resources that small businesses face. Control over sufficient resources is a common theme both at start-up and throughout business development. During the start-up period, internal resources are so limited that the access to external resources is absolutely

required if the business is not to fall into the trap of “smallness” and “newness”. This is so essential that it will directly affect the activities as well as the development of the firm. Insufficient resources limit the freedom of choice in volatile and turbulent economic and business environments. In this regard, a higher level of education and professional (management) experience will not only contribute to strategic awareness, but also facilitate access to external resources as research has shown that entrepreneurs with extensive management experiences and sector knowledge are more likely to set up larger firms (Brüderl et al., 1992). Also, habitual entrepreneurs (i.e. those with previous entrepreneurial experiences) succeed more often in starting another business because of their existing network contacts and high entrepreneurial alertness (Alsos and Kolvereid, 1999; Westhead et al., 2005). Research has also shown that the more hostile the environment, the lower the level of planning and overall strategic behaviour of small business owners.

SME owners in Manisa Province also apply a muddling-through approach to management, with a focus on day-to-day business operations and a lack of interest in extending management skills. In general, they are well aware of, and capable of dealing with, day-to-day business problems and of managing their business in its current development stage. However, they appear less interested in considering the long-term development of their company, which they themselves see restricted by the highly volatile external business conditions (and not by a lack of management skills or training and/or organisational structures within their firms). Understandably, entrepreneurs revert to entrepreneurial behaviour that will also guarantee their personal satisfaction, not only the survival of the business. In this regard, it does not come as a surprise that only a few of the interviewed SME owners in Manisa Province have taken steps to acquire additional management skills and knowledge, which could in turn contribute to their strategic awareness.

(ii) Informal human resource management

Human resource management has increasing importance in a growing firm. This relates to a variety of human resource management issues, including: Under what conditions do small firms enter and interact with labour markets? How do they recruit? How do they deal with employment-related problems? To what extent do they train workers and what methods do they use? Underlying these questions is the idea that SMEs have distinctive characteristics which affect the way in which they use and manage labour. These characteristics include the behavioural patterns that stem from the common coalescence of ownership and management, their more limited resource base and their lower level of control over the external environment. Recruitment in smaller firms is typically more irregular, less predictable, less capable of systematisation and more likely to be a critical event than in larger companies (Atkinson and Storey, 1994). Methods used to find and select new employees tend to be more informal than in larger firms, emphasising subjective criteria that are often related to the personality of the person responsible for recruitment, typically the business owner, as human resource management is the last management function to be delegated as firms grow in size, as well as their informal networks. Research has also shown that when small firms engage in training, the dominant training activities mainly involve the application of existing skills to the individual business's requirements, or the spreading of existing skills to the employees in the workplace, rather than with a systematic and formal acquisition of skills (Atkinson and Storey, 1994). This is achieved mainly (and sometimes exclusively) through

on-the-job methods, although business development and growth would preferably require a more systematic approach to training and recruitment.

The interviews with entrepreneurs in Manisa Province revealed similar patterns. They turn to relatives, friends and former colleagues rather than relying on more formal methods of recruitment. Few SMEs appear to rely on the services of the Turkish Employment Agency in recruiting personnel for their companies. Entrepreneurs feel it is easier to overcome the problems faced in the initial phases of their business operations with employees who are known and considered loyal to the business owner, which is one of the main reasons they favour recruiting staff through family and friends or former colleagues. However, this implies that they recruit people rather than searching for complementary skills profiles which could help them to develop the firm further. Recruitment within the circle of family, friends and former colleagues will eventually create difficulties in finding suitably qualified personnel.

Moreover, where entrepreneurs and small business owners train their employees, we can observe a dominance of informal and on-the-job training. Most training appears to be done on an informal basis and is restricted to the on-the-job training required to deal with existing jobs and tasks. Few entrepreneurs see a need to acquire new skills and knowledge or to train their employees beyond a task-based, informal on-the-job training, although this would be a precondition for further developing their businesses. Additionally, at first glance, skills shortages do not appear to affect small companies in Manisa Province, but are more of a difficulty for large firms. However, skills shortages of personnel can be a major impediment in relation to business development, as the business needs personnel beyond the business owner who are acquainted with modern management and production methods in order to realise business growth.

(iii) Reluctance towards formalising management structures

Business development is in conflict with existing management and organisational structures in small firms, which are typically more informal, *ad hoc* and characterised by a lower hierarchy than in larger firms. As the company grows, management demands on the entrepreneur increase, becoming more time-consuming and complex. Therefore, management and organisation within a small firm need to be formalised. This includes professional leadership and formal organisational structures. In other words, internal organisational structures need to be restructured and/or created, while at the same time maintaining one of the main advantages of smaller firms, namely their internal flexibility and adaptability. Typically, if the business development process is to be successful, the small business owner will (gradually) relinquish control of the business by bringing in middle management, enlarging the top management team and creating delegating mechanisms within the firm. It is here where major barriers to a formalised management approach arise. Many entrepreneurs in small firms (not only in family-owned and controlled firms) show a “my-baby syndrome” in relation to their business. That is to say, they identify themselves with their companies, often favouring patriarchal leadership and refusing any re-distribution of management. Creative minds which are not interested in management as well as a lack of leadership talent and skills all contribute to this. SME business owners in Manisa Province are typical in this regard. They favour maintaining control of their companies and they also appear reluctant to expand management structures away from owner-management and towards team-management.

Challenges at the institutional level: as became apparent from our discussions with business owners, the emphasis placed on hiring employees from well-known and trusted sources during the recruitment process is likely linked to a lack of trust in public services such as the Turkish Employment Agency. It also indicates, however, a possible **skills mismatch in the labour market** when it comes to the needs of small (and large) firms. Manisa Province is characterised by a constant outflow of highly qualified labour force, mainly young university graduates, who prefer to work in Izmir and other Turkish cities, while low-skilled workers, without high ambitions, remain in the region. Additionally, the Vestel representative stressed an inflow of low-skilled, unemployable people to the region. Not surprisingly, both large and small firms highlighted a lack of skilled personnel. However, while large companies have the resources to conduct in-house trainings and move beyond informal on-the-job training, offering formal training programmes, the limited resource base of SMEs restricts their ability to pursue a similar strategy.

With regards to this, KOSGEB also offers skills-related support programmes. Table 3.1, however, demonstrates a bleak picture, showing that the uptake of skills-related support is extremely low. As shown below, a mere 12 and 13 firms in 2008 and 2009 respectively (out of 31 total beneficiaries and compared to a total of 59 000 small firms in Manisa Province) benefited from support for the employment of qualified personnel. Not one firm has benefited from training support, and only one benefited from consultancy in 2009.

Table 3.1 Uptake of business support offered by KOSGEB in Manisa Province (2008 and 2009)

Supports	No. of supports	No of beneficiary firms	Amount of accrued payment (TRY)
2008			
Employment of qualified personnel support	12	12	48 084.39
Participation in domestic fair support	20	12	36 109.2
Export-purpose business trip abroad	2	2	1 405.4
Computer software	1	1	5 293.5
Participation in fairs abroad support	1	1	702.7
Informatics improvement projects	1	1	562.5
General test analysis and calibration	1	1	307.2
Brochures, catalogues	1	1	3 000
TOTAL	39	31	95 464.89
2009			
Employment of qualified personnel support	13	13	63 007.51
Participation in domestic fair support	13	9	28 442
Participation in fairs abroad support	2	2	13 200
Consultancy support	1	1	4 550
Industrial design and certificate of incorporation	1	1	560
General test analysis and calibration	1	2	339.3
Brochures, catalogues	3	3	6 600
TOTAL	34	31	116 698.81

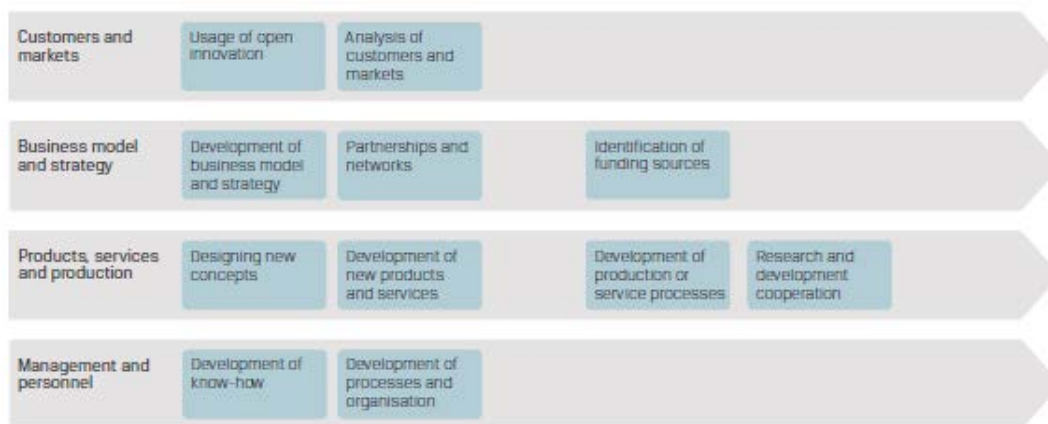
Source: Lenger, A. (2010), "Background report", background information on Manisa Province, Izmir, pp. 26-27.

Lessons from other countries

This section presents two learning models. They have been selected to showcase different ways of dealing with critical growth thresholds: the first example presents the case of a government agency which supports the acquisition of critical growth skills at the individual and firm levels, while the second example presents a support approach which promotes the value of strategic management and networking for entrepreneurs as well as fostering public-private growth-partnerships at the regional level.

Supporting critical growth skills at the individual and firm level: Scandinavian countries have a long tradition of supporting R&D in small firms, aiming at fostering business development and growth. Tekes is presented as a possible learning model with regard to supporting growth-oriented businesses, with a particular emphasis on innovative small firms. Tekes is the Finnish Funding Agency for Technology and Innovation (www.tekes.fi). It applies a broad view on what constitutes innovation, including service and social innovations. It facilitates networking and research co-operation between small firms, research organisations and universities, and offers company-level support aimed at rejuvenation and revitalising businesses, boosting the growth of the Finnish market and/or increasing networking, international competitiveness and internationalisation. Support for companies is organised around the main functional areas of a small firm, covering the four main areas which are relevant for growth: *i*) research and development in the areas of products, production methods and services; *ii*) business models and strategies for internationalisation and growth; *iii*) customers and markets; and *iv*) management and personnel, which includes the development of know-how and organisational competencies (see Figure 3.1).

Figure 3.1. Aspects of a business developed with support from Tekes



Source: Tekes (2010), “Tekes funding services for small and medium-sized enterprises”, Tekes, Helsinki, www.tekes.fi/en/document/44289/tekes_funding_services_pdf.

Support is not restricted to specific technology or business areas, but small firms applying for support have to be growth- or development-orientated with a potential for market expansion, sufficient resources and expertise. Tekes provides co-financing of project costs, supplemented by information, seminar, expertise and networks required for internationalisation. Small firms can specifically apply for funding to obtain expert advice and services regarding their innovations. Tekes’ support is offered in the form of grants and/or loans as illustrated in Table 3.2.

Table 3.2. **Maximum funding for SMEs**

% of the expenses of the development project

Nature of the project	Grant (%)	Loan (%)
International joint projects and their preparation	65%	
Challenging research and development projects	50%	
Challenging development projects related to products, business operations, methods and services	35 or 25 and	70 or 25
Commodification, pilots, demonstrations, test production and validation		50 or 70
Procurement of innovation services	75	
Development of work organisations	35 or 50	

Source: Tekes (2010), “Tekes funding services for small and medium-sized enterprises”, Tekes, Helsinki, www.tekes.fi/en/document/44289/tekes_funding_services_pdf.

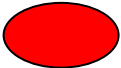
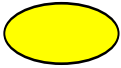

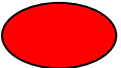
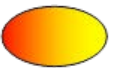




Fostering strategic awareness. The “*Unternehmerinnenbrief*”, an initiative of the North-Rhine Westphalian (Germany) state government, to support venture creation and business development of female entrepreneurs, is another interesting learning model. Although focused on women entrepreneurs, this approach has wider applicability because it promotes the value of strategic management and networking for entrepreneurs. Moreover, from the perspective of regional entrepreneurship development, the initiative promotes public-private partnerships as well as regional role models for business development and growth.

The initiative is carried out at the regional level. Participating regions set up an expert council, which consists of several public and private actors, including, chambers, regional development agencies, banks, small business consultants and other support agencies, and private businesses, to name a few. Expert councils are responsible for assessing the concepts entrepreneurs present, with a particular emphasis on financial issues, marketing, risk analysis, competencies, entrepreneurial skills, longer term prospects and sustainability. Applicants receive a training before their presentations, and if successful, they obtain a certificate (the “*Unternehmerinnenbrief*”), combined with a one-year mentorship through experienced entrepreneurs. The certificate serves as a reference for customers, banks and other stakeholders important to business development.

Conclusions and recommendations

KOSGEB has an important role to play in supporting SMEs in acquiring the skills which will help them to develop their businesses and grow. The following recommendations are drawn from the assessment of skills-related achievements, strengths and challenges in Manisa Province as summarised in Figure 3.2. The recommendations specifically relate to two of KOSGEB’s targets from the 2008-2012 strategic plan, namely: *i*) increasing SMEs’ management capabilities and qualified employment capacity; and *ii*) contributing to regional development.

Figure 3.2. **Assessment of skills-related factors required for business development and growth in Manisa Province**

Individual level			Organisational level	
Strategic awareness	Management and leadership skills	Entrepreneurial alertness	Formal management	Systematic training of personnel
				
Institutional level				
Vocational training infrastructure	Further professional training	SME oriented (management) training	Fit of KOSGEB programme portfolio	
				

Color legend: Green: good; yellow: medium; red: underdeveloped.

Recommendations for KOSGEB's Manisa Service Centre

Manisa KOSGEB Service Centre is well integrated and known to the main stakeholders in Manisa Province, which is an excellent starting point for designing complementary offers and fine-tuning the existing programme portfolio to regional needs. Overall, KOSGEB's Manisa Service Centre will have to work on creating awareness in local SMEs regarding the need for systematic skills development of owner-managers and employees. Also, there appears to be a need for improving workforce training that is more closely aligned with the needs of SMEs in Manisa Province. The understanding that entrepreneurship is not simply about starting a business, but increasingly influences employability, highlights the importance of training schemes for young adults and entrepreneurs. In this context, generating entrepreneurial attitudes among company managers and staff is an important ingredient in the process of raising a firm's readiness for business development and growth.

More specifically, KOSGEB's Manisa Service Centre could:

- **Increase the awareness of SME owners** regarding management skills, formal personnel training and the formalisation of management structures through role models and mentoring. Arguably, this is a difficult task as it relates to mentalities and mindsets which are difficult to influence and change, especially in the short run. However, SME owners need to understand that business development must go hand-in-hand with personal development. This implies that they themselves need to continuously adjust their personal and business goals, know their personal strengths and weaknesses, and ask for assistance in this regard. Moreover, they need to give their employees responsibilities within the growing firm and/or broaden the management basis of their firm. One way of creating and increasing the awareness of training needs for developing and growing the business could be the use of mentors who have successfully grown their own company.
- **Develop a training programme to prepare SMEs for the supplier role.** Many SMEs within Manisa Province are part of a supply chain, and benefit from the training programmes for suppliers offered by large companies such as Vestel and Bosch. KOSGEB's Manisa Service Centre could offer support to train SMEs in the "pre-phase," focusing on supplier readiness, and also offer advice and

workshops on how to manage existing supplier relationships. Such a programme could be administered together with the Chamber of Commerce, the vocational schools and/or in collaboration with large companies.

- **Offer integrated support packages for companies ready to develop their business.** As outlined above, sustainable business development and growth requires strategic awareness of entrepreneurs. KOSGEB could support this attitude by complementing its existing financial support with mandatory consultancy and/or training elements instead of offering separate programme lines, emphasising the importance of co-operation and team management. This would help entrepreneurs develop their individual and organisational skills required for growing the business.
- **Target region-specific themes and sectors for skills development.** KOSGEB's Manisa Service Centre could tailor KOSGEB's existing offers to specifically support the theme of ecological production in agribusiness and food processing (e.g. future and market potential) or geothermal energy (e.g. potential business field, option for business modernisation).

Recommendations for KOSGEB

With regard to regional development, due to its regionally specific client base and close links to small companies, KOSGEB potentially has the capacity to develop regionally specific overviews of SMEs and SME development, their characteristics, sector distribution and specific needs. KOSGEB is thus well-positioned to (further) develop region-specific support offers which would help support the economic development of Turkish provinces.

- The visit to Manisa Province highlighted the need for a targeted support approach which takes into account themes and sectors as outlined above. Related to this, there is a need for KOSGEB to support regional offices in identifying regional needs and consequently tailoring KOSGEB's support offers, in line with KOSGEB's strategic plan. This involves checking the existing support structure which offers support for themes (Thematic Project Support Programme). It remains to be seen, however, whether the broad and open design of this particular support measure creates incentives for SMEs to take on regionally promising themes which would allow the company to develop and grow, supporting KOSGEB's role as a regional player.
- KOSGEB should revisit its previously offered strategic roadmap approach in order to identify ways in which to simplify and integrate it into support packages aimed at fostering skills development for growing companies. A strategic roadmap focused on supporting the strategic awareness of SME owners is a valuable tool in fostering business development and growth.
- KOSGEB also faces one particular challenge in relation to training programmes, due to new purchasing standards. If KOSGEB were to offer general training programmes aimed at SMEs with similar needs, such as suppliers, they must charge a fee when enrolment exceeds 12 participants. Although this needs to be taken into account when developing training courses, experiences from other countries show that participation fees are actually recommended in the long run in order to impress upon SMEs the value of training and consultancy support.

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Chapter 4

KOSGEB's programme evaluation and impact assessment: Introducing a planned approach

The importance of setting up an evaluation framework

From the outset, it is important to emphasise the importance of monitoring the outcomes resulting from the assistance delivered by KOSGEB rather than merely recording activities, expenditures, market penetration and uptake rates. Increasing positive action through evaluation could publicise success stories and showcase inspiring SME case studies, both locally and nationally.

In moving forward with these recommendations, it would be helpful to situate them in the context of a KOSGEB national approach. This chapter suggests how to do this and how to prepare a programme of evaluation with a series of planned evaluation activities to be introduced nationally and regionally.

KOSGEB's objectives

Since its establishment in 1990, KOSGEB has been the only public sector agency in Turkey to provide support for SMEs in specific sectors, including manufacturing, services and trade. Some sectors are excluded (such as real estate, agriculture and finance), but the organisational remit recognises the vital importance of SMEs to the economy and the need to address the barriers to their establishment and growth. A number of nationwide issues and barriers were identified to provide a rationale and focus for KOSGEB's activities. These include:

- **Entrepreneurship:** levels of entrepreneurship are low and there is a lack of dynamic enterprise culture in many regions. Entrepreneurs experience problems in creating a business and accessing support with business planning, finance and development to assist business survival and sustainable growth.
- **Access to finance:** access to finance guarantees and credit facilities for SMEs is low and there are insufficient numbers of credit providers in the country.
- **Qualified human resources:** on top of exacerbating problems with the large shadow economy, the costs of compliance with employment laws and social security arrangements create difficulties for SME recruitment. There are also large movements of labour within the country, particularly individuals with low levels of education and skills, and a lack of highly qualified staff in key disciplines, such as management, finance and marketing.
- **Technology, R&D and innovation:** levels of technology-based investment are relatively low and inhibit SME growth; the costs of access and basic provision of ICT inhibits SME growth and productivity improvements.
- **Marketing, exporting and internationalisation:** the lack of awareness of the importance of these issues and the lack of highly qualified senior management staff in these disciplines cause specific problems for SME growth and spin-off businesses. There is also a reluctance to meet the costs of standardisation, intellectual property registration and regulation, and to meet certification standards for entry into overseas markets, particularly the EU and the United States.
- **Environmental sustainability:** there is a lack of information, awareness and action on environmental sustainability issues, standards and waste control.

In this context, KOSGEB has identified four main objectives to be addressed by its activities. These activities aim to:

- increase SMEs' share of economic activity and their effectiveness;
- improve SMEs' competitiveness;
- integrate SMEs and other players within sectoral development for economic growth;
- increase SMEs' technology levels.

These objectives are pursued through a variety of actions, including disseminating information, raising awareness, encouraging investment and providing specific development support mechanisms. There are also specific structural initiatives with additional mechanisms, such as the enterprise development centres and the technology development centres, which aim to strengthen links between industry, academia and the state sectors as well as synergise focal points and micro service collaborations with local chambers and other business representative bodies.

It is against this background of KOSGEB's objectives and activities over the past 20 years that we will consider how to develop the evaluation effort. Evaluation does currently occur; however, it seems to be carried out mainly for the purpose of activity reporting rather than to gain a deeper understanding of the impact of KOSGEB's interventions. Some studies have been conducted, by academics and consultants, on individual programmes (notably EU-funded and international collaboration); however, KOSGEB does not have any evaluation strategy, organisational policy or programme of evaluations in place.

Why promote evaluation now?

As the national agency for SME innovation and technology promotion in Turkey, KOSGEB has established itself as a key player in the economic landscape, having contributed successfully to the delivery of a series of strategic objectives through a range of activities and assistance mechanisms for SMEs and partners. However, the organisation is now entering a new, crucial stage of development, which will present new challenges as the organisation and the network matures after 20 years of activity. These new challenges, both internal and external, include ensuring that the staff and the organisation itself capture the knowledge acquired through previous interventions and use it to inform future decisions on delivery options and policy development.

KOSGEB's Strategic Plan 2008-2012 identified a series of priorities for delivery, with the main focus on increasing SMEs' competitiveness by implementing a series of projects and actions to be cascaded across the regional offices, including the one in Manisa. Understanding what progress is being made towards achieving the strategic objectives is vital, especially in the current climate of reduced budgets and increased demand from citizens, stakeholders and politicians to see tangible results and value for money in the face of competing policy and investment choices.

Evaluation has an important role to play in bringing forward evidence and demonstrating the extent to which objectives are being met, what interventions are effective and how. Audience expectations are rising and evaluation can have a vital catalytic role in the future development of the organisation, helping to show how KOSGEB contributes to economic development and growth.

Evaluation will generate evidence of effectiveness, promote learning by developing the staff's skills and encourage a more informed debate about SME and innovation support in Turkey. In addition, there are a number of other powerful reasons why a co-ordinated approach to evaluation should be promoted. It will:

- provide nationwide evidence to better understand and demonstrate the effects of KOSGEB's actions and the impact of its programmes and projects in the regions and nationally;
- provide insurance in an environment of increased scrutiny and meet the demands for independent evidence of achievements and value for money;
- improve decision making and performance management, and stimulate new ways of thinking;
- provide staff, the Board and stakeholders with greater confidence and increased motivation by validating work priorities and resource allocation.

Evaluation can become a co-ordinating instrument for KOSGEB with an increasingly important role in developing the network and setting standards for the regional offices. For these reasons, evaluation should have a central role in the organisation's future business model.

Developing a planned approach

Reliable evaluation requires a means for examining the progress and effects of different activities. This is best provided by a bespoke monitoring and evaluation framework. Accurate and reliable monitoring and evaluation provide governments, development managers and other interested parties with the means to learn from experience, including that of others, and to improve service delivery. It serves the dual function of providing a basis for improving the quality of policy and programming, and a means to verify achievements against intended results. Evaluation can provide the answer to the question: "Are we doing the right things and are we doing things right?"

Evaluation often emerges within organisations in an *ad hoc* manner. This can arise in a number of ways, including: as part of performance measurement, reporting and budget cycles; during strategy review and development processes; through initiatives from senior staff or a new CEO; or in response to questions from politicians wanting to know more about the effectiveness of the organisation, especially in times of financial restraint and competition for resources between different policy priorities.

Initiating a logical and strategic approach to evaluation is preferable to it emerging as a defensive response to external demands for evidence or through serendipity. A planned and strategic approach will work with the grain of the organisation to develop staff skills and engender greater internal confidence.

It can also have important long-term benefits for staff and stakeholders by working towards embedding evaluation into the culture of the organisation. In a learning organisation, this will have a positive influence on attitudes and behaviour, strengthening the implementation of all strategies, programmes, operational structures and processes.

Types of evaluation

At the most straightforward level, evaluation can be used to highlight the performance of interventions in terms of the three "Es":

- **Economy:** the extent to which interventions have achieved value for money or been delivered at minimum cost. Over time, internal standards can be set and external benchmarks used for comparison and to “stretch” performance.
- **Efficiency:** the relationship between the costs of the intervention and the outputs and impacts achieved (e.g. cost per net job created). This can be shown in a series of ratios and will provide KOSGEB with an important basis for comparison across intervention types and across other public sector interventions.
- **Effectiveness:** the extent to which the objectives of the interventions have been achieved insofar as programme outcomes and impacts meet programme objectives.

As shown in Table 4.1, certain forms or types of evaluation are appropriate at certain times. The term evaluation most often refers to *ex post* situations; however, it is essential to understand that evaluation actually covers *ex ante* (appraisal) as well as ongoing monitoring. It can also be both formative and summative as shown below. For projects or programmes with a long duration, evaluation during project delivery can provide valuable, real-time learning.

Table 4.1. **Form and focus for types of evaluation**

When	Type of evaluation	Main focus of evaluation
During implementation	Formative ¹ /process/interim/ongoing/ longitudinal ²	<ul style="list-style-type: none"> – Effectiveness of delivery arrangements – Identifying needed changes – Early assessment of impact
After implementation	Summative ³ /impact/final	<ul style="list-style-type: none"> – Effectiveness of the project/programme – Comprehensive assessment of impact

Notes: 1. Formative evaluation assesses initial and ongoing project activities to inform the project as it develops. 2. Longitudinal evaluation may be required where the outcome/impact of a project may not be seen for some time. A longitudinal evaluation is staged and may start during or after project delivery. 3. Summative evaluation takes place after project delivery to assess the outcomes and impact of the project.

Source: Developed by the author in conjunction with One North East regional development agency in the United Kingdom.

Formative evaluation examines how emerging factors contribute to addressing the identified challenges (market failures) and the influence of the processes themselves. The main function of this type of evaluation is to improve the project’s performance mid-way through its course. It provides an opportunity to look back and review the progress of the project against its stated objectives and, if necessary, reconsider these objectives and the strategies used to achieve them. It can prompt action to adjust and improve aspects of the project/programme as it progresses.

Typically, a summative evaluation suggests that a programme increases economic welfare if the benefits to participants exceed the costs of the programme, would not have happened anyway (additionality), and are not simply captured by one group at the expense of another (displacement).

At each stage, evaluations can be used to learn lessons and improve services as well as to assess key indicators of impact (hard quantitative data and softer qualitative evidence) at specific points in time throughout the contract, project or programme delivery period.

Estimating impact

Evaluation is extremely valuable as a tool in estimating impact. The goal of estimating the impact of a publicly funded activity (such as KOSGEB's services to SMEs) is to make an evidence-based assessment of the link between support, advice or funding offered through the service (the inputs) and the actual economic value received by the client as a result of the input (the outputs and outcomes). However, external interventions or actions can influence the observed results. These "exogenous" factors must be taken into consideration, as they can offset the effects of intervention and result in negligible net benefits (impacts) to the economy.

Evaluation can be an effective way of demonstrating how changes are enacted on a practical level, employing a structured and objective approach through an analytical framework. This can be done using a "Theory of Change" model or a form of logic model. The use of logic models has many advantages and is relatively straightforward to introduce and develop. The principles of such a model or framework should incorporate a structure that generates the following storyline:

- stated objectives of the intervention;
- a baseline or base case record;
- inputs (financial and human) that go into delivery;
- activities involved in delivery;
- resulting outputs; and
- resulting outcomes/impacts.

The two main challenges to evaluation are measurement issues (e.g. data availability), and variation across the network of conditions and approaches. The active involvement of local offices and frontline staff in assessing the local situation and generating the information is essential. National support from staff at headquarters can help to ensure national co-ordination and coherence, in line with the overall aims of KOSGEB.

Additional problems can arise from deficiencies in the management and delivery of local development strategies. Also, local capacity to transform knowledge of local problems and challenges into strategies and projects that can be tracked and measured objectively often remains limited.

This capacity can be improved through the increased and more effective use of monitoring and evaluation. Evaluation can be a great learning opportunity as well as a catalyst in the process of strategic planning and delivery at the local level. When introduced in a structured and logical manner, it improves decision making at all levels in management, policy and budget allocations.

An evaluation approach for KOSGEB: Recommendations

At present, information is supplied by the regions and by management units under a number of activity and expenditure categories, directly matching specific projects, programmes and intervention mechanisms. Samples of reporting from Manisa indicate that the basis for a good system of information monitoring exists, but that it would require further development and extension in order to support a comprehensive assessment of outcomes and impacts.

Training plays a vital role in the development of evaluation mechanisms, and staff at all levels must undergo structured trainings. This will be discussed later in the section that addresses the form and content of training programmes. Definitions are especially important, starting with the distinction between monitoring and evaluation.

There is a basic need for KOSGEB to strengthen information monitoring in order to allow for evaluation that assesses impacts. This will require staff (particularly in the regional offices) to:

- maintain accurate and consistent records of all interventions and processes, both at headquarters and in each regional office;
- maintain accurate records of project beneficiaries' contacts and other information;
- maintain evidence of market failures and the rationale for intervention under each programme or mechanism category (justification of why intervention assistance is necessary and continues to be appropriate for clients under each mechanism);
- recognise that monitoring must not be solely limited to examining the overall effectiveness of funding mechanism operations, including expenditure distribution, but must be extended to compare the forecasted and actual extent and distribution of uptake, as well as outputs and impacts;
- ensure that contracts have binding commitments for delivery partners and agents so as to track direct and indirect beneficiaries, as well as longer term outputs and outcomes (i.e. for a defined period beyond the end of funding);
- assess the effects of a partnership, programme or project mechanism, both in terms of improving capacity and performance as well as how combined interventions or programmes work in synergy to meet shared objectives.

Early actions by KOSGEB

In order to get to this position and develop a co-ordinated approach across the regions, KOSGEB headquarters will need to take the initiative in preparing an evaluation strategy and a planned programme of work. The following preliminary actions are suggested:

- KOSGEB should introduce a planned approach to evaluation with a strategic framework that maps evaluation activity within the organisational planning cycle, with close reference to corporate planning periods during which resources (budgets and people) are concentrated in the priority areas for evaluation.
- In planning evaluations and building organisational capacity for commissioning and interpreting evaluations, KOSGEB should:
 - ensure the implementation of monitoring, tracking and information generation systems for subsequent evaluation (e.g. clearly identifying and tracking beneficiaries);
 - embed evaluation into corporate procedures as a key part of the planning, design and approval of programmes/projects;
 - include evaluation plans in the detailed outline of KOSGEB's corporate programmes (nationally and regionally), and ensure that a proportion of each project budget is allocated for evaluation;

- consider the results of evaluation as feedback to inform investment strategy as well as the design and delivery of future interventions by KOSGEB and its partners.

Over time, these initiatives will establish evaluation as an integral part of operations and a positive source of learning, rather than as an additional burden or threat. This cultural dimension is critical in embedding the evaluation concept, delivering practical examples of evidence and generating momentum across the network. In this way, a culture of learning, openness and trust can emerge.

For KOSGEB as a whole, the evaluation programme and organisation of support delivery can serve as a lever for co-operation and innovative thinking on the influence of the fundamental factors of the corporate objectives on competitiveness in the region and across Turkey.

There are clear practical steps that can be taken to introduce a positive approach to evaluation and build evidence in a sustainable way in the years ahead. This will involve defining clear roles for each organisational level and ensuring that there is national co-ordination, planning and approval.

At the local level, the initial emphasis will be on gathering accurate and detailed monitoring information, conducting surveys and self-evaluation, preparing contextual market intelligence and project performance reporting. At the national level, a national evaluation team can be created and deployed to oversee the evaluation system. This team, with its local “champions”, can implement a programme of evaluations and training, working with different actors and partner groups, as well as international agencies and consultants.

These top-down and bottom-up components will work in tangent to nurture evaluation capabilities and capacity as well as to produce consistent and credible evidence.

A national network evaluation unit

A national evaluation unit could be created to provide a source of guidance and expertise, working to spread knowledge, share results, promote the application of learning and good practice, and develop new methodologies to generate evidence (formative and summative). The remit can be defined in an inclusive manner with regional body representatives, partners and specialist actors in areas such as SME finance, marketing, industry and academia. Over time, secondments from KOSGEB’s regional offices can be used to rotate involvement and membership, develop communities to evaluate practice, exchange knowledge, enhance skills and develop capacity.

The evaluation unit’s work strategy is conceived for the short, medium and long-term:

- **Short-term:** introduce evaluation training and examples of good evaluation; standardise definitions and methods of gathering and reporting monitoring information across regional offices; review database capabilities and expand data collection to facilitate evaluation in a logic model format that assesses outputs, outcomes and impacts; agree on baselines and data reference points; conduct pilot evaluations of priority projects and mechanisms.
- **Medium-term:** embed evaluation work into strategy and budget cycles; conduct further evaluations as identified in an evaluation plan for the KOSGEB network; extend evaluation activities across regional offices and intervention mechanisms;

conduct regular training events and continuous professional development, including online resources; participate in advocacy through annual learning events and the publication of case studies and success stories.

- **Long-term:** develop a detailed programme of evaluations, covering KOSGEB's objectives; develop a KOSGEB impact model; implement evaluation plans that review and update the coverage and quality of evidence; apply new approaches and methods for complex interventions; conduct joint evaluations with national and international partners; establish communities of practice to share evaluation findings and link to strategy, policy and budget reviews; hold annual learning reviews and a KOSGEB conference as part of a series of learning events to serve as publicity for the findings of major impact evaluations.

It will be important to start with a short practical programme of evaluation to generate solid evidence, using the initiative as a platform for discussion and a training vehicle for staff, senior executives, media and politicians. Corporate learning must also incorporate evaluation into the modified training and HR plans. This will be essential for gaining traction in the network and securing the necessary resources from the KOSGEB budget. Early adoption and concrete commitments to evaluation through productive agreements with local areas to pilot evaluation projects (e.g. data monitoring systems and impact assessment tools in Manisa) can be valuable in highlighting practitioner buy-in to the evaluation initiative, and should be rewarded with additional recognition and resources.

It may be worthwhile to launch the topic through a national convention, during which a data baseline could be established and research for future evaluation and training programmes could be approved.

In many countries, making progress towards more sophisticated evaluation has involved an incremental approach, either bottom up or, as is more often the case, top down. Top-down strategies are easier to prepare and implement. This has the advantages of creating a unified sense of purpose and conveying confidence and security to outside agencies such as the EU. However, experience has shown that it is vital that a national evaluation strategy be developed, by a dedicated team, in partnership with regional and local actors. Only then is it likely to be successfully implemented, evolving over time to produce real learning.

A team-based partnership approach involves considerable effort and resource commitment. It brings the returns, however, of improved quality of results and increased local “buy-in” to the overall approach. Other countries have recognised this and worked hard to develop an approach that engages locally and links the local (regional) to the national.

International examples of approaches to the planning and specific activities of evaluation teams, from technology organisations, are provided in later in this chapter. Country examples from England, Finland, Ireland, Scotland and Sweden are provided.

Culture lies at the heart of all issues surrounding the successful introduction of a planned approach to evaluation and the speed of progress. Experience from other countries shows that it is vital to secure the active involvement of staff in regional offices and the support of partner organisations. The use of incentives in the form of devolved responsibility can be very effective in accelerating change and aligning local and national considerations.

Priorities for a network evaluation plan

As noted earlier, the initial priorities in the evaluation plan should be the organisational objectives and the steps necessary for a learning agenda to gain traction across the network. In the short term, the emphasis should centre on monitoring systems and a number of pilot evaluation activities.

Priorities should reflect responsibilities: KOSGEB is the organisation responsible for the growth and capacity building of SMEs through business development and SME support initiatives (soft credits and grants, technical assistance and consultancy, information sharing, exploration of new market niches and export assistance). Additionally, assistance for technological modernisation through the creation of laboratories and prototype development infrastructure aimed at testing new products and processes is another area of focus, targeting around 265 000 industrial SMEs in Turkey.

In terms of the evaluation plan's specific activities, the following considerations are suggested:

- review the data recording, reporting and monitoring systems to construct a programme of evaluation which can be conducted and compared across the network;
- review KOSGEB's regulation and credit supports in terms of quantity and value so as to determine the future focus, type and programme of work for evaluation mechanisms;
- become involved in the evaluation of EU pre-accession projects in collaboration with other country agencies and organisations, including the World Bank;
- review processes for business effectiveness and information coverage through reference to a logic model;
- map spatial coverage and impact considerations, specifically including an assessment of concentrations (e.g. Istanbul city metropolitan area and challenges around rural and informal economic activity) and patterns in terms of gender, age, sectors and growth potential;
- evaluate the appraisal acceptance process for SMEs to show the effectiveness of both the business plan and client acceptance processes, as in the relationship between accepting assistance and growth of outputs, outcomes and impact;
- examine the effects of SME and institutional co-operation of various durations on the development and growth agenda's progress;
- review client progression through different stages, forms of support, grants and soft loan levels, examining these clients' effectiveness at different activities such as consultancy, marketing, R&D, equipment utilisation, market studies, investment in intellectual property and branding, and infrastructure or expenditure for the development of ICT and e-commerce;
- explore ways to use the SME application databank as a source of information for targeting services to growth sectors and areas;
- review the results on development centres, business innovation centres, online information network involvement, sectoral training and development projects, gender and minority group supports, and managerial and technological up-skilling.

These early priorities should recognise the cultural sensitivities and the real challenges being faced across the country. This will necessitate careful management to ensure that the evaluation is presented in a positive, non-threatening way, and not seen as a form of audit or judgmental process.

Lessons from other countries

England

England has had a network of regional development agencies (RDAs) for over ten years. However, with a new coalition government since 2010, the economic development landscape in England is changing. RDAs are being phased out and are being replaced by new localised groupings named local economic partnerships (LEPs). These new partnerships will be responsible for developing local evaluation plans and bidding for resources amid increasing competition for public sector funding.

The LEPs will seek to draw upon the learning from RDA evaluation activities and evidence gathered. RDAs have operated across the nine regions of the country and co-ordinated evaluation on a range of policy areas, including innovation and entrepreneurship. Much of the work focused on quantifying the outputs generated from intervention activities. Over time, RDAs and the central government recognised the growing need to obtain a better understanding of final impacts, learning what works best in particular circumstances through trial incentive initiatives, like innovation vouchers for SMEs, for example.

The evaluation agenda grew as the value of evidence gathering increased and led to enhanced bids for resources. In previous years, the RDAs organised network group meetings of staff and central government representatives that led to formal proposals for a structured and planned approach, in line with strategy review periods. As a result, various forms of evaluation plans had been in existence since the early 2000s in some regions. This then expanded with each of the nine regions creating individual plans based on priorities in the regional strategy and performance targets based on national priorities.

A national co-ordinating office, the Office for Project Advice and Training (OffPAT), was also established to set standards, share evaluation knowledge, encourage good practices and produce guidance materials for evaluation training, in hard copy and online. The author of this report worked with the organisation, in an advisory capacity, on the development and introduction of strategic evaluation planning and the updating of guidance and training materials for the network.

Most of the RDAs established regional evaluation units with trained expert staff to manage evaluation programmes and promote regional development. Annual plans were produced and approved as part of the operating plan process with evaluation evidence shared nationally through OffPAT and major evaluation reports published online. Regional guidance, training courses and plans were also implemented across the country and an evidence bank, centralising data on the effects of interventions in policy areas such as innovation, R&D, enterprise development and a range of SME assistance packages, including financial instruments, was established.

The system in England has drawn heavily on the experience in Scotland and follows a similar path of drafting, approval and reporting within the annual budget, in three-year strategy cycles. The new system of LEPs which replaced the Regional Development Agencies in 2012 has yet to commence effectively. In the meantime, the national

government Department for Business Innovation and Skills acts as the point of contact for national issues. OffPAT resources are also being adjusted in line with recent government changes.

Finland

Tekes is the Finnish agency for technology and innovation. It is world renowned as a successful model where evaluation and learning play a central role in disseminating lessons of what works and how to improve future competitiveness in the Finnish economy. Tekes has a dedicated internal team of experts who form an impact assessment unit which is responsible for the final and *ex post* evaluations of programmes.

Evaluations are commissioned and conducted by an external group of experts in order to compile diverse and independent information on the impact of the programmes. Knowledge and understanding of the key dynamics surrounding technology and competitiveness, SMEs, clusters, R&D activities and other topics is gathered by the team and reported upwards as well as shared publicly. This has successfully developed a deep pool of evaluation evidence about the factors contributing to the success or failure of interventions and policy initiatives.

The organisation has developed a reputation for its expertise in evaluation. In many instances, multiple programmes can be reviewed under the same evaluation when they belong to the same technology area or cluster, or when they have similar goals or some other common denominator. Joint evaluations are also conducted with partner agencies and co-funders of specific programmes with evaluation findings being widely shared and discussed.

In some instances, independent evaluations are required, as with sensitive topics or to ensure independence. Even in these cases, however, internal staff take responsibility for mid-term evaluations, planning implementation and budgeting lines within each programme and initiative. Normally, only the final impact evaluations are outsourced, as the unit itself (and indeed the organisation) has built up the internal skills and confidence to conduct appraisals and interim evaluations. The organisational teams also have access to additional support tools and resources, such as IT-based systems for conducting and reporting online surveys.

These skills to conduct a self-evaluation have been developed by the organisation over the past ten years and are supported by continuous training and refresher courses as well as online knowledge sources and events. Self-evaluations are also, in some cases, supplemented by the work of an external evaluation group (which can include industry, academic and government research representatives) as this can bring fresh insight and new connections as well as new knowledge and methods to Tekes.

Ireland

Ireland has a range of agencies with evaluation plans and evidence generated over a number of years. For example, the monitoring and evaluation system for the Irish National Development Plan (NDP) is supervised by a Central Monitoring Committee, chaired by the Department of Finance. Operational programmes implement the objectives under the NDP and indicator data is collected under them. Monitoring information is collected in a central database, managed by the NDP IT Unit under the Department of Finance.

Both financial and physical monitoring information is electronically collected, stored and distributed. The system allows the department to track expenditure and the delivery of outputs through various categorizations, including regions, local administrations, policy themes and economic sectors. The monitoring information system thus assists the various government departments and regional assemblies in sharing and compiling information for their needs.

An evaluation unit operates under a support framework which oversees and commissions evaluations of both operational programmes and the NDP as a whole. The unit is an independent body under the aegis of the Department of Finance. In addition to undertaking and commissioning evaluations of the NDP operational programmes, the unit also provides evidence, information, advice and assistance to the European Commission, government departments, regional assemblies and other bodies on monitoring and evaluation issues. The evaluation system is structured around a standard evaluation cycle applied in the EU Structural Funds context, comprising *ex ante*, mid-term, and *ex post* evaluations.

Scotland

Scottish Enterprise (SE) is the governmental economic development agency responsible for delivering a range of programmes and projects in policy areas including enterprise, innovation and investment. The organisation has an annual budget of over EUR 300 million to achieve a series of objectives focused on increasing the rate of economic growth and improving sustainability. SE has a strong record of developing monitoring and evaluation systems as well as activities to demonstrate the contribution of interventions and co-operation with other government agencies towards the advancement of performance measurement and evaluation.

SE first developed an evaluation plan in 1996, when a new network strategic evaluation team was established. This team was established by the author of this report. Further refinement of the approach, staff training and the production of guidance materials followed in the next ten years. This work also influenced the introduction of evaluation plans in other agencies as well as in a number of countries including the Czech Republic, England and Finland. SE now has a settled approach to evaluation and regularly reviews the evidence base and monitoring systems. It also explores new methodologies, including the production of an impact assessment calculator to estimate the net economic impact of different interventions.

The current evaluation team comprises six individuals who manage the programme of work and liaise with operational staff to produce studies and deliver an evaluation plan. Activities are aligned with priority themes and sectors in the strategy, and linked to operational activities through policy evidence frameworks (PEFs). Each theme or sector must have sufficient evidence available in order to evaluate the effects and inform appraisals of future intervention cases. The evaluation activities are organised around meeting these strategic network needs.

The plan, now called the SEER (Strategic Economic Evaluation Research) plan, is compiled from a long list of suggestions from the regional offices and the central evaluation team, in conference with PEF representatives. Regional offices and operational teams continue to conduct some additional research and evaluations locally but major evaluations must be part of the approved SEER plan. This plan is approved annually by network senior management, normally in January or February, so that spending may commence with the new financial year in April.

Some evaluations are conducted internally but most are commissioned from external consultants through a framework procurement contract. Major evaluation reports are published online and are available to the public. Additional, more detailed materials are made available online for staff, including a guide to evaluation and a template for calculating economic impact (gross value added). HR policies ensure continuous professional development and refresher training courses on research and evaluation. Senior management emphasises the important role of evaluation evidence through public statements and by formally requiring evaluation evidence as part of the decision-making process for new investments.

Sweden

VINNOVA is the Swedish Governmental Agency for Innovation Systems that aims to increase the competitiveness of Swedish researchers and companies, by increasing the co-operation between companies, universities, research institutes and other organisations within the Swedish innovation system. All programmes are continuously followed-up on and evaluated upon completion. Regular impact analyses are carried out in order to understand and learn from the long-term impacts of programmes and initiatives.

The agency conducts research and evaluation activities using a combination of internal and external assignments in a co-ordinated and planned manner. The organisation (and earlier organisations with a similar remit in Sweden) has developed various methods and tools over the years, including techniques which facilitate comparative analysis between different units. The aim of such a system is to offer tools and data which help regional development authorities to run analyses and forecasts, building a basis for identifying strategic priorities at the regional level.

The database contains detailed information in a number of fields and this information can serve as an input, at both the national and regional levels. Conversations are co-ordinated regularly within the units, and annually in order to review plans and stimulate strategic dialogue through a comparative view on the assets, needs, strengths and weaknesses of the regions and the country.

Specific emphasis is placed on evaluation preparation and planning to ensure that regions are comfortable and confident in the ability of monitoring information systems to help them portray their performance and achievements in line with strategic objectives. Early on, considerable emphasis was placed on process issues and developing systems that represent coverage of qualitative as well as quantitative evidence.

The agency is now requiring that more qualitative evaluation approaches be incorporated so as to better facilitate true learning. This has now been adopted as the predominant mode of conducting monitoring at both the national and regional levels.

The balance and pace of the evaluation agenda's development has been identified as vital in generating valuable evidence and allowing regional actors to accurately capture the functioning of their endogenous development efforts.

There is no single rigid and uniform national indicator framework (for tracking outputs and outcomes), as regional development strategies vary considerably in content and form. Rather, the information compiled at the national level draws on only a few general indicators. This has efficiencies by reducing the bureaucratic burden, but the organisation recognises that it does not generate a detailed or nuanced picture of the intervention effects and development patterns across regions in Sweden.

Thus, despite the planned and frequent debates on evidence generation, the localism approach in Sweden has often required additional surveys or other sources of complementary information to be gathered. As a result, the organisation recognises that, nationally, the system of evaluation is not as comprehensive as intended, and regionally, it can become fragmented and difficult to identify the net effects of interventions at the regional or national level.

Despite these challenges, the agency does have notable expertise and continues to produce leading examples of evaluation and learning. For example, in a recent study on the impact of programmes on SMEs, published on the VINNOVA website, the empirical analysis revealed some interesting positive effects on grant funding for R&D:

- several R&D projects would never have come into existence without the grant from VINNOVA. For a large number of companies the support of VINNOVA has contributed to an increase in the size of R&D projects;
- the support contributed to an acceleration of projects (i.e. the R&D projects either started earlier or were fully carried out);
- this funding serves as a quality indicator for third parties and has been, in a number of cases, important in attracting additional funding, nationally and internationally, as well as venture capital.

This illustrates the type of evaluation that can be generated to inform future decisions and policy making for SMEs.

Conclusions

This chapter has discussed how KOSGEB can introduce an outcome- and impact-based evaluation strategy to the network. This is an appropriate and positive development given both the agency's evolution and Turkey's economic maturity. As has been shown, in terms of implementation, there are a number of sensitive points which must be considered and should be addressed in a structured, inclusive manner with regional and national partners.

KOSGEB's revised approach is designed to ensure that the appropriate supports reach SMEs through programmes on R&D, innovation and industrial implementation; entrepreneurship; co-operation collaboration; and thematic and general support. The new approach considers intervention assistance as a means to an end (outcomes and impact) rather than an end in and of itself (activity). It is thus important for evaluation to measure achievements against these new, refined objectives, moving gradually away from the expenditure distribution model.

In previous years, resources have been allocated regionally with no clear appraisal of their impact. This is understandable given the cultural context and other economic maturity challenges, such as the size of the informal economy. Working with regional players to introduce the new approach with the associated evaluation programme is the way forward. Developing a shared understanding of what works, based on evaluation results, will improve future policy and decision making, as well as increase the level of confidence and trust.

There are many areas in which evaluation can be useful in highlighting KOSGEB's high potential. These include networks, supply chain linkages between SMEs and large companies (including prominent multinationals and foreign direct investment), and

intermediate and qualitative outcomes generated by assistance programmes. Many forms of intervention are required to generate the desired impacts outlined in KOSGEB's objectives; evaluation can be used to demonstrate this need and to make the case for continuing with fundamental engagement level activities for SMEs (existing and start-ups) and other activities such as learning journeys, meet the buyer events and master classes for senior management training.

By transitioning to outcome and impact measurement, evaluation can demonstrate the contribution of KOSGEB's assistance to regional and national economic growth and competitiveness, including productivity improvements and other deeper resulting changes. Evidence of good practices for each region/sector can provide examples of how to improve growth prospects and competitiveness as well as identify new roles for different organisations.

The introduction of an evaluation programme and the establishment of a network-wide resource with expert support are set to begin this year and a corresponding list of early priority actions has been identified. These actions focus on starting with a review of the monitoring and evaluation systems so as to ensure that data availability issues are addressed and standards, in terms of approach, definitions and practice, are in place across the network. This can allow for a more detailed programme of evaluation to be implemented, with trained personnel and expert support. In this way, objective evidence can be generated regularly for outcomes and impacts.

A commitment to evaluation will continue to expand and grow over time. The process will generate momentum and continue to develop in the years ahead, becoming more integrated with other investments, such as continuous professional development, training and evidence-sharing events. These can all be linked to strategic review processes and organisational development.

Such reviews can rely on evaluation results to provide feedback on the quality and coverage of the evaluation programmes. Additionally, these reviews can help define future requirements for evaluating and updating standards and guidance, linking organisational processes and improving internal and external (partner) efficiency.

In time, this evaluation will present a meaningful picture of how the regional offices and the national agency have contributed to each of the outcomes in the strategy. Regional offices should be invited to promote joint evaluations with other partners, highlighting KOSGEB's contribution, to ensure that all evaluations meet accountability and learning needs.

The timing is appropriate for KOSGEB to introduce evaluation schemes as suggested, having defined a clear set of proposals on how to proceed. This will generate greater confidence in KOSGEB by demonstrating the added value it provides through delineated programme activities with segmented client groupings, such as engaging with all SMEs through basic assistance, rather than generic offerings. New hypotheses can be tested to show what strategies are most effective as well as the outcomes and impact of effective assistance programmes. These advances would position KOSGEB in the vanguard, both nationally and internationally, as an innovative and learning-based organisation.

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