

Small Business Initiative

Support to SME Development under the Small Business Initiative (SBI) in Turkey

Small Business Impact Fund

1 January – 31 December 2018



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1. Description

Title of the Programme	Support to SME Development Under the Small Business Initiative (SBI) in Turkey
Programme value	EUR 430,000
Funded by	Small Business Impact Fund (SBIF)
Start date and end date of the reporting period	January 2018 - December 2018
Target countries	Turkey
Final beneficiaries / target group	<i>SMEs¹ and SME+</i>

2. Executive Summary

Launched in late 2016, the Support to SME Development under the Small Business Initiative (SBI) Turkey programme focuses on enhancing the role of SMEs in the Turkish economy by supporting and expanding the direct finance activity of EBRD through more efficient project implementation and management as well as supporting leading SMEs under the Blue Ribbon initiative.

Since the **inception** of the Programme, the EBRD disbursed **EUR 328,868** under the available resources of this programme from the Small Business Impact Fund (“SBIF”) to support EBRD’s SME activities in Turkey as follows:

- i. **five pre-investment projects** supporting four² Turkish SMEs which have been successfully signed under EBRD’s Direct Financing Framework (DFF);
- ii. **three advisory projects** under the Blue Ribbon initiative supporting Turkish SMEs for a total amount of EUR 181,700 have been successfully launched and are in implementation and;
- iii. **two post-investment projects** were completed with two existing EBRD SME clients to help them on their growth trajectories.

These projects help the SME beneficiaries improve their standards, processes and strategic goals, which in turn contribute to improve their competitiveness and resilience.

During the reporting period in particular (January - December 2018), (1) **three pre-investment support projects** were completed under EBRD’s DFF; (2) **one advisory project** under the Blue Ribbon initiative has been successfully launched for a total amount of EUR 64,342; and (3) **two post-investment projects** with two existing EBRD’s SME clients were completed. Taken together, through SBIF support, three companies accessed finance through the DFF in 2018 for a total volume of EUR 11.6 million.

¹ SMEs in this report also include small mid-caps with SME characteristics (e.g. gaps in governance, organisational structure, strategic focus etc.).

² One Turkish SME benefitted from two direct financing projects.

3. Activities and results during the reporting period

3.1. Economic and business environment

Turkey faced significant economic challenges in 2018. Geopolitical tensions, declining investor interest, monetary policy tightening and a stronger US dollar led to a significant depreciation of the lira, leaving the country's private sector in a vulnerable position. These challenging market conditions have put the banking system under stress which has itself resulted in tightening liquidity and reduced access to finance for SMEs and other corporates. Leading indicators such as economic confidence, capacity utilisation and PMI suggests a significant economic slowdown.

In this difficult context, EBRD's continuous support to the Turkish private sector was highly additional and value-additive. In 2018, EBRD remained strongly engaged in Turkey with 34 projects for a total value of around EUR 1.0 billion of which c. **EUR 94.1 million** was invested to support SMEs (directly or through financial institutions). EBRD's support to SMEs was facilitated by the SBIF, which contributed to supporting **four** new SMEs through financing and advisory support (see section 3.2 and 3.3 below).

3.2. Small business investment

Since the inception of the Programme, EBRD has made **five direct financing projects** which benefitted from SBIF support. Out of these five projects, **three** were signed during the reporting period (January - December 2018):

- i. **Uzmar:** in December 2018, EBRD committed EUR 3 million to Uzmar, a Turkish company specialised in the construction of "tug and work" boats. The proceeds of the loan are expected to be used to finance the company's R&D expenditures to develop new components with better emission standards and a better environmental impact—specifically new ways to build International Maritime Organisation (IMO) Tier III tugboats (which have more stringent emission standards). Through this demonstration effect, other manufacturers will strive to build IMO Tier III tugboats to remain competitive while vessel owners could consider future proofing their fleet to the highest standards. To make this investment possible, the SBIF supported project preparation costs of EUR 31,500.
- ii. **TKG Automotive:** in August 2018, the EBRD committed EUR 2 million to TKG, a Turkish Tier-1 auto metal component manufacturer. The proceeds of the loan are to be used amongst others to finance a capex programme to increase the company's capacity. The SBIF supported the project's preparation costs of EUR 16,000 on a cost sharing basis with the company. This project is expected to support the company improve its competitiveness.
- iii. **Balparmak:** in December 2017, EBRD signed an uncommitted loan of TRY 6 million (c. EUR 1.4 million) to Balparmak, a family-owned company which specialises in the processing, packaging and marketing of honey products, with a strong focus on product innovation. This loan supported R&D expenditure to develop innovative products (e.g. new technology allowing consumers to easily access the laboratory summary of each product through a barcode scan on their mobiles. In 2018, the SBIF funded a third party appraisal report for EUR 1,998 in order to verify the security coverage and allow the next tranche to be committed (expected to happen in 2019).

3.3. Small business advice

Since the inception of the Programme, EBRD allocated EUR 153,656 of funds from SBIF to support **three SMEs** with advisory services totalling project cost of EUR 181,700, with a cost share component of EUR 28,044. During the reporting period (January - December 2018), EUR 55,342 was allocated to support **one SME** totalling project cost of EUR 64,342. These three SMEs are enrolled in EBRD's **Blue Ribbon initiative**, which aims at supporting selected SMEs for a longer period of engagement in order to become leaders within their respective sectors and regions as well as create meaningful demonstration effects.

1. SAPRO TEMIZLIK URUNLERI, ISTANBUL		
Industry: Wet wipes manufacturing	Main products: Wet wipes	Project budget: EUR 55,800
IA Team: Banu Karsialan	Project status: On-going	EBRD financing: EUR 3m
Team Coordinator: Gheorghe Constantin	Start date: December 2017	Client cost-share (%): 18
Senior Adviser: Peter Schellinck	End date: June 2019 (planned)	Client cost-share: EUR 10,044
Specialist: Mario-Aurelian Matei	Visits: 6	Project phase: 2
<p>Background:</p> <p>Sapro was founded in 1997 by long-time partners Ceyhun Zincirkiran and Mehmet Gündogdu, who together gradually built up the business to become Turkey's largest wet wipes producer by capacity. With 25 production lines in its production facility located in Silivri (75 km from Istanbul), Sapro is today Turkey's largest wet wipe producer and of comparable size to large wet wipes production plants in Europe. Sapro exports about 70% of its production primarily as private label products to large European retail chains such as Aldi, Rewe, Wilkinson. Domestically, Sapro is the 5th player in the market with its brand Hops. In the coming years, Sapro wants to benefit from the increasing use of wipes in emerging markets such as Turkey, while maintaining its strong global position by continuing to export and expand in developed markets. In June 2016, the EBRD signed a loan (EUR 3 million) to finance working capital required to operate a new spunlace facility. Sapro exports to more than 45 countries, including Germany, France and UK. In Turkey, Sapro is a supplier of the biggest retail chains namely, BIM, A101 and Migros.</p>		
<p>Rationale for enterprise selection and expected impact:</p> <p>Sapro is envisaging proceeding with the investment in a new production facility in 2019 and is advancing with establishing a manufacturing site in an EU country. As the company will set-up an operation abroad, it is critical for the management to develop the appropriate management and control framework for the larger scope of the business model. Sapro is seeking guidance and support from the EBRD on the areas of business strategy, improvement of organizational development and lean management.</p> <p>The developments across the nonwovens industry highlight that sustainability is an increasingly important concern. Now disposable wipes have emerged as a key end-use segment, and it is poised to realize further gains across the next five years, via a new range of innovative greener materials. This trend is observed by all key players in the wipe buying chain. Consumers are eager and increasingly willing to pay for more ethical products and Sapro aspire to meet this and is also implementing their own tougher corporate citizenship goals. The whole drive is occurring under an umbrella of tighter environmental standards set by national and trade bloc regulators and will be addressed during the on-going second phase project.</p>		

International Business Advisory objectives:

- To develop new or re-define existing organisational mission and vision
- To develop/re-define long term objectives
- Restructuring/Improving organisational structure
- Establishing a Human Resources strategy

Progress achieved and/or reasons for early closure:

The mid-term project visit will take place in January 2019.

2. BOZANKAYA OTOMOTIV, ANKARA

Industry: Electric vehicle manufacturing	Main products: Electric commercial buses	Project budget: EUR 61,558
IA Team: Banu Karsialan	Project status: On-going	EBRD financing: EUR 10m
Team Coordinator: Josep Nogues	Start date: January 2018	Client cost-share (%): 18
Senior Adviser: Hans-Peter Engel	End date: July 2019 (planned)	Client cost-share: EUR 9,000
Specialist: to be nominated	Visits: 6	Project phase: 1

Background:

Bozankaya Otomotiv Makine İmalat İthalat ve İhracat A.S. is specialised in railway systems and commercial vehicle designs and manufacturing. The Company (owned 75% by its founder Murat Bozankaya) and is a pioneer in electric bus, tram and trambus manufacturing in Turkey. Mr. Bozankaya set up his company to supply bus chassis to MAN Turkey, the first production plant outside of Germany and is today the largest bus production plant of the company; in early 2000, MAN invested in a production facility in Turkey and relocated its bus production. Mr Bozankaya decided to expand its activities to Turkey establishing Bozankaya AS in Ankara to continue supplying its key customers. Since 2013, Bozankaya has been growing its contract-based electric bus and tram construction business with Turkish municipalities as well. Today, the Company employs around 550 employees (including 60 engineers and 50 R&D).

Rationale for enterprise selection and expected impact:

As part of its efforts to venture into light rail systems segment, in early 2016, the company entered into a partnership with Siemens and won a three-year contract to supply the Bangkok Mass Transit System Public Company with 22 four-wagon metro trains for a total value of EUR 105m (EUR 55m for Bozankaya and EUR 50m for Siemens). In order to fulfil its production commitments for the tender, the Company needs to enlarge its production capacity. The Company received EUR 10m from EBRD in February 2017. The International Advisory project will assist the Company in reviewing its long term objectives, organisational structure, improving production efficiency and improving sales department structure/activities.

International Business Advisory objectives:

- To develop new or re-define existing organisational mission and vision
- To estimate the company’s actual or potential capacity to take advantage of perceived market needs

- or to cope with risks
- To re-structure or improve existing organisational structure and develop organisational charts with clearly defined responsibilities
- To increase production lines efficiency
- To develop sales team structure, functions and responsibilities

Progress achieved and/or reasons for early closure:

The next visit took place in January 2019.

3. KERVAN GIDA, ISTANBUL

Industry: Agribusiness	Main products: Jelly, liquorice, marshmallow and gum	Project budget: EUR 64,342
IA Team: Banu Karsialan	Project status: On-going	EBRD financing: EUR 6.6m
Team Coordinator: Gheorghe Constantin	Start date: July 2018	Client cost-share (%): 18
Senior Adviser: Mario-Aurelian Matei	End date: January 2010 (planned)	Client cost-share: EUR 9,000
Specialist: Tsevetan Iliev	Visits: 4	Project phase: 1

Background:

With over 20 years of experience in the confectionary industry, Kervan Gida was established in 1995 by the Basar Family. Kervan is the leading exporter of jelly, liquorice, marshmallow, lollipops and gums, forming 40% of total jelly exports from Turkey. The Group is owned by 8 individuals with equally split shares (12.5% each). The Basar family members (4 individuals) own 50% of the shares of Kervan Gida, while the remaining shares belong to 4 other individuals. Kervan Gida's Turkey-based total production area (2 separate facilities) is approximately 50k sqm, with a total capacity of 40k tons per year, making it the largest jelly producer in Turkey. The Group's headquarters and main production site is in Beylikduzu, Istanbul in addition to another site in Akhisar, Manisa.

Rationale for enterprise selection and expected impact:

The management team is committed to expand internationally by investing in a new production facility based outside Turkey, possibly in Bulgaria. The management team has already conducted the preliminary assessment for the Bulgarian market and it has chosen the Shumen region as a target for the investment. The EBRD project will assist the company in analysing the investment possibilities in Bulgaria and also contribute to the strategic investment plan. At the same time Kervan requires assistance in improving its existing operations in Turkey. The implementation of a Lean system will support an easy transfer of manufacturing processes from Turkey to the new site in Bulgaria.

International Business Advisory objectives:

- Bulgaria Market Study
- Strategic plan for the new investment in Bulgaria

– LEAN Operations and Continuous Improvement

Progress achieved and/or reasons for early closure:

The mid-term project review took place in January 2019.

3.4. Post-investment support

In 2018, the SBIF has also supported two existing EBRD's SME portfolio companies as follows:

- i. **BRN:** in 2018, the SBIF supported BRN to update its software (EUR 10,470) which enabled the company to integrate its logistics, production and finance departments. BRN is a manufacturer of sleep products in Turkey that benefitted from EUR 2 million in EBRD equity financing. This newly updated software system is expected to help the company manage its activities with more accuracy and efficiency.
- ii. **Kay:** in September 2015, EBRD committed EUR 10 million to Kay, a Turkish dairy producer. EBRD's investments supported the relocation of its dairy production capacity from the old factory located just outside the city of Balikesir into a modern complex with better logistics. In 2018, the SBIF also supported the company with EUR 12,500 to sell some of its assets in order to reduce its debt burden.

4. Lessons learned

The programme continued to progress towards its targets in both financing and advisory during 2018. On the financing side, access to SBIF has been of significant importance to complete project execution and support EBRD's new direct financing to SMEs. The final metrics to measure performance of directly financed projects and assess lessons learned are not yet available for monitoring due to the early stage of investments. However, the four companies which benefitted from financing support by EBRD showed a good performance as measured by a turnover increase (on an aggregate basis) of c. 27% between Q3'17 and Q3'18.

On the advisory support side, projects are typically only evaluated a year after completion as per the OECD DAC Criteria of Efficiency, Effectiveness, Relevance and Impact. None of the Blue Ribbon initiative projects have been completed to date. However, the programme's beneficiaries demonstrated their resilience in a challenging economic situation, continuing their normal course of business successfully, with the advisory and legal support provided by the SBIF. Indeed, pending formal evaluation, SBIF-supported projects have already begun demonstrating strong results related to the KPIs of the programme, e.g. increases in turnover, innovation in product, processes and/or organisation as well as corporate governance improvements. In particular, TKG Automotive, one of the programme beneficiaries, was named one of the best managed companies in Turkey by Deloitte during the reporting period.

5. Communications and donor visibility

The EBRD is dedicated to promoting donor visibility wherever possible in its interventions, including through press releases on projects, social media and so on. Every effort is made on the ground to ensure clients are fully aware of donor funded support from the SBIF. Across the entire Bank, the SBI team is particularly known for its attention to innovative visibility and outreach initiatives in relation to donor support. During the reporting period, a video of Balparmak's beekeepers' training school has been shared through the Bank's social media channels: <https://www.ebrd.com/news/video/beekeeping-for-beginners-in-turkey.html> In addition, SBIF-supported client, Uzmar, has been put forward for the EBRD's 2019 Sustainability Awards which will take place during the Bank's Annual Meeting, under the nomination categories of: Sustainable Energy, Climate Resilience, Environmental and Social Best Practice, and Environmental and Social Innovation.

6. Conclusion and next steps

Whilst being relatively recent, the SBIF programme already greatly contributed to EBRD's efforts in supporting Turkish SMEs with both investments and business advice. The quantitative and qualitative metrics to measure the results achieved with the support of SBIF are not yet fully available for monitoring due to the early stage of all supported interventions. However, a first snapshot is included in Annex 7.1, with a more exhaustive review expected in the next monitoring period. Looking forward, 2019 includes a healthy pipeline of SME projects. On the financing side in particular, the EBRD aims to extend finance to approximately 15 SMEs in the next three years through a Risk Sharing Framework (RSF) partnership agreement with Turkish Partner Bank (TSKB), made possible with support from the SBIF. New eligible projects for advisory services funded by SBIF are also in the process of being identified.

7. Annexes

7.1. Results framework – progress to date

Specific objective	Outputs	Target	Result achieved since the inception of the Programme
Strengthened role of SMEs in economy through enhancing their competitiveness and innovation	Number of SMEs financed by EBRD Directly or through co-financing arrangements	10	9
	Volume of SME Financing by EBRD directly or through co-financing arrangements	EUR 35 million	EUR 42.8 million
	Number of SMEs supported with business advice	3	3
	Outcomes		
	Average turnover/productivity growth of SMEs that access EBRD direct or co-finance during investment period	to be monitored	50% ³ (3Q 2017 vs. 3Q 2018)
	Job creation in EBRD financed or co-financed SMEs during investment/loan period	to be monitored	N/A (to be monitored)
	% of enterprises receiving advice achieving increases in turnover one year after completion of advisory projects	70%	N/A (to be monitored)
	Number of jobs created in SMEs supported with EBRD business advice within 1 year of project completion	to be monitored	N/A (to be monitored)
	% of SMEs supported with EBRD advice that access finance (from EBRD or elsewhere)	80%	N/A (to be monitored)

³ To be noted: one SME over-performed and is an outlier.

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	within 1 year from completion of the advisory project		
	% of SMEs supported with business advice having used external advice independently within 1 year of completion	25%	N/A (to be monitored)
	Evidence of innovation (in product, process, marketing and organisation) by SMEs supported through finance or business advice by EBRD	At least 25% of portfolio companies	N/A (to be monitored)
	Evidence of enhanced corporate governance practices by SMEs supported through finance or business advice by EBRD	At least 25% of portfolio companies	N/A (to be monitored)