

TURKISH INVESTMENT ENCOURAGEMENT SYSTEM:

The Turkish Investment Encouragement System can be divided into two sub-headings, which are currently in force:

- 1. General Investment Encouragement Program (GIEP)**
- 2. Aids Granted to Small and Medium Sized Enterprises' (SMEs) Investments**

It should be noted that, as far as the mechanism is concerned, domestic and foreign investors are equally treated; foreign companies can benefit from all encouragement measures granted to domestic companies.

1. The General Investment Encouragement Program (GIEP):

a) The legislative base and the title of the general investment encouragement program is:

“DECREE CONCERNING STATE ENCOURAGEMENTS TO INVESTMENTS”

(Decree No: 2002/4367, dated: June 10th 2002)

(published on the Official Gazette dated 09.07.2002 and No: 24810)

- b) The purpose of the general investment encouragement program is to; encourage, support and orient investments, in-line with international commitments, in conformity with the objectives of Development Plans and Annual Programs, in order to reduce regional disparities within the country, create new employment opportunities, while taking advantage of advanced and appropriate technologies with greater added value and to realize international competitiveness.
- c) This program covers all investment activities related to the production of goods and services, research and development (R&D), environmental protection and improvement of quality and standards.
- d) As mentioned above, one of the main objectives of the system is to eliminate inter-regional imbalances. For this purpose the following regional classification is established with the Decree;
- ***Developed regions:*** Istanbul and Kocaeli city boundaries. Greater Municipality boundaries along with Ankara, Izmir, Bursa, Adana and Antalya cities.
 - ***Normal Regions:*** Cities situated outside of the Developed Region and Priority Development Region classifications.
 - ***Priority Development Regions:*** Cities, which are determined as the Priority Development Regions by the Decision of the Council of Ministers.

The list of the provinces within the *Priority Development Regions* is given below:

1. Adıyaman
2. Ağrı
3. Aksaray
4. Amasya
5. Ardahan
6. Artvin
7. Bartın
8. Batman
9. Bayburt
10. Bingöl
11. Bitlis
12. Çanakkale (Bozcaada and Gökçeada)
13. Çankırı
14. Çorum
15. Diyarbakır
16. Elazığ
17. Erzincan
18. Erzurum
19. Giresun
20. Gümüşhane
21. Hakkari
22. Iğdır
23. Kahramanmaraş
24. Karabük
25. Karaman
26. Kars
27. Kastamonu
28. Kırıkkale
29. Kırşehir
30. Kilis
31. Malatya
32. Mardin
33. Muş
34. Nevşehir
35. Niğde
36. Ordu
37. Osmaniye
38. Rize
39. Samsun
40. Siirt
41. Sinop
42. Sivas
43. Şanlıurfa
44. Şırnak
45. Tokat
46. Trabzon
47. Tunceli
48. Van
49. Yozgat
50. Zonguldak

As it is described above, in Turkey, mainly a regional/horizontal system is implemented within the state encouragement for investments.

e) How the program works

In summary, no matter which sector the investor shall be operating in, all investors who have prepared their investment feasibility studies and proposals, who believe that they shall be eligible for evaluation within the set framework of the Decree, apply to the Undersecretariat of Treasury for the evaluation of their investment projects to be considered for encouragement.

A Turkish firm should be legally established and registered to apply for a certificate, but a foreign partnership can make an application on behalf of a company to be established as a limited liability or joint stock company and branches.

Applications to be made for the issuance of an investment encouragement certificate to the relevant authority is as follows:

- I. Applications for all investments to be made by foreign investors and their branches will be received by General Directorate of Foreign Investment (GDFI)

- II. Investment encouragement certificate applications for domestic investments in manufacturing and agro-industry sectors that have a fixed investment cost not exceeding four trillion Turkish Liras (excluding those which can benefit from credit allocation measure) shall first be made to the specified Chambers¹ (Adana, Ankara, Balıkesir, Denizli, The Aegean Region, Eskişehir, Gaziantep, Istanbul, Kayseri, Kocaeli and Konya Chambers of Industry).
- III. Applications are made to General Directorate of Incentives and Implementation (GDII) for other domestic investments.

f) Procedure to Obtain an Investment Encouragement Certificate

An investor should complete and apply with the following documents for an encouragement certificate:

- Investment application form
- The receipt of the amount deposited in the Central Bank, varying between 200 Million TL and 400 Million TL according to regional developmental status of the location.
- A notarized copy of authorized signatures of the company
- A copy of the trade registry gazette in which the Articles of Association is published

Once the application is completed and presented, eligible investment projects are evaluated and granted an Investment Encouragement Certificate in conformity with the Decree and Communiqués.

As far as all the related procedures are concerned for the investment encouragement system, there are no differences between foreign and domestic investors. The encouragement measures listed below are specified in the Investment Encouragement Certificate here mentioned.

g) Encouragement Measures

Within the objectives and the scope of the program, eligible investment projects which are granted a certificate can benefit from the following encouragement measures²:

¹ “Chambers of Industry”, “Chambers of Commerce and Industry” and “Chambers of Commerce that are members of The Union of Chambers of Commerce, Industry, Maritime Trade and Commodity Exchanges of Turkey”

² With the Law No:4842 and date:09.04.2003, the obligation to have an incentive certificate has been abolished to benefit from the measure called “investment allowance” starting from 24th April, 2003 and to benefit from the measure called “Exemption from Certain Taxes, Duties and Fees” starting from 1st January, 2004. With these amendments, the implementation regarding these two measures, which have been offered under the “Investment Encouragement System” previously, has started to be carried out directly by the Ministry of Finance under General Tax Laws.

- a. *Exemption from Customs Duties*
- b. *Value Added Tax Exemption for imported and domestically purchased machinery and equipment*
- c. *Credit allocation from the Budget*

Definitions and descriptions of the encouragement measures:

(a) *Exemption from Customs Duties*

For the investment projects which are evaluated and found eligible by the Undersecretariat of Treasury, imports of the machinery and equipment to be used in the production process shall be subject to Customs Duty exemption. Once the exemption is listed on the "Certificate", the investor can import the machinery and equipment indicated on the approved list, namely the "Machinery and Equipment List" aiming only at the purposes of the investment in question, without paying any customs duties.

(b) *Value Added Tax Exemption for imported and domestically purchased machinery and equipment*

Pursuant to the Law No:4369 and date: 22/7/1998, imports and domestic purchases of machinery and equipment within the scope of approved machinery and equipment lists attached to the investment encouragement certificate are exempted from the Value Added Tax.

(c) *Credit allocation from the budget*

Credit can be allocated in order to guide and encourage the investments aiming at regional development, research and development (R&D) investments, environmental protection investments, investments in priority technology areas which are to be determined by Higher Science and Technology Board or Scientific and Technical Research Council, investments to be moved to provinces specified for regional development and investments to be moved to priority development regions and other organized zones from developed regions and manufacturing, agro-industry and mining investments to be realized in the priority development regions in compliance with the legislation on State Encouragements to Investments.

The limit for the investment credits aiming at regional development is 30% of the fixed investment cost and also shall not exceed 4,5 Trillion TL. For research and development investments, environmental protection investments, priority technology investments and investments to be moved to organized industrial zones, the limit for the credit is 50% of the fixed investment cost and shall not exceed 400 Billion TL.

Also for manufacturing, agro-industry and mining investments to be realized in the priority development regions, investment credit can be provided up to 50% of the fixed investment cost and shall not exceed 500 Billion TL. After the completion of the investment, operating credit shall be provided to the establishments which create an employment of at least 50 persons. Operating credit can also be provided to existing enterprises in the priority development regions with insufficient operational capital and which employs at least 50 workers. The amount of operating credit shall not

exceed 200 Billion TL. In case both investment and operating credits are allocated together, total amount of credit shall not exceed 700 Billion TL.

The interest rate is 20% for investment credits, 30% for operational credits. Term structure of the investment credits aiming at regional development is 6 years with a 3-year grace period and for other type of investments 5 years with a one year grace period. The term structure is 2 years for operational credits.

Credit applications are received and evaluated by various intermediary banks assigned (Halkbank, Turkish Development Bank, Vakıfbank, Ziraat Bank, Turkish Industrial Development Bank) for the allocation of credits.

2. Aids Granted to Small and Medium Sized Enterprises' (SMEs) Investments

In Turkey, the importance of small and medium sized enterprises for the economy was realized at the beginning of 1990's. In the mid 1990's, with the ratification of Association Council Decision No. 1/95, Customs Union with the European Union has been established as of January 1st 1996. In order to help survival and competitiveness of the Turkish SMEs in the Customs Union, design of new support mechanisms seemed necessary at that time.

Currently, the investments of small and medium sized enterprises are supported with **Decree No: 2000/1822, dated: December 21st 2000 "DECREE FOR STATE AIDS IN INVESTMENTS OF SMEs"** (published on the Official Gazette dated at 18.01.2001 and No: 24291). The Decree Concerning State Encouragements to Investments provides a base for "Aids Granted to Small and Medium Sized Enterprises' (SMEs) Investments".

- In line with the development plans and annual programs, the related legislation aims to:
 - Encourage the investments of SMEs,
 - increase production and improve quality standards,
 - supply the demands in relation to the product development,
 - increase employment,
 - bring about a level competition within the Customs Union

 - According to the SME definition within the framework of the Decree, companies which are;
 - operating in the manufacturing, agro-industry, tourism, education and health, mining, software industries and
 - employing
 - 1-9 workers (defined as micro size),
 - 10-49 workers (defined as small size),
 - 50-250 workers (defined as medium size) and
 - holding assets with a total value excluding land and building, including machinery-equipment, installations, vehicles, furniture and office stocks not exceeding 950 Billion TL (operating in the manufacturing and agro-industry)
- shall be deemed as SMEs.

The SMEs purchase of machinery-equipment and raw materials are supported within the scope of the Investment Encouragement Certificate granted by the Undersecretariat. In order to be eligible for the encouragement measures, machinery-equipment and/or raw material investment subject to the Investment Encouragement Certificate shall not exceed 950 Billion TL (these amounts have been amended with the Circular No: 2003/1, which was published on the Official Gazette dated September 10th, 2003).

The first application of investor shall be made to the related branch of

- Turkish Development Bank for the investments to be made in the tourism, education, health and agro-industry in which it is specialized and
- Halkbank, Turkish Industrial Development Bank for the other sectors.

The related branch of the assigned intermediary bank receiving the application evaluates the project of the investor. After the intermediary bank's approval, the necessary documents are submitted to the Undersecretariat of Treasury for the issuance of an Encouragement Certificate following a final evaluation.

- The investments of SMEs benefit from the following encouragement elements:
 - a. *Exemption from Customs Duties*
 - b. *Value Added Tax Exemption for imported and domestically purchased machinery and equipment*
 - c. *Credit allocation from the Budget*

There are certain ceilings set in respect to the amount of credits to be allocated and the interest rates to be applied depending on the regional location of the investment. The interest rate of investment credits is 10% for the projects in priority development regions and 15% for the projects in other regions. For operational credits, the interest rate is 15% for the projects in priority development regions and 25% for the projects in other regions.

The maximum amount of credit that can be allowed for investment projects in the manufacturing and agro-industry sectors is given below.

**Maximum investment credit ratios available to SMEs
(as a percentage of fixed investment cost)**

	Priority Development Region	Normal region	Developed Region
Micro-size companies	60%	50%	40%
Small-size companies	50%	40%	30%
Medium-size companies	40%	30%	20%

The amount to be allowed can not exceed;

- 475 Billion TL for investment credits,
- 75 Billion TL for operational credits,

-475 Billion TL for investment credits and 190 Billion TL for operational credits when both types of credits are allocated together.

The maximum maturity period of credits to be allocated to SMEs is 4 years for the investment credits and 2 years for the operational credits. In the investment credits no repayment is done in the first year.

ENERGY SUPPORT:

Energy support is provided within the context of “Law on Encouragement of Investments and Employment and Amendment of Certain Laws” (No. 5084, dated January 29th 2004) issued by the Ministry of Finance. The Communiqué concerning the implementation of the energy support (No:2004/1, published in the Official Gazette No:25487, dated June 9th, 2004) was issued by the Undersecretariat of Treasury and the Minister in charge of Undersecretariat of Treasury is responsible from the implementation of the provisions of this Communiqué.

Energy support is provided in the provinces which have a GDP per capita equal to or less than 1500 US \$ as of 2001. List of these provinces is given below:

- | | |
|----------------|---------------|
| 1- Adıyaman | 19- Hakkari |
| 2- Afyon | 20- Iğdır |
| 3- Ağrı | 21 - Kars |
| 4- Aksaray | 22- Kırşehir |
| 5- Amasya | 23- Malatya |
| 6- Ardahan | 24- Mardin |
| 7- Bartın | 25- Muş |
| 8- Batman | 26- Ordu |
| 9- Bayburt | 27- Osmaniye |
| 10- Bingöl | 28- Siirt |
| 11- Bitlis | 29- Sinop |
| 12- Çankırı | 30- Sivas |
| 13- Diyarbakır | 31- Şanlıurfa |
| 14- Düzce | 32- Şırnak |
| 15- Erzincan | 33- Tokat |
| 16- Erzurum | 34- Uşak |
| 17- Giresun | 35- Van |
| 18- Gümüşhane | 36- Yozgat |

The above list of provinces will not be modified, even if the GDP per capita of any province rises above 1500 US \$. In order to be eligible to benefit from the energy support :

- a) Companies should be operating in manufacturing industry, mining, animal husbandry (including aquaculture and poultry), greenhouse production, cooling warehouse, tourism, education and health sectors and should have the minimum capacities determined in the Communiqué No:2004/1 concerning the implementation of the energy support.

- b) Newly established companies should employ at least 10 laborers continuously after starting operation.
- c) Companies which had started operation before 1.10.2003 in the above mentioned sectors, should increase their employment by 20% of the laborer number that they have notified to the related authority before 1.10.2003. After increasing employment by 20%, if total employment remains below 10, it must be increased to 10.

The eligible companies can benefit from the energy support according to the below rates:

- a) For the newly established companies which employ 10 laborers, the energy support rate is 20%. For each additional employment above 10, support rate increases 0.5 point.
- b) For the existing companies which increase employment by 20%, the energy support rate is 20%. For each additional employment above the determined minimum number, support rate increases 0.5 point.

The maximum rate of energy support is 40% of the electricity cost. This rate is applied as 50% for companies established in the Organized Industrial Zones or Industry Zones.

In order to benefit from the energy support, companies should apply to the Industry and Trade Provincial Directorates.