

INVESTMENT SUPPORT OFFICES IN TURKEY: A CASE STUDY ON TURKISH RDA's

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Abstract

In general, investment support activities are accepted as important and essential elements of regional development agencies (RDA). Although in some cases, investment support offices (ISO) were established independently from RDA's, general practice in the world is to organize ISO's under RDS's. Turkey, as an candidate country to EU, started a set of regional planning and development studies and promulgated a law numbered 5449, Establishment, Coordination and Tasks of Development Agencies. In this paper, the broad focus will be on the investment support office implementation which is brought by above mentioned law in Turkey.

Key Words: Investment support office, regional development agency, business support, Turkey.

Introduction

Globalization, over the past few years, has been one of the most debated topics in international economics. Economic development and reduction of poverty in China, India, and other countries that were poor 20 years ago, has been a positive repercussions of globalization. But globalization has also generated very serious international opposition over concerns that it has increased inequality and environmental degradation.

Competitiveness in this globalization period gained a great importance. For a company, competitiveness is the ability to provide products and services as or more effectively and efficiently than the relevant competitors. In the trade sector, this means sustained success in international markets without protection or subsidies. In the non-traded sector, competitiveness is the ability to match the world's best firms in cost and quality of goods or services.

A nation's standard of living is increasingly dependent on the competitiveness of its firms. World trade and foreign investment have grown faster in the last several decades than world output. Competitiveness in industries subject to international trade and foreign direct investment can therefore provide substantial leverage for economic growth. This is especially true for small nations, where competitiveness can allow firms to overcome the limitations of their small home markets in order to achieve their maximum potential.

Competitiveness is also vital if a nation's firms are to guard against the threats posed by the international economy (Blunck, 2006).

The point is not that all of nations have to be competitive by any single definition. They are not competitive in all fields. This does not prevent them from competing in world markets, though it might limit their success in doing so. Ratherly, the point is that knowledge of what makes a firm, industry, or nation competitive provides a direction for improving firms and upgrading national economies.

In the age of globalization and competition, support for business activities gained a great importance. Investment support activities are accepted as important and essential elements of regional development agencies (RDA). Although in some cases, investment support offices (ISO) were established independently from RDA's, general practice in the world is to organize ISO's under RDA's.

Turkey, as an candidate country to EU, started a set of regional planning and development studies and promulgated a law numbered 5449, Establishment, Coordination and Tasks of Development Agencies. In this paper, the broad focus will be on the investment support office implementation which is brought by above mentioned law in Turkey.

General evaluations will be done regarding to business or investment support practices in the world, by examining the combined and relative effects of state economic development policies and institutional background on economic development. Investment support opinion in Turkey, which is a new approach to small business support will be analysed. Existing situation for the investors in Turkey in which business enterprises are required to comply with a large number of administrative procedures will be explained. The tasks and functions of ISO's, expressed in the law numbered 5449 and some practises will be expressed. Judicial situation will be narrated. Lastly, some conclusions and some predictions related to ISO practices will be made.

1. Probusiness State Development Policies

For some, pro-business policies pursued by some states attract industry and investment. But this is a controversial issue. In general, proponents of probusiness policies routinely claim that state policies are an important determinant of business location. But this claim is open to debate. While there has been no shortage of studies on the issue, there is a lack of consensus. Some studies have found probusiness policies to be associated with growth in industry, but it is difficult to infer from these studies that the policies caused growth (Bartik, Timothy J. 1991).

To identify the effect of state development planning policies on the location of industry, one might attempt to control in a regression analysis for the various geographical factors that determine the distribution of industrial activity. One would have to obtain information on the climate of a location, the fertility of the soil, access to an ocean, sea, a river, or lake, the proximity to raw materials, etc.

For instance, to illustrate this idea, we can look at satellite pictures of earth taken from outer space, parts of the western border between Canada and the United States at the 49th parallel are clearly visible because of differences in the two nations' land-use policies. The policy-change boundary between pro-business and anti-business states may not be visible from outer space, but it becomes visible when we look at data about manufacturing jobs: manufacturing activity is sharply higher on the pro-business side of the boundary (Fox, 1986). Government policies appear to have a significant effect on the location of manufacturing activity. So, to improve economic development level of a region, governments can set some policies and establish new organizations. In general, in this case regional development agencies come into mind.

2. Regional Development Agencies and Business Support

When we look at the regional development policy implementations, we might reach a conclusion that RDAs have improved the quality of life in every region they've served. They've helped businesses compete, revitalised urban and rural areas, promoted sustainability, improved regional infrastructure and facilitated innovation.

Principally, RDAs have five statutory objectives:

- to further economic development and regeneration,
- to promote business efficiency and competitiveness
- to promote employment
- to enhance the development and application of skills relevant to employment,
- to contribute to sustainable development.

The RDAs set out how these objectives can be met within the context of their region. They do this by developing a Regional Economic Strategy (RES), with partners from all sectors. The strategies are owned by the whole region and provide the context for economic development and regeneration in the region.

RDAs work with people in communities and partner organisations to regenerate unused or run-down sites, and improve the quality and attractiveness of public spaces. RDAs also support enterprise and new businesses to provide jobs and stimulate the economy.

RDAs are business-led organisations. They provide a crucial link between the needs of business and the policies of Government. The RDA in your region can put your business in touch with business support and advice. RDAs work to bring investment into their regions and improve productivity (EURADA, 2008). Creating opportunities for work is of key importance to RDAs.

A well-developed and properly balanced skills mix is an essential prerequisite to sustainable economic growth in any region. RDAs work with delivery partners and businesses to ensure each regional workforce has the skills required to meet the needs of

its regional economy. RDAs make sure economic development in the regions takes into account the current and future needs of local and regional communities and the natural environment in which they live.

While each regional economic strategy reflects the needs and opportunities of its region and is therefore unique, they all contain the following elements:

- a vision for the strategic development of the region over at least the next ten years
- the main priorities for development and action to deliver this vision
- analysis of the strengths, weaknesses, threats and opportunities that the region faces
- information on the region and its economy and the key relevant government policies for developing the region.

Implementing the RES and making a reality of regional development means the RDAs work in partnership with a large number of national, local and regional partners. They also set up new organisations to carry out specific tasks, such as centres of excellence for key regional industries.

2.1. Evolution of Business Support Opinions in Turkey

For the countries, to achieve a rapid growth and sustainable development, especially for the developing countries, it is essential to make more investment than their savings. This is only possible by efforts aiming at making the investment environment attractive for domestic and international investors. Betterment of investment environment contributes importantly on the competitiveness level of national economy. To invest in a country is result of attractive investment environment which is a combination of many factors. Many countries want to make attractive their economy by means of economic and administrative reforms (Hartavi, 2007: 33–34).

Betterment of the investment environment will attract foreign investors and will provide many advantages for domestic investors especially for SME's. In the developing countries SME's are the basics of growth and economic development. More competitive capacity that SME's have, more developed economies that they belong to.

For an economy, regulatory actions of the government is very essential. Compilation made by Worldbank's SME department, showed that there is a reverse correlation between the number of SME/1000, and cost of company start up (World Bank, 2006). Especially, there are a lot of cost factors affecting private sector investments. Simplification of the promotion a new business company procedures helps improving the investment environment for the private sector and at the same time, it provides to work more effectively and more transparently. Moreover, rapid and simple starting to business procedures will contribute to reduce informal economy. Particularly, this case was observed very explicitly in latin america countries.

Generally, to start an investment, it is necessary to complete many procedures. But, we can summarize these procedures in 5 categories:

1. Initial application for incorporation procedures (notary approval, bank account, deposit for initial capital etc.)
2. Tax responsibilities (registration for tax liability, VAT)
3. Labor/social security responsibilities
4. Security and health responsibilities
5. Environmental responsibilities

Foreign investors prefer countries which have easy entrance and easy visa conditions. Furthermore, those investors feel disturbed because of complicated business procedures and disadvantageous and unfair practices with national investors. They prefer to make business with the states that have similar laws and regulations. Bribery and corruptions are other obstacles in front of foreign investors.

It is very important to determine some criteria to measure the efficiency of administrative transactions. Some performance criteria that are important for the simplification of administrative procedures were displayed below:

- Number of documents required
- Number of authorities to apply
- Number of chairs to call by in an office
- Completion time of transactions
- Cost of application to applicants/customers
- Cost of application to municipality/government
- Completion period of investigations

Administrative regulations have repercussions for the companies as indirect costs. Complicated administrative formalities and bureaucratic bulkiness have been topic of complaints. *One stop shops* are basic instruments to simplify administrative transactions.

One stop shops are called in many ways like single Access centre, single window, service centre, information booth, and in Turkey, investment support office. Although the terms are different, their meanings are the same. Investment support offices are centers where most of the services combined and simplified differs according to the needs and structure of the countries with their specific conditions. EURADA (European Association of Development Agencies) which represents EU development agencies gives a framing definition for one stop shop. According to this definition, one stop shops are the centres where all administrative requirements were met, giving advices, finding financial solutions to the companies. One stop shops are designed to reduce costs and provide information related to public administration. Additionally, those centers have advantages of close relationships between beneficiaries and decision maker, reducing informal

economy and transparency (EURADA, 2008). With the technological developments, one stop shops will supply services in larger spectrum. Access to the services turn from classical methods to information technological ways.

The law numbered 5449, Establishment, Coordination and Tasks of the Development Agencies in Turkey, gave a very specific definition and responsibilities about investment support offices. Article 15 of 5449, says that in every region that development agencies to be founded, an investment support Office with 5 persons at most is formed. Those offices are responsible against the general secretariat of RDA with regard to their tasks. All services supplied to investors in investment support offices are free-of-charge (5449 Law, 2006). In the article 16 of 5449, the functions and powers of the ISOs have been counted as follows:

- To pursue and coordinate the permissions and authorizations and other administrative proceedings of investors in the name of administrative board. To monitor the investments.
- To give information and guidance to the investors in line with related legislation and regulation.
- To make preliminary control over the application documents.
- To give information to the governorship and general secretariat about transactions and activities (5449 Law, 2006).

In the article 17 of 5449, it is expressed that investors will apply to the ISO with the specified information and documents. This application is dependant upon the will of investors. Time period passed in ISO is not accepted as time period determined in the related regulations. Permissions, authorizations and other administrative applications done by ISO's to related official authorities are accepted as if they were done by investors (5449 Law, 2006).

2.2. Existing Situation For The Investors In Turkey

For the aim of removing legal and administrative obstacles encountered by the investors and improving the general investment environment in Turkey, Reform Program for the Improvement of Investment Environment in Turkey was launched at the end of 2001. Recently, some legal arrangements have been made in order to improve the investment environment (Hartavi, 2007: 33–34).

More specifically, excessive bureaucracy, inconvenient investment climate, insufficient R&D expenditure as well as inadequate design and brand creation, barriers in access to finance, inefficient marketing, small scales of economy, low productivity and incompetence in quality and environmental awareness are some of the reasons behind the weaknesses of Turkish Economy (Hazine Müsteşarlığı, 2005).

In Turkish economy, small-sized industrial enterprises are facing problems in the fields of productivity, quality, marketing, technical knowledge and financing, as a result of their limited capacities and disorganised structure. In addition, unregistered employment is prevalent, which, as a consequence, causes an unfair competition environment.

On the other hand, Turkey has very important advantages. Primary factors that promote Turkey's competitiveness in foreign markets are its natural resources, economic integration with EU, geographical proximity to the EU market, Central and Eastern European Countries, CIS and Middle East countries, trained work force, well established industrial base, the progress achieved in infrastructure and telecommunication systems, together with the existence of a large domestic market and the liberal economic policies in force. Many aspects of the business environment in which enterprises operate in the domestic market are dependent on and affected by existing institutions and structures. The framework structure and the efficiency of the system, in which businesses are embedded, deeply influence their performance.

Turkey adopted neo-liberal policies in order to increase economic integration into international relations after 1980. As a result of these policies, foreign direct investment (FDI) inflows increased greatly. In 1980 there were 78 FDI firms in Turkey whereas the number increased by 6511 in 2003. Turkey has become a hub of vast hinterland that extends from Balkans to Caucasus and represented a prime focus for foreign investment. FDI is considered a solution for Turkey, just as for other developing countries, in order to eliminate the problem of insufficient resources and to maintain economic development (DPT, 2000). Therefore, a political and a legal framework has been established to facilitate the entrance of foreign capital inflow. As a result of the policies adopted within the 1980s, the number of foreign investment companies in Turkey increased 29 times by 2000 (Berköz, 2001). Also, FDI in Turkey has been concentrated in the biggest city, Istanbul, which attracts the highest level of foreign investment in Turkey.

Up until 5449 Law, Turkey tried to put into action some one stop shop practices. This approach was experienced in the organized industrial zones. Administration of organized industrial zone as a one stop shop, has the right to give permission and authorizations for the companies.

Within the governorships of Samsun, Van, Gaziantep, Aksaray ve Yozgat provinces, some units functioning like a one stop shop started to work. But in essence, all those units worked like an information office for investors. Personnel were not experts. They were employed temporarily from other public institutions.

2.3. Turkey Investment Support and Promotion Agency

The law numbered 5523, Investment Support and Promotion Agency in Turkey, gave a very specific definition and responsibilities about investment support and promotion. However, affiliation to the premiership, fiscal and administrative autonomy has been given to the agency and it is a NGO institution. The aims of the agencies are inciting the

investments and supporting to investors. The task of the agency carried out in cooperation with the RDA's is as below:

1. to designate and carry out the investment and promotion strategy, cooperation DRA's and other related establishments with coheration.
2. To coordinate and support the activities performed in international level by the public sektors and institutions private sektors.
3. To Project and present directing and informing services for investors; in cooperation şithh the RDA's, and they need them before, meanwhile and after the investment.
4. To follow the bureaucracy, procedure with the supervision of relevant public sektors and the other organizations to göive support completing for the permissions and licenses.
5. In the name of investors, to perform and conclude the permissions and certification process relevant to the institution and establishment with cooperation RDA's, according to the criterions suc as its kind, place, the cost of capital or the employment proöided by the investment so that it can be differt or the sam efor the local capital investment with foreign invesment direcli by th Council of Ministers.
6. To attemp about solutions of the proplems in the name of the related officer by determining the handicap and problems that the investors can run into.
7. To form all kinds of information and datum in order to increase the investment in Turkey or gather them from the relevant institutions and organizations, to make it current and deliver, to cooperate with the national and interational institutiions.
8. To attemp with the relevant authorities to organize necerrary policies far acquiring investment support
9. To proöide technique and financial supqor, arrange and attend the national and international congress, seminar and similar meetings about the related work.
10. To publish and support priented and electronic broadcast in Turkish and forein languages about the agent' duty domain.
11. To asist the process of the reform related with develohing the investment area, to make sugeestions in this extent
12. To do the other jobs given with laws.

For the research and investigation subjects, the Agencl is authorized to rexuire all kids of information related with the jobs in this law extent from the public, institutions and establishments. The public institutions and establishments asked to inform are supposed to respond the rexuest and obliged to make thing easier.

3. Çukurova Development Agency: Investment Support Office

Çukurova Development Agency (ÇDA) started to work as a first regional development agency in Turkey after the declaration of 5449 law in 2006. ÇDA is one of the base of new economic develepment movement. Basic aims of ÇDA (www.cka.org.tr) are;

- To increase enchantment of Çukurova region by putting forward its economic and social potentials.

- To promote the Çukurova region internationally and nationally.
- To give grant to the enterprises which aims to increase production and employment.
- To manage migration effectively.
- To develop the human resources capacity.

ÇDA will support preparations of regional strategies, support and develop entrepreneurship, give grant to enterprises local and regional development initiatives, have responsibilities to improve cooperation among government, NGOs and private sector. Additionally, ÇDA will promote the business and investment opportunities of the Çukurova region, will finalise the permission and authorization transactions of investors exclusively. Lastly, ÇDA will have roles in delivery of EU funds and other international funds, will establish a database and monitor and evaluate the projects and programme implementations (www.cka.org.tr).

At the beginning of the establishment, development agencies faced some oppositions at the national level. Union of Chambers of Turkish Engineers and Architects, a professional union, filed a claim in the court. Claims of these unions were (www.tmmob.org.tr):

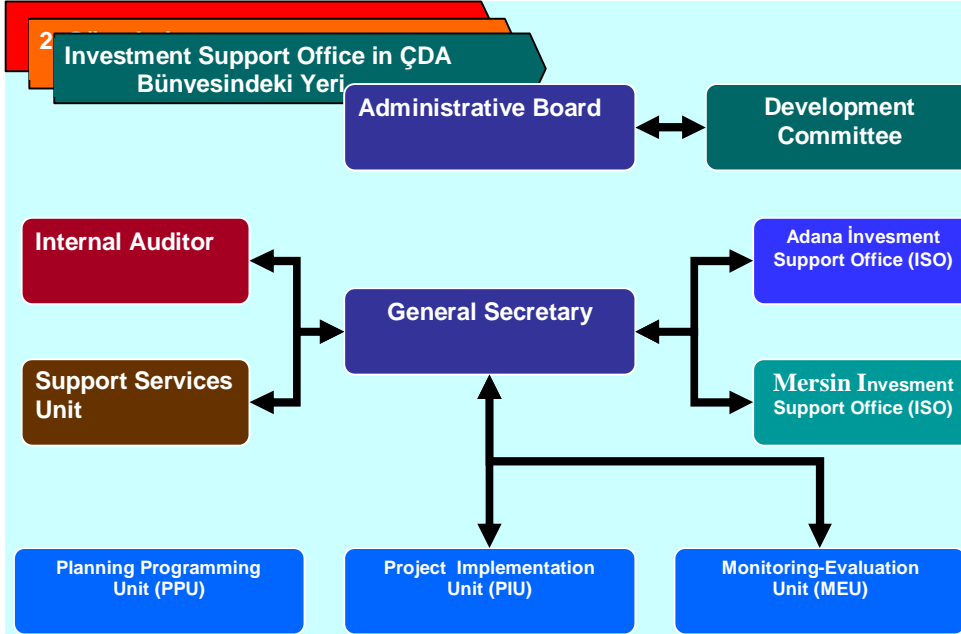
- The structure of the RDAs was not determined in the Turkish Constitution,
- RDAs structuring is a menace against the unitary status of Turkish State therefore, RDAs must be closed.

Council of state, accepted the case, found the claims serious and gave a suspension decision for Çukurova Development Agency and Izmir Development Agency on 31, January of 2007. ÇDA did not able to function from that time until the end of february of 2008. But, Turkish constitutional court found that 5449 law and RDAs are not contradictory to Turkish Constitution and not a threat for Turkish unitary status. Because of this judicial situation, ÇDA did not able to fulfill its task and responsibilities for 1 year. Even so, during *stay of execution* period, ÇDA, investment support office tried to complete some reports. Those reports are (Aydoğan, 2008);

- Start up process and authorization transactions
- Within the scope of opening a business and authorization transactions, hygienic and non hygienic establishments.
- Environmental impact assessment
- Industrial property rights
- Sectoral licencing sample: road transportation
- Investment potential in Adana province
- Investment finance opportunities

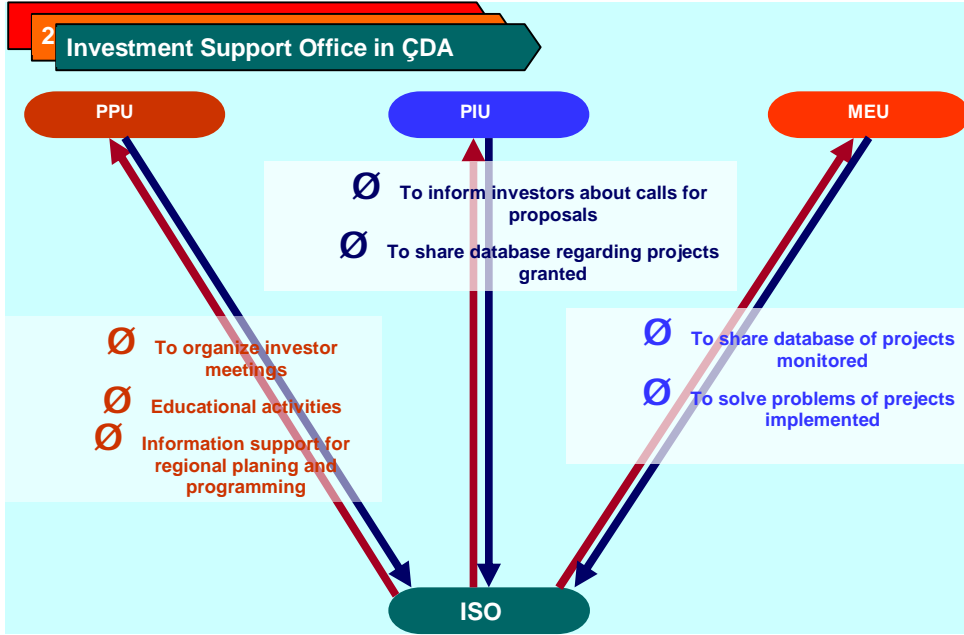
- Incentive certificate for investment
- Investment environment
- Sectoral researches
- TR62 socio-economic report

The place and status of ISO in ÇDA organizational chart is as follows:



Source: Çukurova Development Agency

Relations of ISO with other units in ÇDA are as follows:



Source: Çukurova Development Agency

4. Conclusion

Turkey is located at a point where the three continents of the old world, Asia, Africa, and Europe are closest to each other and where Asia and Europe meet. The proximity to the new emerging markets in the Middle East and Central Asia creates unique business opportunities. Turkish economy is a fast developing economy. The average growth rate for the last 5 years, which is well above many OECD countries, implies a dynamic and growing economy. With a population of 73 million and an increasing consumer purchasing power, Turkey offers a huge and dynamic domestic market to investors. Turkey is the leading investor in Caucasian and Central Asian Turkic Republics. Due to her strong cultural and historic ties, Turkey provides privileged access and a perfect base to develop business with these countries. As a liberal country, very liberal investment

climate, including free (international) movement of capital, profits, dividends and salaries, free-trade zones and subsidies.

In order to address the feedback received from international investors about the difficulties in Turkey's investment environment, the Government of Turkey in 2001 has launched a reform program to improve administrative procedures. The purpose of the reform program is to increase domestic and foreign investments by improving the investment environment. Thus, it is intended to prevent administrative obstacles faced during investments, to reduce or eliminate some unnecessary and repetitive bureaucratic transactions and to complete the procedures rapidly. The Turkish Government enacted a "Decree on Improving the Investment Environment in Turkey" on December 11, 2001 as a part of a national strategy to increase the overall level of income and productivity and to raise the level of competitiveness of firms operating in Turkey.

In March 2002, Coordination Committee For Betterment Of Investment Environment started to operate. In 2005, to prevent bureaucracy and to make bureaucratic procedures efficient, many laws and regulations put into action like municipality law, metropolitan municipality law, local administration unions law. By-law regarding to starting a new business and work authorizations decreased the number of documents required for start up of hygienic establishments from 52 to 6, and for non hygienic establishments from 43 to 7. Certification of tourism facilities bylaw increased the facility types which can be managed by private sector and decreased the number of documents required for tourism facility start up. Furthermore, implicit assent principle accepted. According to this principle, if any administration does not answer the start up application within 30 days, then, company will have right to function naturally.

Need for one ISO (stop shops) was tried to be met in the 5449 law. According to this law, in every province of Turkey, Investment Support Office (one stop shop) will be opened under the supervision of Regional Development Agency. On theoretical level, one stop shop idea is very necessary and useful. But it contains some problems as well. But the success of those practices will be seen in time.

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