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**THE EFFECT OF INVESTMENT INCENTIVES ON  
THE BUSINESS ORGANIZATION IN TURKEY**

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**Abstract.** As between countries, economic and social imbalances can be seen between different regions and provinces within the same country. States have to take some measures to eliminate these imbalances. As in many countries of the world, there are efforts to eliminate these imbalances in Turkey. One of the practices carried out in this context is investment incentives.

Businesses are economic units that meet the needs and needs of the society by bringing together various production factors and producing goods and services. Businesses carrying out these missions also have to make profit, which is their main purpose. Total revenues and total expenses are directly

effective in the formation of profit. While investment incentives increase the total income of the enterprises, they also cover some applications that reduce their total expenses. As a result of these practices, businesses may prefer their establishment locations outside of the regions that are suitable in terms of establishment location factors. As a result of these preferences, the development differences between regions in the country can be eliminated. In this study, the effects of investment incentives applied in Turkey in terms of establishment of enterprises have been tried to be revealed.

**Keywords:** Turkey, Investment Incentives, Business Establishment.

## 1. Introduction

Depending on the geographical, cultural and social differences in the countries and the variability in the distribution of resources, economic and social imbalances can be seen between provinces and regions. Turkey is one of the countries where these imbalances are experienced. These differences between regions bring along a migration movement, especially from underdeveloped regions where resources are scarce, to provinces and regions where the quality of life is higher. As a result, population density increases in certain regions and some socio-economic problems arise.

Businesses are the lifeblood of national economies. While meeting the needs and wishes of the people of the country with the goods and services they produce, they play an important role in economic development and growth by creating employment and contributing to the reduction of the current account deficit with the foreign exchange they earn as a result of their exports. In addition, they fulfill their obligations to the society and other stakeholders with the taxes they pay and the various social responsibility activities they perform. In order for businesses to provide these benefits on behalf of the country and society, they must first make profit, which is their most important goal. In order for this to occur, they must earn a total income, which is more than their total expenses.

In order to reduce the total costs of enterprises, the government can apply investment incentives. These practices can be throughout the country or in the form of giving different incentives in different regions and provinces, taking into account regional differences, as in Turkey. In this study, the effect of investment incentive practices, which are currently in practice in Turkey, on the business establishment has been evaluated based on official figures. In Turkey, which is divided into six regions, the level of effect of investment incentives provided to each region on the establishment of business in those regions has been tried to be revealed.

## 2. Investment incentives and business establishment

In a free market economy, states generally leave economic activities to the private sector, but they undertake important tasks in areas such as eliminating inequalities between regions, spreading the capital to the base, reducing the current account deficit, increasing employment and increasing the quality of individual life in order to ensure the overall development of the country (Ersungur and Noyan Yalman, 2021: 195).

In the economic sense, it is possible to define incentives as financial or intangible support, aid and incentives provided by the state and various methods in order to allow for the faster and more development of some economic activities compared to others (İncekara, 1995: 9).

In Turkey;

- Increasing the production of highly imported intermediate goods and products in order to reduce the current account deficit,
- Supporting high and medium-high technology investments that will contribute to technological transformation,
  - Increasing the investment supports provided to the least developed regions,
  - Reducing the development disparities between regions,
  - Increasing the effectiveness of support elements,
  - Incentives are provided within the scope of the "Decision on State Aids in Investments" numbered 2012/3305 and the Implementation Communiqué numbered 2012/1, for purposes such as supporting clustering activities. The incentives provided are as in Table 1.

Table 1. Elements of Support Provided by Investment Incentives

Support Elements	General Incentive Practices	Regional Incentive Practices	Priority Investment Incentives	Promotion of Strategic Investments
Value Added Tax Exemption	+	+	+	+
Customs Duty Exemption	+	+	+	+
Tax Discount		+	+	+
Insurance Premium Employer Share Support		+	+	+
Insurance Premium Worker Share Support		+	+	+
Interest or Dividend Support		+	+	+
Investment Place Allocation		+	+	+
Value Added Tax Refund				+

Source: Ministry of Industry and Technology investment incentive applications presentation, 2022.

As seen in Table 1, while Strategic Investments benefit from all support elements, Regional and Priority Investments cannot benefit from VAT (Value Added Tax) refund. General Incentive practices include VAT exemption and Customs Duty Exemption.

Investment incentive practices gathered under four headings include;

**1-General Incentive Practices:** Except for investment issues that will not be encouraged or that do not meet the conditions sought for incentives, investments above the minimum fixed investment amount and capacities are supported within the scope of General Incentive Practices, regardless of region.

**2-Regional Incentive Practices:** In regional incentive applications, the sectors to be supported in each province were determined by taking into account the potentials and economic scales of the provinces, and aid intensities were differentiated according to the development levels of the regions.

**3-Incentive of Priority Investments:** In line with the needs of the country, the investments to be made in the determined areas were determined as priority investments and even if these investments were made in the 1st, 2nd, 3rd and 4th regions, the supports applied in the 5th Region were provided. If these investments are made in the 5th and 6th regions, the supports applied in their own regions are provided.

**4-Incentive of Strategic Investments:** Investments for the production of intermediate goods or products with high import dependency are supported within the scope of strategic investment incentive practices.

Turkey has an economic structure, especially in the western regions, which is more developed than the others. This difference brings with it social imbalances. A total of 81 provinces in Turkey have been evaluated in terms of the resources they have and have been divided into 6 regions in terms of incentive applications. The said distribution is as in Table 2.

Table 2. Regions with Provinces in the Scope of Regional Incentives

1st Region	2nd Region	3rd Region	4th Region	5th Region	6th Region
Ankara	Aydın	Adana	Afyonkarahisar	Bayburt	Adıyaman
Antalya	Balıkesir	Burdur	Aksaray	Çankırı	Ağrı
Bursa	Bilecik	Düzce	Amasya	Erzurum	Ardahan
Eskişehir	Bolu	Gaziantep	Artvin	Giresun	Batman
İstanbul	Çanakkale	Karaman	Bartın	Gümüşhane	Bingöl
İzmir	Denizli	Kırıkkale	Çorum	Kahramanmaraş	Bitlis
Kocaeli	Edirne	Kütahya	Elazığ	Kilis	Diyarbakır
Muğla	Isparta	Mersin	Erzincan	Niğde	Hakkari

Tekirdağ	Karabük	Samsun	Hatay	Ordu	Iğdır
	Kayseri	Trabzon	Kastamonu	Osmaniye	Kars
	Kırklareli	Rize	Kırşehir	Sinop	Mardin
	Konya	Uşak	Malatya	Tokat	Muş
	Manisa	Zonguldak	Nevşehir	Tunceli	Siirt
	Sakarya		Sivas	Yozgat	Şanlıurfa
	Yalova				Şırnak
					Van

Source: Ministry of Industry and Technology investment incentive applications presentation, 2022.

As seen in Table 2, 16 of Turkey's 81 provinces are in the 6th region, 15 in the 2nd region, 14 in the 5th region, 14 in the 4th region, 13 in the 3rd region and 9 in the 3rd region. It is located in zone 1.

Within the scope of regional incentive applications, the sectors determined on a provincial basis, provided that they provide the minimum capacity or investment amounts;

- VAT (Added Value Tax) Exemption
- Customs Duty Exemption
- Tax Reduction
- Insurance Premium Employer Share Support
- Interest or Dividend Support (in the 3rd, 4th, 5th and 6th Regions)
- Investment Site Allocation
- Can benefit from Insurance Premium (in the 6th Region) support.

The distribution of the number of documents issued in order to benefit from the incentives within the scope of investment incentives in Turkey between the years 2015-2021 by regions is as in Table 3.

Table 3. Number of Investment Incentive Certificates Issued by Years

Years	Number of Documents							Total
	1st Region	2nd Region	3rd Region	4th Region	5th Region	6th Region	Miscellaneous Region	
2015	1404	855	624	458	440	457	12	4250
2016	1456	985	785	650	638	426	17	4957
2017	2344	1186	1008	1088	774	811	24	7235
2018	2222	934	785	591	396	798	15	5741
2019	2356	939	732	547	354	684	8	5620
2020	4422	1938	1397	842	707	1120	12	10438
2021	4249	1611	1342	561	476	1198	4	9441
<b>TOTAL</b>	18453	8448	6673	4737	3785	5494	92	47682
<b>Share in Grand Total (%)</b>	38,7	17,72	13,99	9,93	7,94	11,52	-	100

Source: Produced by the author with data taken from industry.gov.tr.

Note: The sum of the share of the distribution of the number of documents by regions in the grand total may not give exactly 100% due to fractions. The rate has not been calculated because the numbers in the various regions are small.

As can be seen in Table 3, the highest number of investment incentive certificates was issued in the 1st region with 38.7% between the years 2015-2021. This was followed by the 2nd region with 17.7% and the 3rd region with 13.9%. The least document was issued in the 5th region with 7.94%.

In the distribution of the number of documents according to the support class, 45.4% is regional, 41.6% is general and 12.6% is priority areas. In terms of sectors, the documents were distributed as 57.82% manufacturing, 19.13% services, 14.88% energy, 5.87% agriculture and 2.29% mining. Proportional distribution of documents issued by type of investment in the period of 2015-2021; 63.44% was completely new, 29.07% was expansion and 7.49% was in the form of other investments. While 95.56% of the documents issued in the said periods are domestic capital, the remaining 4.44% is foreign capital.

The distribution of the fixed investment amounts specified in the investment incentive certificates issued in Turkey between the years 2015-2021 by regions is as in Table 4.

Table 4. Fixed Investment Amounts of Investment Incentive Certificates Issued by Years (Billion TL)

Years	Number of Documents							Total
	1st Region	2nd Region	3rd Region	4th Region	5th Region	6th Region	Miscellaneous Region	
2015	31,5	18,9	19,2	9,8	5,6	1,7	24,9	112
2016	54,3	25	8,3	15	6,2	2,4	5,4	116,8
2017	55,3	25,4	91,2	15,4	10,4	9,2	2,3	209,5
2018	105,9	30,8	20,1	11,5	7,6	6	4,8	187,1
2019	72,1	43,8	33,3	10,3	7,8	6,3	2,7	176,7
2020	91,8	61,1	46,5	25,6	24,3	10,3	5,9	265,8
2021	80	42	27,5	12,3	9,6	11,4	0,6	183,7
<b>TOTAL</b>	491,1	247,4	246,3	100,2	71,96	47,7	46,9	1251,6
<b>Share in Grand Total (%)</b>	39,23	19,77	19,68	8	5,75	3,82	3,75	100

Source: Produced by the author with data taken from industry.gov.tr.

Note: The sum of the distribution of the number of documents by region may not give the exact amount due to fractions.

As can be seen in Table 4, the 1st region ranks first with a share of 39.2% in terms of fixed investment amounts, as in the number of incentive certificates issued. Just as in the number of documents, the 2nd and 3rd regions took place in the 2nd and 3rd ranks with 19.7% and 19.6% shares. In terms of fixed investment amount, the 6th region took the last place. From this point of view, it is possible to say that the investments realized in the 6th region are smaller in terms of fixed investment amount.

In the distribution of fixed investment amounts by support class, 38.5% is regional, 29.29% is general, 14.7% is priority, 11.74% is strategic investments and 5.6% is constitutes large-scale investment areas. Sector distribution is 49.8% manufacturing, 22.8% services, 22.4% energy, 3.1% mining and 1.5% agriculture. Proportional distribution of fixed investment amounts by type of investment in the period of 2015-2021; 60.8% was completely new, 28.6% was expansion and 10.4% was in the form of other investments. While 78.9% of the fixed investment amounts in the mentioned periods were domestic capital, the remaining 21.1% was foreign capital. While 4.4% of the issued documents belong to foreign capital, the fact that this ratio was realized as 21.1% in the capital amount shows that foreign capital documents are issued for larger scaled fixed capital investments.

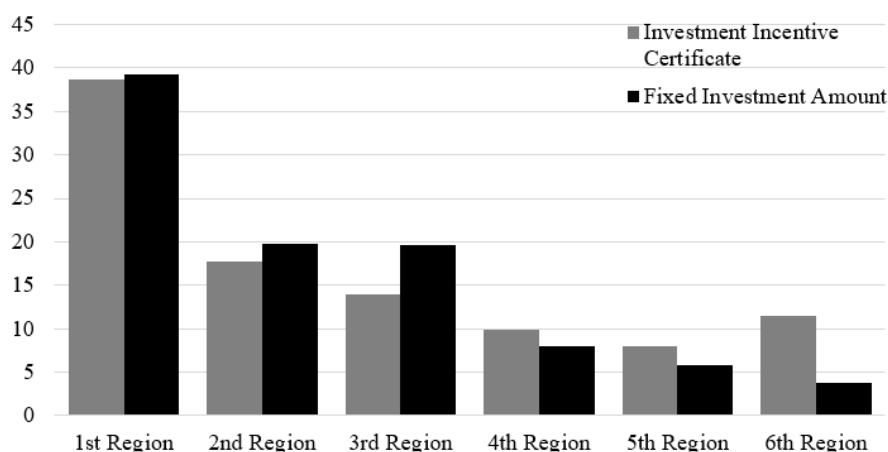


Figure 1. Investment Incentive Certificate and Fixed Investment Amount Rates by Regions

Source: Produced by the author with data taken from industry.gov.tr.

As seen in Figure 1, the number of investment incentive certificates in the 1st, 2nd and 3rd Regions is proportionally behind the fixed investment amount rate, while the investment incentive certificate rates in the 4th, 5th and 6th regions are seen above the fixed investment amount rates. From this, we can say that the investment incentive certificates in the first 3 regions require more fixed capital investment (large scale) and the documents in the remaining 3 regions require less fixed capital investments.

One of the most important purposes of giving investment incentives is to contribute to employment, which is one of the important agenda items of the country. The distribution of employment by regions in the investment incentive certificates issued in Turkey between the years 2015-2021 is as in Table 5.

As seen in Table 5, investments realized in the 1st region are expected to create 35.2% of employment. This is followed by the 6th region with 22.2%. From this point of view, it is possible to say that the investments made in the 6th region are labor-intensive. It can be said that the fact that such investments create employment in the 6th region, which consists of less developed provinces compared to Turkey's average, contributes to the purpose of preventing people from immigrating to other places by making them work in their current location, which is one of the purposes of investment incentives.

Table 5. Employment Forecasts Provided by Investment Incentive Certificates Issued by Years

Years	Number of Documents							Total
	1st Region	2nd Region	3rd Region	4th Region	5th Region	6th Region	Miscellaneous Region	
2015	60968	25480	15333	11932	10916	22065	1442	148136
2016	70527	18970	13653	11622	12331	26086	1434	154623
2017	84276	32136	24485	19873	20378	43021	540	224709
2018	95792	33315	22161	25705	20310	48436	1273	246992
2019	62183	29487	22428	24989	16980	45771	800	202638
2020	89000	43392	34955	28314	27560	72000	2071	297292
2021	78502	33914	30381	18741	14544	83247	135	259464
<b>TOTAL</b>	<b>541248</b>	<b>216694</b>	<b>163396</b>	<b>141176</b>	<b>123019</b>	<b>340626</b>	<b>7695</b>	<b>1533854</b>
<b>Share in Grand Total (%)</b>	<b>35,2</b>	<b>14,1</b>	<b>10,6</b>	<b>9,2</b>	<b>8</b>	<b>22,2</b>	<b>0,5</b>	<b>100</b>

Source: Produced by the author with data taken from industry.gov.tr.

Note: The sum of the share of the distribution of employment by regions in the grand total may not give exactly 100% due to fractions.

In the distribution of employment by support class, 60.4% is regional, 34.9% is general, 2.4% is large-scale and 2.1% is priority investment areas. Sector distribution is 58.7% energy, 36.7% services and 4.4% agriculture. Proportional distribution of employment by type of investment in the period of 2015-2021; 54.9% was expansion, 28.4% was completely new and 16.6% was in the form of other investments. In the said periods, 83.2% of the employment was domestic capital, while the remaining 16.8% was foreign capital. Despite the fact that the part of the fixed capital amount belonging to foreigners in the issued documents was 21.1%, the share of 16.8% in employment shows that they could not provide sufficient contribution in employment.

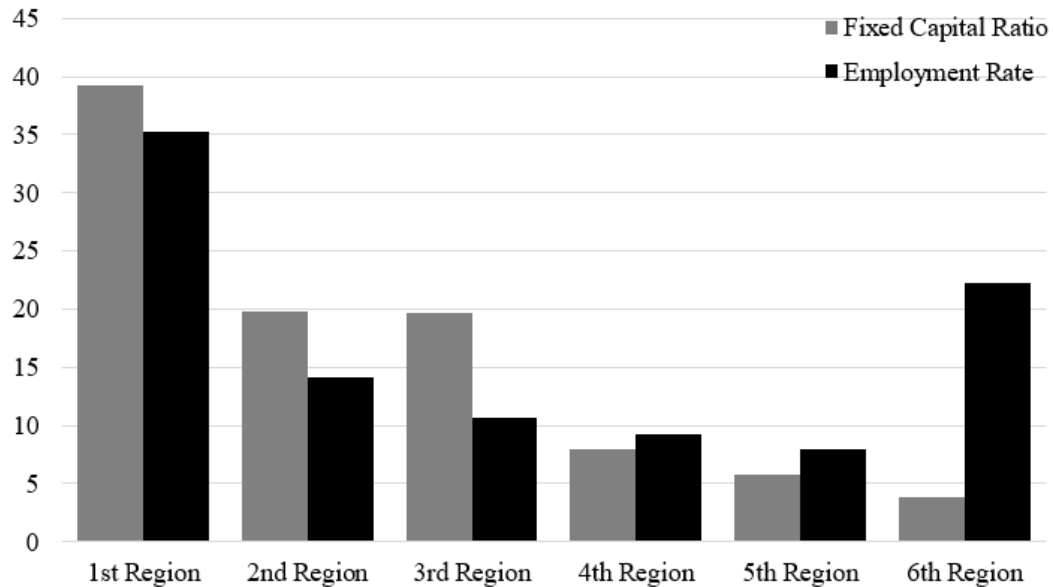


Figure 2. Contribution of Fixed Capital Investments to Employment

Source: Produced by the author with data taken from industry.gov.tr.

As seen in Figure 2, while fixed capital investments in the 1st, 2nd and 3rd regions contributed less to employment proportionally, the contribution rate to employment was higher in the 4th, 5th and especially in the 6th regions. From this point of view, it can be said that the investments in the 4th, 5th and 6th regions are investments that provide proportionally higher benefits in terms of employment.

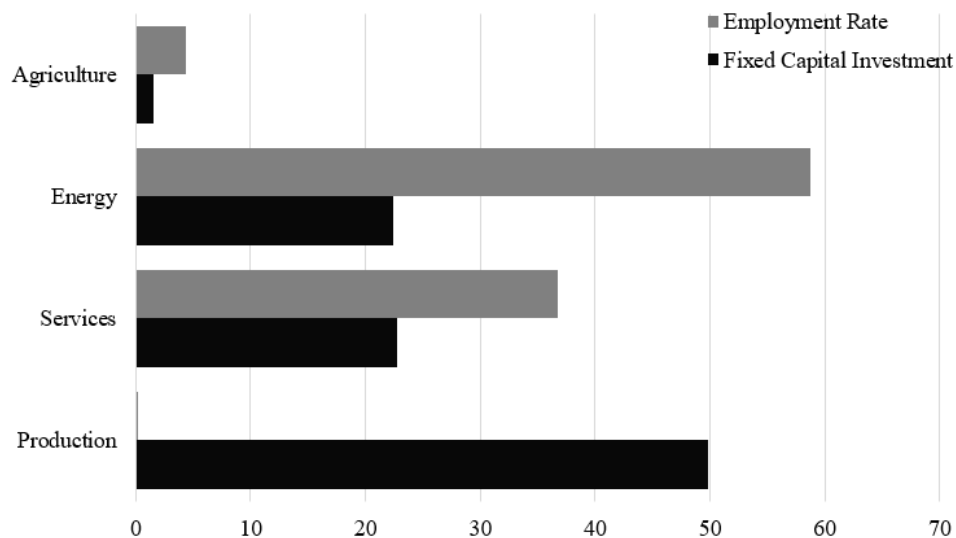


Figure 3. Contribution of Fixed Capital Investments to Employment by Sectors

Source: Produced by the author with data taken from industry.gov.tr.

As seen in Figure 3, when the fixed capital ratios stipulated in the investment incentive certificates are evaluated in terms of employment contribution rates, it is seen that a significant

contribution is made especially in the energy sector. Although not as much as the energy sector, it is seen that fixed capital investments contribute significantly to employment in the services and agriculture sectors. In the manufacturing sector, which received the highest fixed capital investment, the contribution to employment was negligible. The most important reason for this is the high rate of machinery and equipment used in the manufacturing sector, that is, capital-intensive production was preferred instead of labor-intensive production.

Businesses play an extremely important role in the development of the country and in the formation and maintenance of social welfare. The primary purpose of businesses is to make a profit. Profit refers to the positive difference between the total revenues of the business and its total expenses. A profitable business can also achieve its other objectives, namely sustainability and social contribution. It is extremely important for businesses to take measures to reduce their costs in the first establishment and while continuing their activities, as well as working to increase the total income. Businesses have to consider many factors that increase revenue while reducing costs while determining the location of establishment. Among these, it is possible to count factors such as being close to raw material sources and the market, good workforce opportunities, abundant and cheap energy resources, good water, fuel and climate conditions, alternative and cheap transportation opportunities. States encourage the establishment of businesses in some regions for reasons that are not very suitable in terms of these conditions, but for the reasons mentioned above. With the incentives provided, in regions that are not suitable in terms of costs and revenues due to the factors of establishment location, these disadvantages can be eliminated and practices aimed at equalizing the conditions of competition with the businesses in the regions in an advantageous position. The distribution of companies established between 2015-2021 in Turkey, which is divided into 6 regions with the effect of these incentives, is as in Table 6.

As can be seen in Table 6, 69.5% of the enterprises established in Turkey between the years 2015-2021 are located in the 1st region. This is followed by the 2nd region with 9.3% and the 3rd region with 8.3%. While the 6th region was in the 4th place with 4.7%, the 4th region was in the 5th place with 4.6% and the 5th region was in the 6th place with 3.1%. It can be said that investment incentives affect the business establishment more in terms of the 6th region.

Table 6. Number of Companies Established by Years

Years	Number of Established Companies						
	1st Region	2nd Region	3rd Region	4th Region	5th Region	6th Region	Grand total
2015	117522	13207	9641	6658	4241	4813	156082
2016	69139	10897	9548	5217	3854	4732	103387
2017	76398	11775	10778	5652	3923	5959	114485
2018	81320	10754	10462	5907	3899	5800	118142
2019	76192	9269	8843	4735	2998	4787	106824
2020	87755	12509	11514	6098	4420	7542	129838
2021	83535	11505	10652	5504	3718	7154	122068
<b>TOTAL</b>	591861	79916	71438	39771	27053	40787	850826
<b>Share in Grand Total (%)</b>	69,56	9,39	8,39	4,67	3,17	4,79	100

Source: Produced by the author with data from tobb.org.tr.

Note: Those in liquidation are not included in the number of established businesses. The total of the ratios of the establishments in the total number of enterprises by regions may not give 100% due to fractions.

As of 2018, the rate of surviving business for five years since its first establishment is 44.62% in the European Union, while it is 39.47% in Turkey (<https://ec.europa.eu/eurostat/web/structural-business-statistics/entrepreneurship>). If this is taken into account, the importance of a detailed



feasibility study and investment incentives before the establishment of the enterprises will be seen once again.

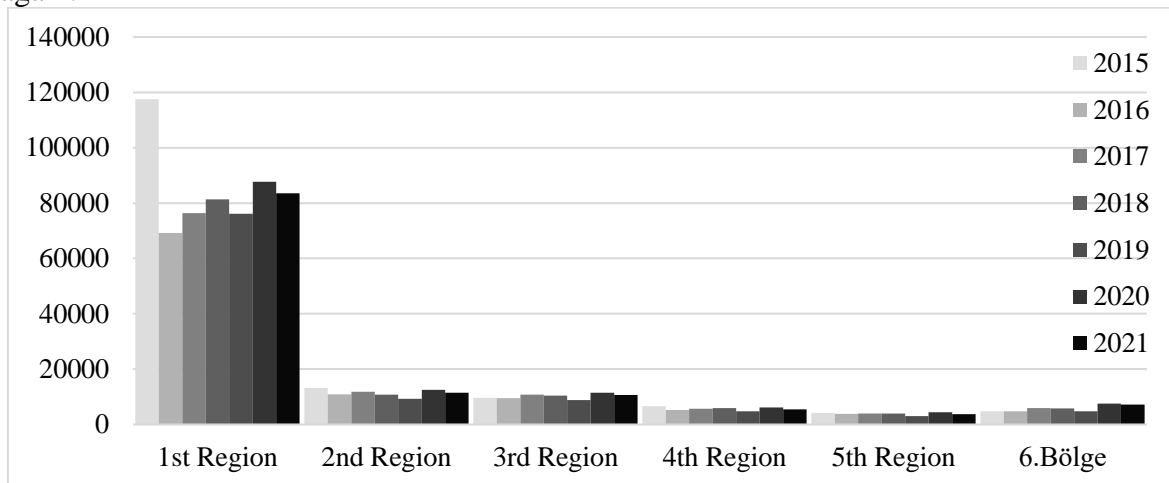


Figure 4. Number of Businesses Established by Regions  
 Source: Produced by the author with data from tobb.org.tr.

As can be seen in Figure 4, the 1st region has a clear advantage in terms of the number of establishments. Considering that the incentive applications aim to eliminate the development differences between regions and to encourage business establishments in less developed regions, it can be said that it has an impact especially in the 3rd and 6th regions. In other regions, it can be concluded that at least it prevents the shifts to other regions.

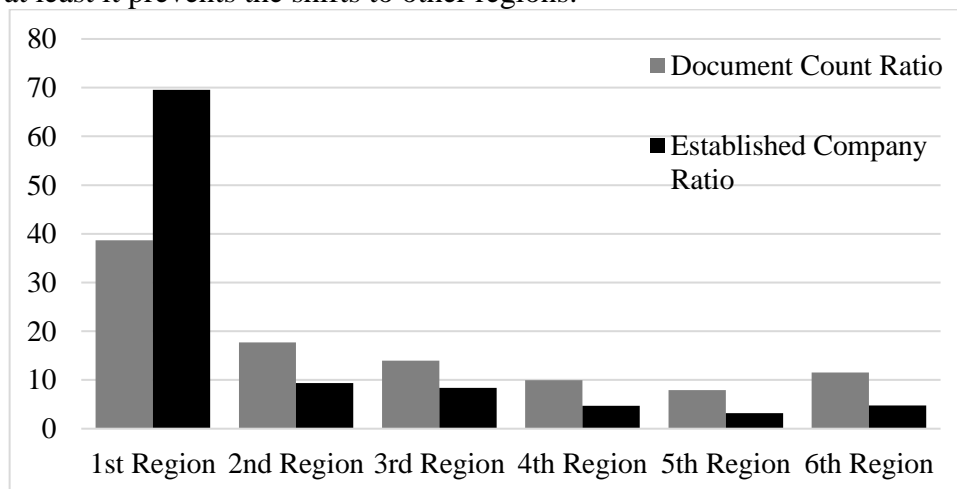


Figure 5. Rate of Investment Incentive Certificate and Number of Established Companies  
 Source: Produced by the author with data from tobb.org.tr.

As can be seen in Figure 5, the rate of establishments is higher compared to the rate of incentive certificates given in the 1st Region. In the other five regions, the number of investment incentive certificates given is proportionally higher than the number of enterprises established. It can be said that business establishments in these regions are more dependent on incentives.

#### 4. Conclusion

One of the important problems is the emergence of development disparities between regions, especially in underdeveloped and developing countries, all over the world. One of the reasons for the development differences between regions is the concentration of enterprises in certain regions. As for the reasons that push businesses to be established in certain regions; It is possible to count factors such as being close to raw material sources and the market, sufficient and suitable workforce opportunities in terms of quality and quantity, abundant and cheap energy resources, which are an

important cost factor, good water, fuel and climate conditions, alternative and cheap transportation opportunities. . These factors have a direct impact on the income and costs of businesses, which is their most important objective, their profit. The fact that businesses are concentrated in certain regions depending on these factors causes the formation of social problems (population concentration in certain cities due to immigration and problems related to this density, etc.) as well as some economic problems. Again, the fact that businesses and economic activities in general are concentrated in certain regions can also create problems in terms of country strategies. In addition to these, in order to reduce the current account deficit by increasing production and exports, and to increase technology entry and development into the country, the states apply investment incentives from time to time in order to ensure that business enterprises are shifted to less developed regions of the country. As a result of the incentives provided, businesses to be established in regions that are not suitable in terms of establishment location factors are tried to be equalized with other regions in terms of cost and income and to ensure their competitiveness. As in many countries of the world, different incentive practices were applied in various periods in this context in Turkey.

With the incentive system currently being implemented, a total of 81 provinces of Turkey are divided into 6 regions. 16 of Turkey's 81 provinces, which is more than the number of provinces in the other 5 regions, are located in the 6th region. In these six regions, incentives are provided by making sectoral distinctions on a provincial basis under the headings of general, regional, priority investment and strategic investment incentives. Between 2015-2021, the most investment incentive certificates were issued in the 1st region. The 1st region ranked first in terms of fixed investment amounts as well as the number of incentive certificates issued. Investment incentive certificates in the first, second and third regions require more fixed capital investments compared to other regions.

Compared to the other five regions, investments in the sixth region are labor-intensive. It is seen that the fact that such investments create employment in the sixth region, which consists of less developed provinces compared to Turkey's average, contributes to preventing people from migrating to other places by making them have jobs where they are, which is one of the purposes of investment incentives. The energy sector has been the largest contributor to employment within the scope of investment incentives in Turkey.

It is seen that investment incentives are an important factor in determining the establishment location of the business. It is of vital importance for the establishment of businesses, especially in less developed regions that are below the average of Turkey. However, it would be appropriate to apply incentives more specifically, taking into account regional and provincial conditions.

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