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**TURKISH
INDUSTRY & BUSINESS
ASSOCIATION**

MEMBER OF
THE CONFEDERATION OF
EUROPEAN BUSINESS
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Dear Mr. Beyrer,

At TÜSİAD; one of our main working areas is identifying ways to improve the investment environment in Turkey. Therefore, we would gladly share our findings and our member's feedback regarding the challenges they have been facing when making investment decisions in Turkey and we hope that this will contribute to the draft paper that you are currently working on.

If we set aside the ongoing slow global economic recovery as an impediment to investment expenditures, there are several important structural challenges Turkey has been facing that influence the *predictability of the investment environment*. In this brief note, we would like to elaborate on these domestic issues:

- First and foremost, Turkish legal system poses significant challenges to investors: Legal processes are usually run inefficiently and the duration of resolving disputes is significantly long. Different interpretations and implementations of courts create significant ambiguities in the business world. Additionally, there has been an inclination towards amending laws on a very short notice. The limited consultation processes during both the design and the implementation of laws and the lack of regulatory impact analyses further aggravate the existing uncertainty in the system. Thus, a need to reform the administrative judicial system based on the principle of rule of law and improve its quality have become a pressing necessity in order to alleviate these problems.
- Another area where significant reform is needed is the sizeable informal sector in Turkey. The informal economy creates huge negative externalities, poisons the fair competitive environment in the business sector and impedes the enlargement of the formal part of the economy. Tax system and high non-wage costs are the major factors that encourage informality. Also, informal economy erodes tax base and increases tax burden of formal business sector.
- Following on the tax issue, the complexity of the Turkish tax system has been one of the key challenges for businesses in Turkey. Simplifying the tax system

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will increase the level of voluntary compliance with tax laws and combat against the informal economy. Furthermore, issues with tax audits persist, despite the organizational restructuring in the tax administration including the establishment of Turkish Tax Inspection Board. Additionally, frequent tax amnesties in Turkey discourage voluntary tax compliance and encourage the informal economy.

- One other difficulty investors often come across is the land allocation process. Finding investment land that matches that investment's specific needs, i.e. investment areas that provide suitable infrastructural development, have proximity to various transportation modes and offer clustering opportunities that create invaluable synergies, have proven to be a challenge.
- Last but not least, we would like to touch upon your question on difficulties in finding external funding to investment projects. As TÜSİAD, our members represent the largest corporations in Turkey and thus, financing does not come up as a priority issue. However, Turkish SME's *do* face funding problems. These problems usually arise due to SME's insufficient compliance with general corporate governance and transparency principles and their limited capacity at project application processes that tend to require special expertise.

We have tried to identify the most important factors that have been hampering investments in Turkey. We hope that you will find our input valuable. We would also very much like to be informed on the progress of your draft paper on investment obstacles in Europe.

Best regards,

(original copy signed)

Zafer Ali YAVAN
Secretary General

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