

**REPUBLIC OF TURKEY**

**PRELIMINARY  
NATIONAL DEVELOPMENT PLAN  
(2004 - 2006)**

**ANKARA  
DECEMBER 2003**



## EXECUTIVE SUMMARY

The Helsinki European Council in December 1999 decided that: "Turkey is a candidate State destined to join the Union on the basis of the same criteria as applied to the other candidate States. Building on the existing European Strategy, Turkey, like other candidate States, will benefit from a pre-accession strategy to stimulate and support its reforms." Following this decision, in 2001, the Accession Partnership with Turkey was adopted by the Council of the European Union and the National Programme for the Adoption of the Acquis (NPAA) was approved by the Government of Turkey.

The European Commission also requested from Turkey in October 2001, as with other candidate countries, to prepare a Preliminary National Development Plan (pNDP) covering the period 2004-2006 which would be treated as an annex to the NPAA and would establish a strategic framework for programming pre-accession financial assistance for Turkey's economic and social cohesion with the EU. Subsequently, this has also been underlined in the Regular Reports on Turkey's Progress Towards Accession in 2002 and 2003. In these documents, it was stated that the pNDP would be a step in the process of preparing the development plan as required for Objective 1 regions in the EU member states. Moreover, it was indicated that the pNDP would need to be in conformity with the planning and programming documents applicable in the EU and updated in line with the developments in Turkey's strategy for economic and social cohesion with the EU.

### *Objective of the pNDP*

Turkey's first pNDP is prepared to form the basis for the use of the financial assistance towards economic and social cohesion to be provided by the EU within the framework of Turkey-EU relations, during the 2004-2006 period. The legal bases of the pre-accession financial assistance for Turkey are Council Regulation (EC) No 390/2001 of 26 February 2001 and Council Regulation (EC) No 2500/2001 of 17 December 2001.

It is aimed that during the pNDP period, pre-accession financial assistance shall be used in an effective way and establishment of the necessary infrastructure shall be initiated for the utilization of structural funds after accession.

The pNDP attempts to set out a strategic framework towards formulating an economic and social cohesion policy for the country and achieving convergence to the EU, taking into account, *inter alia*, the issues put forward in Regular Reports on Turkey's Progress Towards Accession and Accession Partnerships.

Considering Turkey's population and geographical size along with the current problems regarding economic and social cohesion and its capacity to develop programmes and projects towards solving these problems, financial assistance to be provided by the EU in 2004-2006 period in the field of economic and social cohesion is quite limited. On the other hand, the date for membership and the date for starting accession negotiations have yet to be determined. Depending on the progress to be made in these areas, it will be possible to define

the process for the realization of economic and social cohesion more clearly or, in other words, to plan this process more effectively.

### ***Preparation of the pNDP and Participation***

The pNDP, for which the preparatory work began in January 2003 under the coordination of the State Planning Organization (SPO), has been prepared with a participatory approach. As a matter of fact, participatory planning in Turkey is an indispensable approach, which has been followed during the preparation of the Five-Year Development Plans by the SPO for over forty years. During the various stages of the preparation process of the pNDP, consultations with relevant public institutions and Non-governmental Organisations (NGOs) at national and regional level have taken place, their views regarding the draft report have been obtained, and workshops have been carried out.

### ***Documents Underpinning the pNDP***

The pNDP has been prepared by taking into consideration the Long-term Strategy (2001-2023) and the Eighth Five-Year Development Plan (2001-2005), which are currently under implementation, Ad hoc Committees' Reports, 2003 Pre-accession Economic Programme (PEP), SME Strategy and Action Plan, Turkish Industrial Policy Document, the NPAA and other national documents. Furthermore, the relevant legislation and policy priorities of the EU have been taken into account.

### ***Current Economic, Social and Regional Situation***

One of the most important problems of the Turkish economy in the last 25 years has been high inflation. Inflation has weakened the performance of Turkish economy in many aspects and has caused the instable structure to persist. During this period, economic growth has remained generally below the potential and has followed an instable trend. Besides the economic costs resulting from growth losses, some important social costs of inflation have emerged.

In this context, the main priorities of Turkey's macroeconomic policies are to ensure a sustainable growth environment in the economy, to secure a permanent reduction in inflation and to converge public deficit and public debt stock ratios to GDP to EU averages. In fact, significant improvement has been made particularly with respect to macroeconomic indicators as a result of the policies currently being implemented.

There are important economic and social development disparities both between Turkey and the EU member countries, and among 26 NUTS II regions in Turkey. This is clearly observed when the main current indicators of Turkey are compared with those of the EU. Thus, it is necessary to ensure convergence in the field of economic and social cohesion on the one hand and to implement efficacious regional programmes aiming to reduce regional development disparities without delay, on the other.

### ***Turkey's Development Strategy and the Macroeconomic Framework (2004-2006)***

The Eighth Five-Year Development Plan Strategy that has been prepared within the framework of the Long-term Strategy is the basic document setting out Turkey's approach for the solution of its main medium-term economic and social problems. Thus, the main objectives and priorities of Turkey are based on the medium-term strategy that is set forth by the Eighth Five-Year Development Plan Strategy. The pNDP Strategy (2004-2006), a subset of medium-term strategy developed within the EU perspective, is summarized under the development axes. The scope of these axes has been devised by narrowing down the medium-term objectives and priorities on the basis of the results of the SWOT analysis and in view of the limited availability of the funds. During this process, the need for convergence to the EU and priority policy areas of the EU have also been considered.

The general framework of the Turkey's development strategy as shown in the table are given below under three headings:

1. Long-term Strategy,
2. Five main objectives and priorities of the medium-term strategy,
3. The development axes of the pNDP towards economic and social cohesion with the EU.

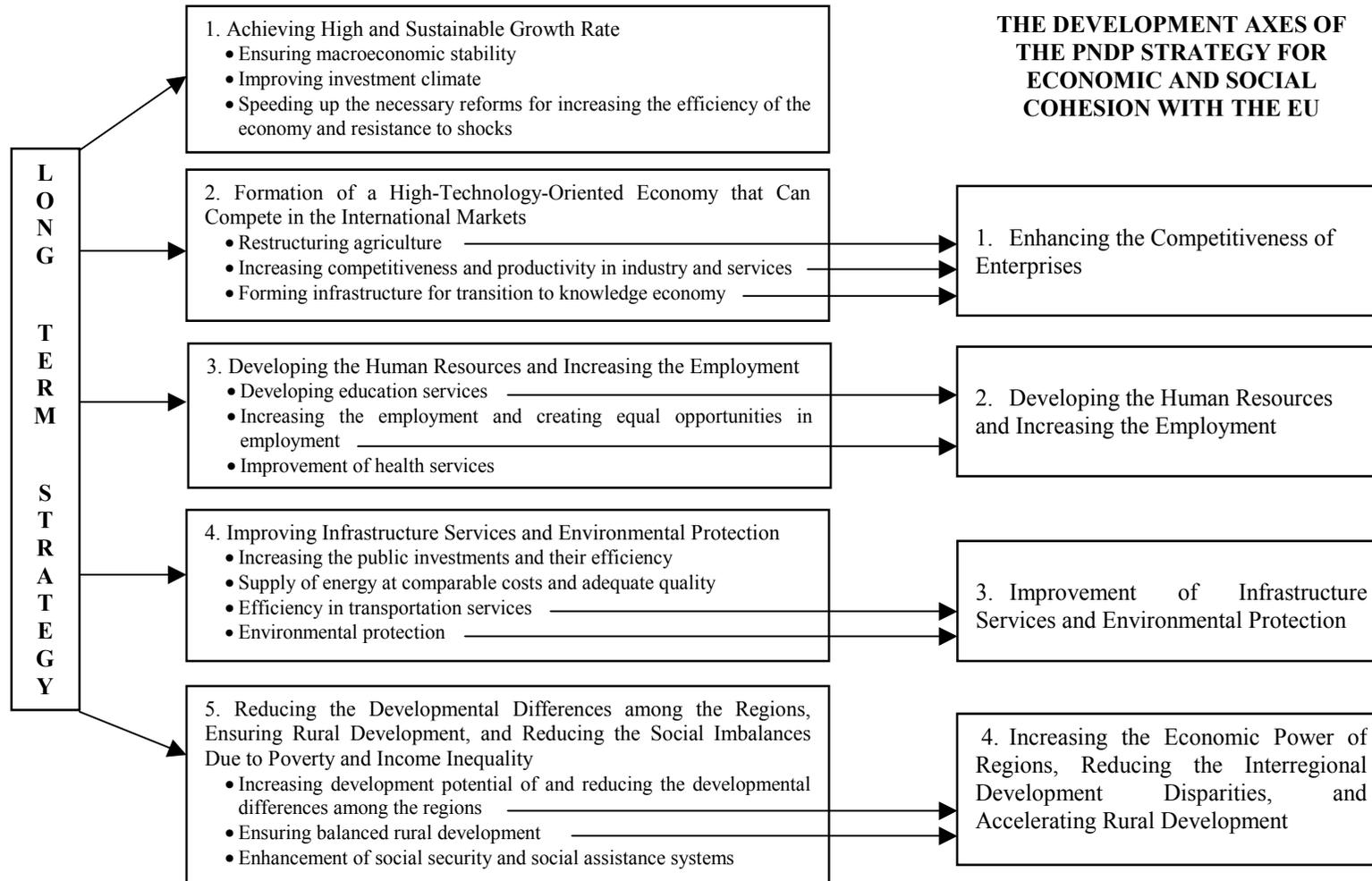
The economic policies to be implemented in line with the "achieving high and sustainable growth rate" objective of the medium-term strategy are not dealt with under a development axis of the pNDP. However, these policies provide a basic framework towards fulfilling the Copenhagen economic criteria and converging to the Maastricht criteria in the medium-term.

With the continuation of the policies already being implemented, it is expected that the average annual growth rate of GDP will be 5.1 per cent in the period of 2004-2006, and the rate of increase in the Consumer Price Index (CPI) will be reduced from 20 per cent in 2003 to 5 per cent in 2006. Furthermore, it is estimated that the unemployment rate will decline from its level of 11.4 per cent in 2003 to the level of 9.6 per cent in 2006. Nevertheless, the limited funds made available for the implementation of the pNDP will apparently not result in a measurable impact on these projections.

Structural reforms will play a crucial role in reaching these foreseen targets and securing macroeconomic stability. In this context, it is aimed to reduce the role of the public sector in the economy and to increase economic efficiency through privatisation, to create a transparent and efficient public administration, to form a robust banking sector to channel resources to the real sector, to strengthen the market mechanisms through regulatory bodies established in various areas, and to further strengthen the role of the private sector in the economy. In addition, reforms in the fields of agriculture and infrastructure will be accelerated.

## Development Strategy of Turkey

### BASIC OBJECTIVES AND PRIORITIES OF THE MEDIUM-TERM STRATEGY



### ***Regional Development Strategy at National Level***

In developing the Regional Development Strategy at National Level, results of the workshops with large participation on the one hand and of the meetings held and studies conducted with local authorities, NGOs and universities in the regions on the other were benefited from. Priority areas of this medium-term Strategy are as follows:

- Strengthening human resources and, particularly, increasing self-employment potential,
- Supporting existing SMEs and SMEs to be established and increasing their competitiveness by increasing their cooperation-partnership potential in the form of network style organisations,
- Supporting physical and social infrastructure, which are important for the new investments and the quality of urban life,
- Ensuring diversified economic activities in rural areas,
- Strengthening institutional structure by new local governance models, which will increase local participation, improve common enterprise areas and regulate collective intervention of local actors to local economic development.

The Regional Development Strategy at National Level, which covers 26 NUTS II regions, provides a general framework for the fourth development axis of the pNDP. Within this framework, it is aimed at reducing interregional development disparities by raising employment level and competitiveness of the 12 NUTS II regions targeted in the scope of the development axis.

### ***The Development Axes forming the basis of the pNDP Strategy***

Four development axes, first three of which are of sectoral type, forming the basis of the pNDP Strategy are derived from the medium-term objectives and priorities of Turkey. Priorities within the scope of development axes are the following:

#### **(i) Development Axis 1: Enhancing the competitiveness of enterprises**

- The competitiveness of the SMEs will be enhanced.
- The competitiveness of the agricultural and industrial enterprises will be enhanced through improving technology and quality level and EU norms will be considered in environmental issues.

#### **(ii) Development Axis 2: Developing the Human Resources and Increasing the Employment**

- Active labour market policies.
- Reinforcement of the education system.

**(iii) Development Axis 3: Improvement of Infrastructure Services and Environmental Protection**

- Improvement of highway safety,
- Preparation of a technical study (TINA) to ensure the integration of the Trans-European and European-Middle East transportation networks with national networks and determination of the projects that will use EU Structural Funds in near future,
- Formation of hub ports by improvement of port capacities and strengthening maritime safety to provide an efficient service within the EU transportation networks,
- Improving the quality and efficiency of urban transport services,
- Transferring railstock repair and maintenance facilities of Turkish State Railways (TCDD) to private sector under the framework of Turkish Railway Sector Restructuring,
- Preservation of the water resources, increase in productivity of drinking water and sewerage services and of solid waste management

**(iv) Development Axis 4: Increasing the Economic Power of Regions, Reducing the Interregional Development Disparities, and Accelerating Rural Development**

- Supporting and strengthening of SMEs,
- Supporting small-scale infrastructure construction,
- Supporting local initiatives,
- Building and strengthening institutional capacity.

***Financial Framework of the pNDP and Implementation***

Since 2002, the financial assistance provided to Turkey by the EU has been under a single framework. In this context, financial assistance has been provided for Turkey under the “Pre-accession Financial Assistance to Turkey”. Within the scope of the Pre-accession Financial Assistance, it is envisaged that, a total of 1,050 million euro will be allocated to Turkey for the period of 2004-2006, and the implementation will be carried out in the framework of PHARE rules. Both the insufficiency of the total funds allocated to Turkey for 2004-2006 and the limitation of the sources to be used through the pNDP in the field of economic and social cohesion with 35 per cent have played a constraining role in devising the pNDP.

Within this scope, financial framework of the pNDP has been determined as a total budget of 528 million euro as shown in the table below. 371.5 million euro of the total budget is EU contribution, while the rest is comprised of public and private national contributions in

line with the co-financing principle applied to the utilisation of the EU funds. Nevertheless, there is a need for additional sources in the next period, particularly, for ISPA and SAPARD type projects.

### Overall Financial Table of the pNDP (2004-2006)

(Million Euro)

Development Axes	Estimated total cost	Total public contribution	Total EU contribution	Total national public contribution	Private sector contribution
<b>Development Axis 1:</b> Enhancing the competitiveness of enterprises	135	100	85	15	35
<b>Development Axis 2:</b> Developing the human resources and increasing the employment	70	70	48.5	21.5	-
<b>Development Axis 3:</b> Improvement of infrastructure services and environmental protection	116	116	86	30	-
<b>Development Axis 4:</b> Increasing the economic power of regions, reducing the interregional development disparities, and accelerating rural development	207	205	152	53	2
<b>Total</b>	<b>528</b>	<b>491</b>	<b>371.5</b>	<b>119.5</b>	<b>37</b>

The programmes and projects included in the pNDP will be subject to the rules and principles of the Decentralised Implementation System in Turkey (DIS-Turkey) as already applied to other programmes and projects supported under pre-accession financial assistance for Turkey.

The Circular of the Prime Ministry issued on 18 July 2001 (No. 2001/41) established the main components of the DIS in Turkey. With this Circular, the National Aid Co-ordinator (NAC) and the National Authorising Officer (NAO) are identified, and the National Fund (NF), the Central Financing and Contracting Unit (CFCU), the Financial Co-operation Committee (FCC) and the Joint Monitoring Committee (JMC) are established. Since 2002, programming has been carried out in compliance with the DIS in Turkey, and European Commission accreditation was received in October 2003. Extended Decentralisation Implementation System (EDIS), without 'ex-ante' controls operated by the European Commission, will be put into practice in Turkey as of 2005.



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## ABBREVIATIONS

BO	Build-Operate
BOT	Build-Operate-Transfer
CAP	Common Agricultural Policy
CBRT	Central Bank of the Republic of Turkey
CC-BEST	Candidate Countries-Business Environment Simplification Task Force
CFCU	Central Financing and Contracting Unit
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
CU	Customs Union
DAP	Eastern Anatolia Project Master Plan
DHMI	General Directorate of State Airports Enterprise
DIS	Decentralised Implementation System
DLH	Railroads, Harbours and Airports Construction General Directorate
DOKAP	Eastern Black Sea Regional Development Plan
EC	European Community
ECOSOC	Economic and Social Council
EDIS	Extended Decentralisation Implementation System
EMRA	Energy Market Regulatory Authority
ESA'95	European System of Accounts 1995
ESC	Economic and Social Cohesion
EU	European Union
FCC	Financial Co-operation Committee
GAP	Southeastern Anatolia Project
GCASC	Greek Cypriot Administration of Southern Cyprus
GDP	Gross Domestic Product
GNP	Gross National Product
GSM	Global System for Mobile Communications
HRDA	Human Resources Development Axis
IEA	International Energy Agency
ILO	International Labour Organisation
IMF	International Monetary Fund
ISPA	Instrument for Structural Policies for Pre-Accession
İŞKUR	Turkish Employment Agency
JMC	Joint Monitoring Committee
KEP	Kilogram Equivalent of Petroleum
KOSGEB	Small and Medium Industry Development Organisation
MAP	Multi Annual Programming
MARA	Ministry of Agriculture and Rural Affairs
MPM	National Productivity Centre
MTEP	Million-ton Equivalent of Petroleum

NAC	National Aid Co-ordinator
NAO	National Authorising Officer
NF	National Fund
NGOs	Non-governmental Organisations
NPAA	National Programme for the Adoption of the Acquis
NUTS	Nomenclature of Territorial Units for Statistics
OECD	Organisation for Economic Cooperation and Development
OIZ	Organized Industry Zones
PAO	Programme Authorising Officers
PEP	Pre-Accession Economic Programme
PHARE	Poland and Hungary: Assistance for Reconstruction of the Economy
pNDP	Preliminary National Development Plan
PPP	Purchasing Power Parity
PRD	Priority Regions for Development
PSTN	Public Switched Telephone Network
R&D	Research and Development
RDAs	Regional Development Agencies
SAPARD	Special Accession Programme for Agriculture and Rural Development
SAYIŞTAY	National Court of Auditors
SEEERF	South East European Energy Regulatory Forum
SEEs	State Economic Enterprises
SHÇEK	Social Services and Child Protection Agency
SIE	Small Industry Estates
SIS	State Institute of Statistics
SMEs	Small and Medium-sized Enterprises
SPO	State Planning Organization
SWOT	Strengths, Weaknesses, Opportunities, Threats
TCDD	Turkish State Railways
TDİ	Turkish Maritime Organization
TESK	Confederation of Tradesmen and Artisans of Turkey
TEU	Twenty-Foot Equivalent Units
TINA	Transport Infrastructure Needs Assessment
TOBB	The Union of Chambers of Commerce, Industry, Maritime Trade and Commodity Exchanges of Turkey
TOOR	Transfer of Operational Right
TTGV	Technology Development Foundation of Turkey
TTK	Turkish Coal Authority
TUBİTAK	Scientific and Technical Research Council of Turkey
WPI	Wholesale Price Index
WTO	World Trade Organization
ZBK	Zonguldak – Bartın – Karabük Regional Development Project



## INTRODUCTION

The Helsinki European Council in December 1999 decided that:

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Following this decision, the Accession Partnership with Turkey was adopted by the Council of the European Union. Its purpose is to set out in a single framework the short-term and medium-term priorities for further work towards fulfilling the Copenhagen criteria, financial means available to help Turkey implement these priorities, and the conditions applying to that assistance. Accession Partnership was published in the Official Journal of the European Union on 24 March 2001. On the basis of the Accession Partnership, the National Programme for the Adoption of the Acquis (NPAA) containing Turkey's commitments to the European Union (EU) with regard to harmonization was approved by the Council of Ministers on 19 March 2001 and published in the Official Gazette on 24 March 2001.

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The pNDP, which is coordinated by the State Planning Organization (SPO), has been prepared with a participatory approach. During the various stages of the preparation process of the pNDP, consultations with relevant public institutions and Non-governmental Organisations (NGOs) at national and regional level have taken place and their views regarding the draft report have been obtained. As a matter of fact, participatory planning in Turkey is an indispensable approach, which has been followed during the preparation of the Five-Year Development Plans by the SPO for over forty years. At the initial stages of preparation of the plans, Ad hoc Committees, where various groups of the society are widely represented, are formed. As the main platforms for the exchange of views, these Committees provide guidance for the preparation of the plans. The preparation process of the pNDP and an explanation about how participation was ensured are presented as Annex 1.

The pNDP has been prepared by taking into consideration the Long-term Strategy (2001-2023) and the Eighth Five-Year Development Plan (2001-2005), which are currently under implementation, Ad hoc Committees' Reports, 2003 Pre-accession Economic Programme (PEP), SME Strategy and Action Plan, Turkish Industrial Policy Document, the NPAA and other national documents. Furthermore, the relevant legislation and policy priorities of the EU have been taken into account.

The pNDP consists of eight chapters. In the first chapter, Turkey's current economic and social outlook is reviewed. This chapter presents in detail the macroeconomic and sectoral developments and the regional socio-economic disparities, which form the basis for the Strengths and Weaknesses, Opportunities and Threats (SWOT) analyses included in the relevant chapters.

The second chapter contains a comparison in terms of main economic and social indicators between Turkey and the EU member and candidate states and demonstrates the need for convergence in the field of economic and social cohesion.

Turkey's development strategy and the macroeconomic framework during the 2004-2006 period are explained in the third chapter. This chapter begins with a SWOT analysis, which is based on the Eighth Five-Year Development Plan, Pre-Accession Economic Programmes and other national documents as well as the evaluations made in the first chapter. Next, following a brief introduction to Turkey's Long-term Strategy, the main objectives and priorities, which are based on the medium-term strategy set forth by the Eighth Five-Year Development Plan Strategy, are given. The Plan Strategy that has been prepared within the

framework of the Long-term Strategy is the basic document setting out Turkey's approach for the solution of its main medium-term economic and social problems. The pNDP Strategy (2004-2006), a subset of medium-term strategy developed within the EU perspective, is summarized under the development axes. The scope of these axes has been devised by narrowing down the medium-term objectives and priorities on the basis of the results of the SWOT analysis and in view of the limited availability of the funds. During this process, the evaluations in the second chapter and priority policy areas of the EU have also been considered.

The Macroeconomic Framework (2004-2006) in the third chapter covers the economic policies and the macroeconomic forecasts based on these policies explained in the 2003 PEP in detail. These economic policies will be implemented in line with the "achieving high and sustainable growth rate" objective of the medium-term strategy. Although not dealt with under a development axis of the pNDP, these policies provide a basic framework towards fulfilling the Copenhagen economic criteria and converging to the Maastricht criteria in the medium-term. Regional and sectoral breakdown of public investments in this chapter has an indicative character.

The fourth chapter includes pNDP's three of the four development axes that are of sectoral type. These are presented under the headings of "Enhancing the Competitiveness of Enterprises", "Developing the Human Resources and Increasing the Employment" and "Improvement of Infrastructure Services and Environmental Protection" and are directed towards economic and social cohesion with the EU. This chapter contains for each axis, a SWOT analysis, the main objective and strategies based on this analysis, priorities and measures, and a financial table for the 2004-2006 period. The priorities and measures under the axes have been determined in line with the funds to be provided and within the framework of main objectives and strategies.

In the fifth chapter, firstly, in order to provide the general framework, a medium-term Regional Development Strategy at National Level for Turkey (26 NUTS II regions) is presented. In developing this Strategy, results of the workshops with large participation on the one hand and of the meetings held and studies conducted with local authorities, NGOs and universities in the regions on the other were benefited from. Next, the fourth development axis entitled "Increasing the Economic Power of the Regions, Reducing the Interregional Development Disparities and Accelerating Rural Development" focusing on 12 NUTS II target regions is explained in detail in this chapter. As with the other axes, a SWOT analysis for this axis, the main objective and strategies based on this analysis, priorities and measures, and a financial table for the 2004-2006 period are included.

The coherence of the pNDP with the Community policies is assessed in the sixth chapter. These assessments are under the headings of Common Agricultural Policy, Equal Treatment between Men and Women, Employment Support Policy, Competition Policy, and Environment.

The financial framework of the pNDP in terms of the development axes and their main priorities is presented in chapter seven.

Finally, in the eighth chapter, the implementation process of the pNDP is given and examined under the headings of management, monitoring, evaluation, and financial management and control.

## **1.THE CURRENT ECONOMIC AND SOCIAL SITUATION**

### **1.1. MACROECONOMIC DEVELOPMENTS**

One of the most important problems of Turkish economy in the last 25 years has been high inflation. Inflation has weakened the performance of Turkish economy in many aspects and has caused the instable structure to persist. During this period, economic growth has remained generally below the potential and has followed an instable trend. Besides the economic costs resulting from growth losses, some important social costs of inflation have emerged.

The high inflation period has caused economic agencies to adapt to this economic situation and backward indexation has been widely used. The backward indexation has caused inflation to turn out to be inertia. In this process, the lowest income groups could not maintain their purchasing power and inflation has become a factor that deteriorated the income distribution.

One of the important factors that have affected inflation in recent years has been the imbalance in public finance. The public finance imbalance has been one of the reasons that has brought about the inflationary process. Inflation has caused a rise in the risk premium of Turkey and a significant increase in real interest rates, through increasing uncertainties in the economy. Especially since 1990, real interest rates have been generally above 30 per cent.

In the context of public administration, the high real interest rates have significantly reduced the budget elasticity. The interest payments have become the largest expenditure item in the budget and caused the resources that could be otherwise used for social expenditures, to be used for debt management. In this respect, the control of the governments on budget has decreased. Especially in recent years, interest expenditures have become the most important reason for the budget deficit. The real interest rates and debt stock could not be decreased, even in the periods in which high primary surpluses were generated.

Another problem caused by high real interest rates has been the absorption of resources by public sector and the reduction of available funds for private sector significantly. This process has created a structure that leads to a shift from productive investments to financial investments. The banking sector has directed its funds to public finance instead of private sector investments; therefore, private sector savings have been mostly utilized to finance public sector deficit. Furthermore, less productive investment has caused less employment creation. The process of shifting from real to financial sector has become one of the most important factors that have deepened the problem of unemployment, which has been one of the most important social problems in Turkey.

Due to these reasons, achieving price stability by decreasing inflation permanently is very important in terms of building a strong economic structure and finding solutions for the important social problems such as income inequality and unemployment.

In this perspective, the prior objectives of ongoing economic policies are to ensure a sustainable growth environment in the economy, to secure a permanent reduction in inflation and to converge public deficit and public debt stock ratios to GDP to the EU averages. In the integration process with the EU, fulfilling the Copenhagen economic criteria and the convergence towards the Maastricht criteria constitute the main perspectives in setting the economic policies. In fact, as a result of presently implemented policies, a significant improvement in macroeconomic indicators has been achieved.

### **1.1.1. Growth and Employment**

In Turkey, a fluctuating growth process has been realized in the last ten years. In this process, the main developments that affected the economic performance have been the high real interest rates, the public sector imbalances, inflation volatility, macroeconomic instability, crises in Asia and Russia, the earthquake in 1999 and the financial crisis in 2001. In this context, there has not been a favourable environment for sustainable growth in the economy. There was a slowdown in productive capacity in the economy. As regards the potential production and production gap in Turkish economy, it is expected that the production, which declined below the potential with 2001 crisis, came closer to potential as economy recovered in 2002 and 2003, will reach to its potential with the attainment of expected 5 per cent growth rates in the forthcoming periods.

Turkey experienced a serious contraction as a consequence of the financial crisis occurred in 2001. The new macroeconomic policies and structural reforms introduced in the aftermath of the crisis, which have been redesigned as a 3-year-forward economic programme in the beginning of 2002, have caused a significant improvement in the economy. Changes in stocks and the foreign demand were the main sources of growth in GDP that increased 7.8 per cent in 2002. Sectoral value added growth rates were 7.1 per cent in agriculture, 9.4 per cent in industry and 7.2 per cent in services.

Economic recovery continued in the first half of the year 2003 as well. In this period GDP increased by 5.8 per cent. Total domestic final demand increased by 4.4 per cent in the same period.

The unemployment rate was 10.3 per cent in 2002. The decline in the level of employment registered in 2002 despite the high growth rate was mainly due to the decrease in agricultural employment and to the failure of non-agricultural sectors to fully compensate for this decline.

In 2002, the employment in industry and services sectors increased. The employment increased in industrial and services sector by 4.7 per cent and 2.9 per cent, respectively. However, the contraction in employment in agriculture and construction sectors by 7.8 per cent and 13.7 per cent respectively, caused a decrease by 0.8 per cent in total employment in 2002. As a result of the increase in the labour force by 1.4 per cent, the unemployment rate reached 10.3 per cent in 2002.

**Table: 1. 1. Growth Rates and Demand Components**

	(Percentage Change)								
	1990	1995	1996	1997	1998	1999	2000	2001	2002
Agriculture	6.8	2.0	4.4	-2.3	8.4	-5.0	3.9	-6.5	7.1
Industry	8.6	12.1	7.1	10.4	2.0	-5.0	6.0	-7.5	9.4
Services	10.3	6.3	7.6	8.6	2.4	-4.5	8.9	-7.7	7.2
GDP	9.3	7.2	7.0	7.5	3.1	-4.7	7.4	-7.5	7.8
GNP	9.4	8.0	7.1	8.3	3.9	-6.1	6.3	-9.5	7.8
Total Consumption	12.6	5.0	8.5	8.0	1.3	-1.7	6.3	-9.1	2.4
Public	8.0	6.8	8.6	4.1	7.8	6.5	7.1	-8.5	5.4
Private	13.1	4.8	8.5	8.4	0.6	-2.6	6.2	-9.2	2.0
Gross Fixed Capital Formation	15.9	9.1	14.1	14.8	-3.9	-15.7	16.9	-31.5	-0.8
Public	8.9	-18.8	24.4	28.4	13.9	-8.7	19.6	-22.0	14.5
Private	19.4	16.9	12.1	11.9	-8.3	-17.8	16.0	-34.9	-7.2
Total Domestic Demand	14.6	11.4	7.6	9.0	0.6	-3.7	9.8	-18.5	9.2

Source: SIS.

As regards the distribution of unemployment between urban and rural areas, the unemployment rate is much lower in rural than in urban areas, particularly due to the widespread practice of unpaid family workers in agriculture. The rate of rural unemployment was 4.7 per cent in 2001, and 5.7 per cent in 2002. In urban areas this rate reached 11.6 per cent and 14.2 per cent, respectively.

In the first half of 2003 the total employment increased by 1.3 per cent compared to the same period of the previous year, and the unemployment rate realised by 11.2 per cent.

The rate of idle labour force, which is the sum of the unemployment and under employment rates, rose from 14.4 per cent in 2001 to 15.7 percent in 2002. This rate decreased to 14.6 per cent in the first half of 2003.

### **1.1.2. Balance of Payments**

#### **Current Account Balance**

The EU countries have an important share in Turkey's foreign trade. Since the beginning of the year 1996, as a result of implementation of the Decision No. 1/95 of the EC-Turkey Association Council on implementing the final phase of the Customs Union, exports and imports have increased significantly. Total exports that were 18 billion dollars in 1994 rose to about 26-27 billion dollars after the Customs Union. Total amount of exports to EU countries, which was 8.6 billion dollars in 1994, increased steadily by 10 billion dollars and reached to 18.3 billion dollars in 2002.

The Customs Union has also increased the imports. The total imports, which were 23.3 billion dollars in 1994 rapidly rose to about 48.6 billion dollars in 1997. EU countries have an

important share in total imports as well. The amount of imports from EU countries, which were 11 billion dollars in 1994 increased to 23.3 billion dollars in 2002.

In 2002, exports increased by 14.1 per cent and recorded as 35.8 billion dollars. The increasing trend in the exports continued in January-August period on a year-on-year basis as well. On the other hand, imports increased by 23.7 per cent and recorded as 51.2 billion dollars. While the exports to EU countries increased by 13.7 per cent in 2002, the imports from EU countries increased by 27.4 per cent. In January-August period of 2003, exports to EU countries increased by 33.7 per cent and realised as 15.3 billion dollars, and the imports from EU countries increased by 34.6 per cent and realised as 19.1 billion dollars.

The current account balance, which was in surplus by 3.4 billion dollars in 2001, turned to a deficit of 1.5 billion dollars in 2002 due to the increase in the foreign trade balance deficit to 8.3 billion dollars in parallel with the economic growth.

**Table: 1. 2. Foreign Trade by Countries**

	(Million Dollars)									
	1994	1995	1996	1997	1998	1999	2000	2001	2002	Perc.Ch. (2002/2001)
<b>1.EXPORTS</b>	18,106	21,637	23,224	26,261	26,974	26,587	27,775	31,334	35,761	14.1
OECD Countries	10,758	13,289	14,426	15,583	16,979	18,056	19,006	20,615	23,392	13.5
EU Countries	8,635	11,071	11,549	12,248	13,498	14,348	14,510	16,118	18,329	13.7
Non-OECD Countries	7,348	8,347	8,798	10,678	9,164	7,750	7,874	9,785	10,951	11.9
Turkish Free Trade Zones	-	-	-	-	831	781	895	934	1,418	51.9
<b>2.IMPORTS</b>	23,270	35,709	43,627	48,559	45,921	40,687	54,503	41,399	51,203	23.7
OECD Countries	15,331	23,700	31,092	34,815	33,472	28,326	35,682	26,007	32,874	26.4
EU Countries	10,915	16,861	23,138	24,870	24,075	21,416	26,610	18,280	23,289	27.4
Non-OECD Countries	7,939	12,009	12,535	13,743	12,032	11,853	18,325	15,089	17,755	17.7
Turkish Free Trade Zones	-	-	-	-	418	508	496	303	574	89.3

Source: SIS, SPO.

### Capital and Financial Account Balance

Excluding the changes in the official reserves, the net capital inflow was 7.8 billion dollars in 2002. The official reserves increased by 6.2 billion dollars. A significant portion of the capital inflow was originated from IMF loans. After deducting the repayment of 6.1 billion dollars by the Central Bank, the net amount of IMF loans utilized in 2002 was 6.4 billion dollars. Thereby, the financial account was realised as 1.6 billion dollars.

Turkey, compared to its economic size, is one of the countries receiving the least share from foreign capital in the world. In the period of 1993-2002, net direct foreign capital inflow to Turkey was limited with 7.6 billion dollars. The main reasons behind this fact are economic fluctuations in last ten years, unfavourable investment environment due to high inflation and financial crises.

Direct foreign capital investments (net) were 862 million dollars in 2002. In the same year, net amount of portfolio investments abroad by domestic investors was 2.1 billion dollars, whereas the net amount of the portfolio investments by foreign investors in Turkey

reached 1.5 billion dollars. Net outflow of portfolio investments were 0.6 billion dollars and the net inflow of other investments were 7.5 billion dollars in 2002.

### **1.1.3. Monetary Policy, Exchange Rate Policy and Inflation**

#### **Monetary Policy**

With the aim of reducing uncertainties and shaping expectations for the future, the increase in the monetary base was set as target variable and it constituted the nominal anchor of the monetary policies in 2002 and 2003. In this context, the rate of increase in the monetary base in 2002 and 2003 was set to be consistent with the end-year inflation target and growth rate forecasts. In addition, it was declared that the net international reserves would not be allowed to fall below certain pre-determined limits. Net domestic assets were also monitored as an indicator. The targets set for 2002 and for January-September 2003 were realized.

The Central Bank implemented a monetary policy strategy, which was consistent not only with the monetary indicator targets, but also with the inflation target. In this context, the Central Bank declared that although monetary targets were fully met, in order to prevent any inflationist pressures and by taking into consideration the probable inflation values in future, it might introduce changes in short term interest rates and would take additional measures.

#### **Foreign Exchange Policy**

Central Bank initiated the floating exchange rate regime in 2001 and continued to implement it in 2002 and 2003. The excess supply of foreign currency, which emerged in the market due to the positive developments observed in the reverse currency substitution and in the balance of payments in the first half of 2002, was sterilised through programmed foreign currency buying auctions. These operations are not directed to affect the long-term trend and equilibrium value of the exchange rates.

#### **Inflation**

In the context of economic developments caused by the transition to free market economy in the beginning of 1980s, high inflation has become one of the most important problems of Turkey. As a result of economic crises in 1980, 1994 and 2001, inflation has been denoted by three digit numbers and the permanent decline and improvement in inflation could not be achieved until 2002, although it has declined gradually as a result of the economic policies implemented.

The strict implementation of the economic programme and the structural reforms adopted were the determining factors for the success achieved in combating inflation in 2002. In this context, maintaining fiscal discipline, implementing wage and salary adjustments in the public sector consistent with the programme targets, and the Central Bank's strict adherence to the monetary programme were the main factors which helped to reduce the inflation rate and the inflationary expectations for the future. Thus, in 2002 the rate of increase in the wholesale price index and the consumer price index declined to 30.8 per cent and 29.7 per cent respectively. The annual target for the wholesale price index was fully met,

whereas in the case of the consumer price index the attained level was 5.3 points lower than the target. Compared to 2001, a total reduction of 57.8 points and 38.8 points was achieved in the wholesale and consumer price indices respectively. Thereby, the lowest level of the last 16 years was attained in the wholesale price index, and the lowest level of the last 20 years in the consumer price index. In 2002, domestic demand was not at a level to create inflationary pressures, the cost of imported inputs decreased as a result of the real appreciation of the Turkish lira, and the price increases in the food sector remained at their lowest level of the last 15 years. All these developments were determining factors for the significant decrease in the inflation rate.

In the first quarter of 2003, with the impact of war in Iraq, an increase in exchange rates and oil prices created an inflationary pressure. However, the war ended earlier than expected and removed these pressures. Consequently, in January-October period of 2003 the wholesale and consumer price indices increased only by 11.3 per cent and 15.5 per cent, respectively. Improvements recorded in inflation in the first ten months of the year underpin the year-end targets.

#### **1.1.4. Public Finance**

In the framework of structural transformation since 1980s, one of the most important problems in the Turkish economy has been public sector imbalances. The public deficits and public finance requirements have increased rapidly. As a result of higher increase in public expenditures than public revenues, the public sector borrowing requirement has been financed mostly from domestic financial markets. Therefore, the domestic public debt stock has increased gradually.

The general government balance is obtained by the consolidation of revenues and expenditures of the consolidated budget, local administrations, funds, social security institutions and revolving funds.

In 1999, the ratio of total revenues of the general government to GDP was 36.6 per cent. It increased to 44 per cent in 2001, and in 2002 it decreased to 2.1 points and realized as 41.9 per cent of GDP. In 2002, the share of tax revenues in GDP, accounting for 57.7 per cent of general government revenues, decreased by 2.9 points compared to 2001 and went down to 24.2 per cent mainly due to the decline in direct taxes. Privatisation has continued in 2002, amounting to 540 million dollars.

The share of total expenditures of the general government in GDP increased from 49.9 per cent in 1999 to 55.1 per cent in 2002. The main cause of this increase was the consolidated budget interest payments.

As a result, the total borrowing requirement of the general government as a ratio to GDP, which was 13.3 per cent in 1999, was realised as 13.1 per cent in 2002. Excluding interest payments, borrowing requirement increased from a surplus of 1.3 per cent in 1999 to a surplus of 6.2 per cent of GDP in 2002, with 4.9 point rise.

**Table: 1. 3. Revenues and Expenditures of the General Government**

	(Per cent of the GDP)			
	1999	2000	2001	2002
Taxes	23.0	25.5	27.1	24.2
Direct	10.1	10.0	10.7	8.1
Indirect	12.5	15.1	16.0	15.6
Wealth	0.4	0.4	0.4	0.5
Non-Tax Revenues	4.6	4.7	4.8	6.3
Factor Incomes	2.9	3.2	3.9	4.3
Social Funds	6.1	6.6	7.4	6.9
Total	36.6	40.0	43.1	41.8
Privatisation Revenue	0.1	1.5	0.9	0.2
Total Revenues	36.6	41.5	44.0	41.9
Current Expenditures	18.2	17.3	18.3	18.2
Investment Expenditures	4.5	4.7	4.7	4.1
Fixed Investment	4.5	4.6	4.7	4.1
Change in Stocks	0.0	0.0	0.0	0.0
Transfer Expenditures	27.2	29.5	37.0	32.7
Current Transfers	26.0	27.9	35.8	31.8
Capital Transfers	1.2	1.6	1.1	1.0
Stock Revaluation Fund	0.0	0.0	0.0	0.0
Non-Interest Expenditure	35.4	34.4	36.2	35.7
Total Expenditures	49.9	51.4	59.9	55.1
Borrowing Requirement Excluding Interest Payment *	-1.3	-7.1	-7.8	-6.2
Borrowing Requirement *	13.3	9.9	15.9	13.1

Source: Ministry of Finance, SPO.

\* (+) refers to deficit and (-) refers to surplus.

### Public Debt Stock

The economic crises and the external developments in 2001 restricted borrowing from external markets, leading to a greater dependence on domestic borrowing. Moreover, increasing uncertainty led to shorter maturity and a rise in interest rates. This caused an increase in the cost of borrowing and generated an additional borrowing requirement.

In the context of these developments, the domestic debt stock which was 122.2 quadrillion TL at the end of 2001 rose up to 149.9 quadrillion TL at the end of 2002. Therefore, the ratio of the domestic debt stock to GDP went down from 68.5 per cent at the end of 2001 to 54.3 per cent at the end of 2002. As of the end of December 2002, of the total domestic debt stock which is comprised of 40.4 per cent non-cash securities and 59.6 per cent cash securities, 32.1 per cent was in the form of foreign exchange denominated and foreign

exchange indexed bonds, 42.8 per cent in the form of floating rate bonds and 25.1 per cent in the form of fixed rate bonds.

While the total external debt including private debt was 118.7 billion dollars in 2000, it decreased to 113.8 billion dollars in 2001 and increased to 131.4 billion dollars in 2002.

While the ratio of the total public debt stock to GDP was 63.1 per cent in 2000, it increased to 125.8 per cent in 2001 by obtaining external funds from the international institutions and then decreased to 105.3 per cent in 2002. Thus, the total debt stock ratio including private external debt stock increased from 93.2 per cent in 2000 to 160.7 per cent in 2001, and then decreased to 132.4 per cent in 2002.

### **1.1.5. Public Investments**

The annual public investment programmes, which are the yearly implementing tools of the 5 year development plans of Turkey consist of investment projects belonging to consolidated budget institutions, social security administrations, revolving funds, State Economic Enterprises (SEEs), Provinces Bank, funds, and institutions in the privatisation portfolio. In addition to these, municipality projects and municipal water and sanitation administrations' projects to be financed by foreign credits are included in the investment programmes to secure the Treasury's guarantee. Investment related labour costs of the consolidated budget institutions are included in the budget under the personnel costs heading, and excluded from the investment programme.

There are 3,851 investment projects in the 2003 Investment Programme, excluding investments of the municipalities. The total cost of these 3,851 projects sums up to 111.4 billion euro in 2003 prices. Again in 2003 prices, cumulative spending realized for these projects is 47.9 billion euro, of which 13.2 billion euro funded by foreign credits. In year 2003, 7.4 billion euro (2.2 billion euro of which is foreign credit) is allocated to these 3,851 projects. The breakdown of the year 2003 investment allocation sum is as follows:

- 0.2 billion euro to feasibility studies,
- 5.9 billion euro to ongoing projects,
- 1.3 billion euro to newly starting projects, including annual projects of maintenance, and procurement of vehicle and equipment.

The breakdown of the above-mentioned total investment allocation by budget type is as follows (Table-1.4):

- 23.0 per cent to SEEs,
- 4.4 per cent to institutions in the privatisation portfolio,
- 4.2 per cent to Provinces Bank,
- 4.1 per cent to revolving funds, including social security administrations,
- 0.2 per cent to funds.

In addition, 3,164 of all the 3,851 projects, which are carried out by the consolidated budget institutions, sum up to a total investment cost of 85.6 billion euro in the 2003 Investment Programme that is worth 111.4 billion euro. Similarly, 64.2 per cent of the total public investment allotment of 7.4 billion euro in 2003, which amounts to 4.8 billion euro, belongs to the projects of the consolidated budget institutions (Table-1.4).

**Table: 1. 4. Breakdown of the 2003 Public Investments by Budget Type (\*)**

Budget Type	Number of Projects (Number)	Total Project Cost (Million euro)	Cumulative Spending at the end of 2002 (Million euro)	(2003 Prices)		
				2003 Allocation (Programme)		
				Foreign Credit (Million euro)	TOTAL (Million euro)	Share (%)
Consolidated budget	3 164	85 636	35 136	1 466	4 764	64.2
Revolving Funds	112	970	260	1	305	4.1
SEEs	247	16 041	7 842	627	1 707	23.0
Provinces Bank	202	4 202	2 816	31	309	4.2
Fund	1	39	2	10	13	0.2
SEEs Under Privat.	125	4 533	1 804	40	324	4.4
<b>T o t a l</b>	<b>3 851</b>	<b>111 421</b>	<b>47 860</b>	<b>2 174</b>	<b>7 422</b>	<b>100.0</b>

Source: SPO.

(\*) Investments of the municipalities and investment labour cost are not included. For the year 2003, 1 euro=1 679 313 TL.

When sectoral breakdown of the public investment allotments in 2003 is considered, 67.1 per cent belongs to sectors of agriculture, mining, manufacturing, energy, transportation and communications, tourism and economic sectors covering other public services; whereas 32.9 per cent belongs to education, health, housing, and social sectors covering other services. The top three sectors that received the highest percentage of the 2003 allocations are transportation and communications (23.0 per cent), energy (21.3 per cent), and education (16.2 per cent). The share of the other services is 15.4 per cent, while the share of the agriculture is 9.2 per cent and the share of the health sector is 6.7 per cent. Due to the delays in the privatisation process, the manufacturing sector allotments turned out to be 4.7 per cent of the total public investment allotments, much higher than what had been planned for 2003 (Table-1.5).

The economic crises prevailing in the 1990s and the steadily growing public debt service have led to deficits in public finance, necessitating the need for implementing tight fiscal policies. These policies have included targeting for primary surplus, resulting in serious reductions in the public investment spending. The insufficient budget allocations for public investments, combined with the serious delays that have occurred in the timely completion of projects, have resulted in a high rise in total public investment stock and thus a necessity for rationalization in the public investment portfolio. Besides, rationalization has become a necessity due to the fact that certain projects have lost in time their feasibilities and priorities. Within this context, a rationalization process for the public investment portfolio has been initiated in 2001 by the SPO in cooperation with the investing institutions.

**Table: 1. 5. Breakdown of the 2003 Public Investments by Sectors (\*)**

**(2003 Prices)**

Sectors	Number of Projects (Number)	Total Project Cost (Million euro)	Cumulative Spending at the end of 2002		2003 Allocation (Programme)		
			Foreign Credit (Million euro)	Total (Million euro)	Foreign Credit (Million euro)	Total (Million euro)	Share (%)
Agriculture	364	22 020	1 481	7 763	197	680	9.2
Mining	76	384	0	25	48	159	2.1
Manufacturing	151	2 825	7	1 043	40	352	4.7
Energy	97	27 631	4 445	12 161	757	1 581	21.3
Transportation	346	36 624	6 076	17 062	703	1 710	23.0
Telecommunication	25	120	0	65	0	32	0.4
Tourism	69	660	0	247	0	47	0.6
Housing	31	77	0	33	0	11	0.2
Education	1 264	5 539	329	2 527	110	1 204	16.2
Health	475	4 030	368	1 564	108	499	6.7
Other Services	953	11 511	491	5 370	210	1 146	15.4
-Economic	175	2 359	125	767	39	421	5.7
-Social	778	9 152	367	4 603	171	725	9.8
<i>Economic Sectors</i>	<i>1 303</i>	<i>92 622</i>	<i>12 133</i>	<i>39 133</i>	<i>1 785</i>	<i>4 983</i>	<i>67.1</i>
<i>Social Sectors</i>	<i>2 548</i>	<i>18 799</i>	<i>1 064</i>	<i>8 726</i>	<i>389</i>	<i>2 439</i>	<i>32.9</i>
<b>Total</b>	<b>3 851</b>	<b>111 421</b>	<b>13 193</b>	<b>47 860</b>	<b>2 174</b>	<b>7 422</b>	<b>100.0</b>

Source: SPO.

(\*) Investments of the municipalities and investment labour cost are not included. For the year 2003, 1 euro=1 679 313 TL.

In this respect;

- 1,002 projects were removed from the 2001 Public Investment Programme,
- 600 projects were removed from the 2002 Public Investment Programme,
- several projects were left in the investment programme with trace allocations so that they could be implemented in the years that follow,
- several other projects were taken from the implementation phase to feasibility study phase for reviewing,
- some projects that were deemed adequate with their already completed outputs and activities were removed from the investment programme,
- and multi-year projects are transformed into annual projects so that they can be completed in a short time.

For assessing the average completion periods of the existing projects in the current public investment stock, a formula has been developed to calculate the “average completion period” of the projects, with the assumption that no new projects will be included in the investment programme and the level of funds that will be allocated in the following years will remain the same with that of the current year. As a result of the rationalization process, the average completion periods of the projects in the investment stock, which had been 12.5 years due to the economic crisis in 2001, turned out to be 8.5 years in 2002, and 7.6 years in 2003. At the same time, the number of projects is reduced from 5,047 in 2001 to 4,414 in 2002, and to 3,851 in 2003. Rationalized public investment programme cannot be obtained only by means of eliminating projects. In the coming years, the public investment stock will be further rationalized by increasing the investment funds. As a developing country, Turkey, that its infrastructure investment needs are huge, needs to increase both domestic and international investment funds and use them rationally.

With the initiation of the rationalization process, it has been aimed to effectively allocate public resources to the projects that can be completed in short time, that are urgent, and that have higher priorities. By this way, it has been planned that these projects can be completed in the shortest possible periods, accelerating the return of the allocated public resources to the economy. However, the need still exists for the implementation of the rationalization process, combined with the establishment and effective functioning of Project Cycle Management in Turkey. In this context, capacity should be built in the SPO and the relevant units of the public institutions about project preparation, project analysis, project evaluation and project monitoring. In addition, the project cycle management approaches of the EC and the international organizations should be examined through the utilization of diverse training activities, so that a Project Cycle Management System and relevant legislative framework can be developed in Turkey, taking into consideration the country-specific needs and conditions as well.

## **1.2. SECTORAL DEVELOPMENTS**

### ***AGRICULTURE***

#### **Current Situation**

The share of agriculture sector in GDP was at the level of 22 per cent in the beginning of 1980s, however, it has decreased to 11.9 per cent in 2002. In the same period, the share of agriculture in total civilian employment has decreased to 33.2 per cent from 50 per cent in 2002. In Turkey, agricultural areas have a fragmented structure and agricultural holdings are generally in the form of family enterprises. The temporary results of the Agriculture Census of 2001 indicates that there have been approximately 3.1 million agricultural holdings in Turkey. Since the previous agriculture census of 1991, there has been a reduction of around one million in the number of agricultural holdings. Thus, the average size of the areas possessed by the holdings rose to 6 hectares compared to average 5.4 hectares of the previous census. This average size of 6 hectares is well below the EU average that is 16.5 hectares per

enterprise. The size of the areas possessed by the 66 per cent of all agricultural holdings is less than 5 hectares.

The main policy objective in agriculture is the structuring of a highly competitive, sustainable and organized agriculture sector that considers the economic, social, environmental and international developments as a whole, to ensure the efficient utilisation of resources. It is also essential to provide balanced and adequate nutrition for the growing population in accordance with the principle of food safety.

Considering the agricultural support policies of the government, through policies being implemented since 2000, it is aimed to switch to a system where new support instruments like direct income support having no or minimal impact on the market and production structures, are to be used instead of price and input support. This new policy framework will also facilitate the adoption of Common Agricultural Policy (CAP) in the process of accession to the EU.

### **Land and Water Resources**

27 million hectares of a total of 78 million hectares of land are agricultural areas. On the other hand, usable water resources, which is 1,735 cubic meters per capita and decreasing gradually due to the increasing population, is very low compared to the average resources of Western Europe that is 5 thousands meter cubes. The annual average of rainfall, which varies largely according to seasons and regions, is around 643 cubic millimetres. This fact renders the agricultural sector significantly dependent on the weather conditions causing low and instable incomes for the farmers and increases the demand for irrigation investments.

In Turkey, the high alkali characteristic of the land is a factor limiting the agricultural production. Soil erosion is a problem in 16.2 million hectares of the total 27 million hectares of agricultural areas, being severe or very severe in 2.2 million hectares. Together with the forest and pasture areas affected by this problem, soil erosion exists in 57.6 million hectares of land, compared to only 25 million hectares of land suffering from soil erosion in the whole of Western Europe.

Southeastern Anatolia Project (GAP) will play an important role in the economic development of Turkey. The project is a package of multi-dimensional projects including the building of dams on the rivers Dicle (Tigris) and Firat (Euphrates), hydroelectric power plants and irrigation facilities as well as the improvement of infrastructure and services in agriculture, transportation, industry, education, health and other sectors.

### **Agricultural Organisations**

Although there are plenty of agricultural organizations, most of them cannot provide the services expected from them. There are 3.1 million agricultural holdings in total and they are members of Turkish Union of Chambers of Agriculture, whose membership is compulsory. They are also members of other producer organizations operating in 9 different

fields such as agricultural development, irrigation, fisheries and sugar beet production. Most of the livestock cooperatives are grouped under the name of development cooperatives.

Public sector, cooperatives, chambers of agriculture and service unions are the main actors of the organized part of the agriculture sector. The most common type of agriculture and livestock organizations in Turkey is cooperatives. Yet the establishment of livestock unions is a new phenomenon. The agricultural producer organizations other than the agricultural cooperatives and unions are organizations like milk producer unions, irrigation unions and service unions for villages leaded by governors and sub-governors.

It is aimed to increase the organizing capacity of the farmers and to improve the necessary technical infrastructure in this respect.

### **Research, Education and Extension Services**

Research departments of Ministry of Agriculture and Rural Affairs, Directorate General of Rural Services, Directorate General of Hydraulic Works and other relevant public institutions are the responsible bodies for agricultural research in Turkey. Ministry of Agriculture and Rural Affairs provides the extension services. The insufficient budget allocations, lack of qualified personnel and inadequate and unsystematic transfer of these services to the agriculture sector are the main problems. The lack of cooperation with universities also creates a problem that hinders the development. Within this context, the expenditure per capita on agricultural schools and R&D and extension services are 3.87 and 0.53 euro, respectively. These ratios are well below the EU averages, which are 117.4 and 126.3, respectively.

### **Crop Production**

Crop production maintains its importance in the agricultural production with a share of 65 per cent. The breakdown of crop production in respect of various products is as follows: arable crops with 45 per cent (20 per cent cereals, 3 per cent legumes, 12 per cent industrial crops, 2 per cent oilseeds and 8 per cent tuber crops), fruits with 30 per cent, and vegetables with 25 per cent.

When the annual changes of the average productivity in crop products are considered, it is observed that there has been no significant development regarding the productivity in cereals, legumes and tobacco for the last twenty years. On the other hand, productivity in sugar beet, maize and cotton has increased mainly due to enhanced plantation on irrigated land.

The most important problem concerning seed utilization is insufficient demand due to semi-subsistence farming, small-scale structure of agricultural holdings, low purchasing power of farmers, and lack of agricultural education and extension.

The organic agricultural activities began upon the request of European importers in 1986. Ministry of Agriculture and Rural Affairs prepares the legislation regarding organic farming. Besides in-service training, a comprehensive training project was launched by the

Ministry in 1997 in order to meet the increasing need for consultants and supervisors. The proportion of land allocated to organic production is between 1-2 per cent of the total agricultural land in Turkey.

### **Livestock**

Productivity per animal is low in Turkey. According to the livestock sector statistics of the year 2001, indigenous animal races with low yields constitute 38.6 per cent of the cattle population and 97.2 per cent of the sheep population. Artificial insemination practices is being continued to improve the genetic strain of animals. In order to align with the EU legislation in the field of animal health, a project supported financially by the EU has been put into practice for the establishment of Animal Health Information System and Border Control Points.

### **Fisheries**

Although Turkey is a peninsula with the seas surrounding it from three sides and have a water potential amounting to 26.15 million hectares with its rivers, and natural and artificial lakes, the contribution of the fishery sector to GNP is at the level of 0.40 per cent as of 2002.

Despite having rich water resources, the low contribution of fisheries sector to the national economy in Turkey may be explained with inadequacies in institutional capacity, stock management and conservation-control services, fisheries information systems, organization capacity of the producers and marketing. On the other hand, rich diversity of species, experience and knowledge in catching technologies and the demand for aquaculture investment are considered as the strengths that would contribute to the development of the sector. With the “Fisheries Sector – Legal and Institutional Alignment to the EU Acquis Project”, which is to be implemented with the financial support from the EU in 2004, the adoption of the relevant legal, institutional and structural policy reforms, especially on resource management, common market organizations, producer organizations, and fisheries information systems is aimed.

### **Forestry**

The forest ecosystem is accepted to cover approximately 27 per cent of the total land amount. The forest area amounting to 20,763 thousands hectares is almost wholly possessed by the State, and about 50 per cent of it is covered by high quality and productive forests. Private forests and private plantations cover an amount of 18.5 and 33.4 thousand hectares, respectively. Approximately 18 per cent of the total forest area is protected area in the form of national parks, nature parks, nature preservation areas and reserved forests. In total forest area the proportion of the areas where biological diversity is protected is 3.9 per cent. Turkey’s plant flora, which has about 10 thousands of rich biological variety, 3 thousand of them being endemic, includes 75 per cent of the total plant species in Europe. Moreover, the forests and 1 million hectares of wetlands, and other ecosystems shelter 426 birds and 472 fish species, 192 of them are being in inland waters. Extension and development of community and urban

forestry throughout the country is also a priority field socially and environmentally. Forest fires continue to be a serious problem in Turkey as in the South European countries.

### **Food Safety**

Food safety has been given great importance following the entry into force of the Customs Union Decision with the EC. First, Decree Law on the Production, Consumption and Inspection of Foods was put into effect, and afterwards, secondary legislation, which Turkey lacks in the field of food safety and is necessary for the alignment with the EC legislation has been prepared and implemented progressively. Lack of adequate skilled personnel and technical infrastructure in the relevant Ministries delays the functioning of a food safety system in line with the EU standards. The ongoing legislative and other efforts have focused on establishing an effective food safety system that responds to the “from-farm-to-table safe food” objective of the White Paper prepared by European Commission.

### **Developments in Agricultural and Foodstuff Trade**

The export level of agricultural products, constituting 57 per cent of the total export volume in 1980, has lost its share significantly in the total exports. In 2002, the total agricultural products exports amounted to 3.7 billion dollars, including the processed agricultural products worth of 1.7 billion dollars, with a share of 11 per cent in Turkey’s total exports. On the other hand, imports amount to approximately 3 billion dollars in total, of which processed agricultural products constitute 47 per cent.

Agricultural exports are mainly concentrated on certain products and markets. The agricultural exports consist of tobacco and by-products of tobacco (12 per cent), fruits and vegetables (28 per cent), and processed fruit and vegetable products (13 per cent). The shares of vegetable oils (8 per cent) and confectionary and chocolate products (9 per cent) are increasing in the total exports. The main export markets are the members of the EU and Commonwealth of Independent States (CIS).

The main agricultural import items are raw materials such as oil seeds (11 per cent), raw vegetable oils (21 per cent) and grains (22 per cent). The North America, Latin America and Eastern Europe alongside the EU are the main exporters of the agricultural products to Turkey. Almost all confectionary and chocolate products processed at a high level are imported from the EU.

EU is the major trading partner regarding the agricultural products. While 45 per cent of total agricultural exports are made to the EU, this ratio decreases to 25 per cent in the case of imports. Since 1995, agricultural products comprise around 10 per cent of total exports to the EU and 3 per cent of total imports from the EU.

### **INDUSTRY**

After 1980, with the liberalization efforts and implementation of export-oriented economic policies, significant progress has been made towards developing the principles and

fundamentals of market economy. These reforms have enhanced dynamism of the private sector and have improved the ability of the Turkish economy to adapt to internal and external impacts. Thus, notable progress has been made in industrialization mainly due to the private sector activities.

While in manufacturing industry, 57 per cent of production and 63 per cent of fixed capital investments were realized by the private sector in the early 1980s, these ratios have reached 80 per cent and 95 per cent in 2002 respectively.

Except for the years in which economic crises occurred, industry has made great progress until 2002. Manufacturing industry production increased by 5.1 per cent annually between 1980 and 2002, and average annual growth rate in industry value added was 4.9 per cent in that period. As a result, the share of manufacturing industry in GNP reached 20.4 per cent in 2002 from 16.8 per cent in 1980.

The most important consequence of industrial growth has been observed in foreign trade. Significant increase has been noted in the value of exports and the share of manufacturing goods in total exports. Total exports rose to 35.1 billion dollars in 2002 from 2.9 billion dollars in 1980. Share of manufacturing goods in total exports reached 93 per cent with 33.3 billion dollars in 2002 from 36 per cent in 1980.

As a result of economic growth, imports of investment and intermediate goods has also increased. Total value of imports reached 51,3 billion dollars in 2002 from 7,5 billion dollars in 1980 with a rapid increase. Manufacturing industry imports reached 41,9 billion dollars in 2002 with a share of 82 per cent in total imports.

The industrialization process has also been influential on the employment structure. Total employment reached 21.3 million in 2002. From the beginning of 1980s, the share of industry in employment increased progressively with 15.8 per cent in 1988 and 18.5 per cent in 2002.

Although concentrated in certain sectors, manufacturing industry produces in several sectors. In 2000, foodstuff and textiles-clothing industries had the largest share in the manufacturing industry production with 20.1 per cent and 20.2 per cent, respectively. These were followed by chemical industry with 7.2 per cent, automotive industry with 6.5 per cent, petroleum industry with 5.9 per cent, and iron-steel industry with 4.6 per cent. As regards the exports in manufacturing industry, textiles and clothing (39.5 per cent), iron-steel (7.4 per cent), automotive products (6.4 per cent) and foodstuff (6 per cent) sectors are the leading ones.

According to the OECD classification, recent developments in the production and export structure of the manufacturing industry in terms of R&D intensity (technology) is given in the following table:

**Table: 1. 6. Share of Technology in Production and Export Structure of the Manufacturing Industry**

<b>TECHNOLOGY</b>		
<b>Production (%)</b>	<b>1996</b>	<b>2000</b>
Low technology	73.6	72.2
Medium technology	21.6	22.9
High Technology	4.8	4.9
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>
<b>Exports (%)</b>		
<b>1996</b>	<b>2001</b>	
Low Technology	73.3	63.2
Medium technology	20.1	26.5
High technology	6.6	10.2
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

Source: SPO.

The regional distribution of industrial enterprises is uneven, and those enterprises are concentrated in the Marmara region, which generates 51.8 per cent of Turkey's industrial value added. However, there is a declining trend in the relative significance of traditional industrial centres such as İstanbul, İzmir, Adana and Ankara. Thus, new industrial centres such as Mersin (İçel), Kırklareli, Sakarya, Tekirdağ, Denizli and Gaziantep have recently emerged.

### **Customs Union**

Completion of the Customs Union with the EC was an important step for the opening up of the industry to international competition.

After the Customs Union Decision, some significant developments have been observed:

- Foreign trade volume with the EU has increased from 27.9 billion dollars in 1995 to 41.6 billion dollars in 2002. The share of the EU countries in total imports was 47.2 per cent in 1995 and decreased to 45.4 per cent in 2002. The share of the EU countries in total exports has remained approximately at 51 per cent.
- The competitiveness of industry has increased, with the private sector's modernization investments aiming improvement of quality. The number of applications made by Turkish firms for quality certification, such as ISO 9000, has increased.
- Alignment of legislation with that of the EU has been realized to a considerable extent in many areas, such as foreign trade, customs, free movement of goods, industrial property rights, competition, consumer protection, etc. In addition, work towards harmonisation of the EU directives in various fields, from machinery to chemicals, has been completed to a considerable extent by relevant public

institutions. On the other hand, for the proper functioning of the new system, the Turkish Accreditation Agency has been established and started to operate.

- The subsidy system was simplified and harmonized with Turkey's international obligations, such as the EU and WTO rules
- New institutions have been established for the proper functioning of the competitive market mechanism.

### **Recent Developments**

Turkey has experienced two consecutive crises in November 2000 and February 2001. The uncertainty in the economy resulting from these crises, has adversely affected the industrial sector to a considerable extent by increasing the interest rates and decreasing the domestic demand.

In order to overcome financial crises, a new economic programme was launched in April 2001. Several measures have been taken regarding exports, SMEs and financial problems of companies under the scope of the programme.

Following a severe contraction in industry in 2001, signs of recovery were observed in 2002. As a result of the significant increase in exports and partial recovery in domestic demand, there was an increase in value added and capacity utilization of the manufacturing industry in 2002. This trend has also continued in 2003.

In the first half of 2003, manufacturing industry production has increased average 7.7 per cent compared to previous year.

The number of incentive certificates is a good indicator of enterprises investment trend. In the first 8 months of 2003, the number of incentive certificates in manufacturing industry increased by 65 per cent, and on the basis of manufacturing industry wholesale price index, investment total of the certificates increased by 53.9 per cent.

Main problems of the industry are relatively high financial costs despite the decrease in interest rates, unfair competition due to the unregistered economy, inadequate physical infrastructure, excessive bureaucracy during the phases of investment and operation, high cost of basic industrial inputs supplied by public sector as compared with international prices and lack of sufficient accreditation and certification services. Other significant problems are: finance, organisation and marketing problems experienced by most of the enterprises; low technology creation, lack of original design and brand development; low innovation capacity, insufficient awareness of environment, productivity and product quality; SMEs' difficulty in adapting to competitive market conditions and their need for support as well as high share of labour-intensive products such as food, textiles and clothing, iron and steel etc. in exports. On the other hand, there is an excess capacity in some sectors, and except the traditional ones, no significant investments can be made for the emerging sectors.

The developments in the main indicators of the manufacturing industry in 1999-2003 period are given in the table below:

**Table: 1. 7. Main Indicators of the Manufacturing Industry**

	1999	2000	2001	2002	2003
Increase in Value Added (%)	-5.7	6.4	-8.1	10.4	7(1)
Capacity Utilization Rate (%)	72.4	75.9	70.9	75.7	78(1)
Increase in Imports (%)	-13.1	29.8	-26.2	25.1	30.5(2)
Increase in Exports (%)	-0.5	6.7	13.2	13.8	31.5(2)

Source: SPO.

(1) First 6 months.

(2) First 7 months.

### SMEs

In Turkey, SMEs constitute 99.8 per cent of total enterprises and create 76.7 per cent of total employment. The share of SMEs in total investments has reached 38 per cent and 26.5 per cent of total value added is created by these enterprises. The share of SMEs in total exports is about 10 per cent. Their share in total bank loans is approximately 5 per cent.

SMEs have an important role in industry. They have a positive effect in establishing competitiveness in the market, increasing the employment, promoting the entrepreneurship and improving the income distribution. Thus, development of SMEs is very important. Having defined the enterprises with 1-150 workers as SME, according to 2000 industry survey, there are 208,183 SMEs operating in the manufacturing industry and these enterprises employ 922,715 people. SMEs constitute 99.2 per cent of all manufacturing industry and generate 55.6 per cent of the employment in this sector.

In order to provide that enterprises in manufacturing industry operate under healthy conditions and in a well-planned structure, Ministry of Industry and Trade provide loan support for the construction of Small Industry Estates (SIE) and Organized Industry Zones (OIZ).

362 SIEs having 83,318 work places have been completed until 2003. At present, 400 thousand people are employed in industry sites that have an employment capacity of 500 thousand. The number of SIEs constructed without loan support of Ministry of Industry and Trade is nearly two times bigger than those constructed with the support of the Ministry. Apprentice schools or training centers exist in 275 of the SIEs.

The Act of Organized Industrial Zones No: 4562 concerning the establishment of OIZs was put into effect in 2000. Production has started in 10,582 (66 per cent) of the 13,344 work places founded in 65 OIZs. 351,299 people (30 per cent) are employed in these work places, which have an employment potential up to 1,159,754 people. After the completion of ongoing 118 OIZ constructions, additional 2,258 work places and 466 thousand-jobs will be created.

Turkey's Country Report on best practices in SMEs was prepared and submitted to the European Commission within the framework of Candidate Countries-Business Environment Simplification Task Force (CC-BEST), which aims that other countries also benefit from the best practices in SMEs developed by the EU member and candidate countries.

In accordance with the European Commission's recommendation on SMEs mentioned in 2002 Regular Report on Turkey's Progress Towards Accession, work has started to formulate an SME definition in line with that of the EU. SME Strategy and Action Plan was prepared in line with the EU, SME Charter and Multi Annual Programme for Enterprise and Entrepreneurship.

Studies related to the establishment of risk capital investment partnerships, which encourage the innovative enterprises, legislation on university-industry cooperation, legislation aiming to eliminate the shortage of researchers, preparing the legal infrastructure of electronic commerce, arranging the medium-term and long-term public procurement policies still continue.

### ***ENERGY***

Turkey is well behind the developed countries in terms of energy consumption per capita. However, there has been significant increase in the energy investments in recent years resulting in increased energy consumption year by year. At the end of 2002, the primary energy consumption in Turkey was 78.3 MTEP (million-ton equivalent of petroleum). Only a part of this consumption, which amounts to 24.9 MTEP, has been met from domestic energy resources. Therefore, Turkey is heavily dependent on foreign energy resources. In 2002, the energy consumption per capita was 1,125 KEP (kilogram equivalent of petroleum).

The petroleum products have a major share with nearly 40 per cent in the overall energy consumption of Turkey. On the other hand, the share of the natural gas in total energy consumption has increased substantially in the last decade.

The electricity power generated in Turkey has been generally sufficient so far for its own use. The amount of electricity imported has not been very high. With the increase of the investments made in power plants alongside the contributions of private sector in recent years, Turkey has become a country having excess capacity in the electricity supply.

Turkey has reached an advanced level also in the natural gas transmission pipelines. In order to increase the use of natural gas, the major part of the investments in main transmission and distribution lines has been completed. With the new pipelines completed in 2002, total length of the pipelines has reached to 4,200 km. Total length of the pipelines will reach 6,300 km, together with the pipelines covered by the Investment Programme, whose engineering and construction works are currently in progress. It is planned that natural gas network will be completed by 2006.

According to the minimum procurement commitment in 2006, the supply will rise to 27.9 billion m<sup>3</sup> with the natural gas to be provided from Russian Federation (18.7 billion m<sup>3</sup>), Iran (7.6 m<sup>3</sup>) and Azerbaijan (1.6 m<sup>3</sup>); moreover natural gas equivalent liquefied natural gas amounted to 4.8 billion m<sup>3</sup>, of which 3.7 billion m<sup>3</sup> to be provided from Algeria and 1.1 billion m<sup>3</sup> from Nigeria, will be supplied to the consumers.

Although Turkey has the fossil energy resources including coal, petroleum and natural gas, the capacity of the reserves, except lignite, is limited and far from meeting the production needs. Moreover, when the high level of current energy prices are taken into account, the need for meeting the energy demand reliably, continually and with appropriate costs becomes more important for the competitiveness of the economy.

### **Structural Reforms and Arrangements**

From the early 1980s, Turkey has been utilizing various financing models in order to transfer the resources of private sector to energy sector, as well as to attract the foreign direct capital investments to the country. In this framework, the Build-Operate-Transfer (BOT), Build-Operate (BO) and Transfer of Operational Right (TOR) models, and permission for construction of the auto-producer power plants that aims to meet industrial enterprises' own electricity needs and save transmission costs are the main practices.

Since all these financing models were not able to achieve the initiation of the investments at the expected level, important steps have been taken for the liberalizing the electricity energy market, so that the private sector could have a more significant role in the energy sector.

In this context, Electricity Market Law was enacted on 3 March 2001 with a view to forming a market having rules as transparent as possible to gain the confidence of the investors and envisaged to be regulated by an independent Energy Market Regulatory Authority (EMRA).

The Law aims to set up a structure where the private sector could operate freely by allowing competition in the sector, and thus to establish a reliable and stable market by compensating financial shortcomings in the public sector. Under the Electricity Market Law, the new fields of activity are defined by removing the public monopoly over the sector, and the deepening of the market is envisaged. In this context, the new fields of activity have been created in the sector, namely, generation, distribution, wholesale and retail sale, and imports/exports, each of which are subject to licensing by EMRA. However, the public monopoly continues in the field of transmission.

Arrangements were made also for the natural gas resource, which has a considerable share in the generation of electricity energy in Turkey and is expected to have an even increased share in the forthcoming years. The basic aim of the Natural Gas Market Law enacted on 2 May 2001 is to ensure the disintegration of the monopoly structure by the privatisation of the state-owned natural gas companies and switching to a market order governed by the competition rules. The Law aims at restructuring the sector, so that a

competitive environment could be created in the natural gas market and the natural gas could be supplied to the consumers in a reliable and economic manner.

Efforts towards installing electricity and natural gas connections with the Southeast European countries are continued. Having participated in the studies carried out under South East European Energy Regulatory Forum (SEEERF) and signed the Memorandum of Understanding in the Ministerial Meeting held by Turkey in 15 November 2002. Turkey has a role in the establishment phase of the regional energy market, which is envisaged to be completed until 2005. In addition, in the context of complete integration of national electricity market with that of the EC, Turkey carries on studies for synchronisation of national electricity power system with Union for Co-ordination of Transmission of Electricity (UCTE) network until the end of 2006. While Turkey works towards the establishment of the electricity interconnection infrastructure, it also takes part in the studies of interconnection for the natural gas transmission systems required for the transmission of the natural gas to be provided from the Caspian Region, South Mediterranean and other international resources to the European markets through the pipeline.

Work is carried on for ensuring the effective and efficient use of the energy. The National Energy Conservation Center, which was established within the Electrical Power Resources Survey and Development Administration to control and coordinate the studies in this field has been executing a common project with EU. The final goal has been established as to increase the energy efficiency in Turkey and set up the administrative capacity to ensure the efficient implementation of the EU legislation in this field.

Development of the renewable energy, which is a clean and environment friendly energy resource, is among the issues that Turkey attaches importance. The preparation of a programme to increase production utilising renewable energy resources has been stated among the short-term objectives in the Accession Partnership. In the phase of increasing the use of renewable energy, ensuring that the recent liberalization of the energy sector in Turkey is not impaired and the requirements of the free market are not violated come to be the important issues.

The studies related to the draft of a “Renewable Energy Law” by the Government are being continued, with a view to establishing the legal-regulatory foundations required for increasing and supporting the use of renewable energy without forcing the conditions of the free market mechanism, in order to achieve compliance with the Directive of the EU that aims to increase the use of electricity generated from renewable energy resources. This draft is planned to be enacted in 2004.

## ***TRANSPORT***

According to the “White Paper”<sup>1</sup> which examines the developments in transportation sector of EU member states in the last decade and proposes policy measures in this field, the

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<sup>1</sup> European Transport Policy for 2010: Time to decide, published in 2002 by European Commission.

most important problems are unbalanced distribution of transportation modes in favour of road transport, traffic congestion in main highway and railway corridors and negative environmental impacts due to the highway-oriented service structure. As of end of 2002, 44 per cent of total freight transport in EU countries is carried out by roads, 41 per cent by maritime, 8 per cent by rail and 4 per cent by inland water transport. The share of road and rail transport in terms of passenger transport is 79 per cent and 6 per cent respectively.

In Turkey, road transport dominates freight transport with 91 per cent, and railways, maritime and pipeline transport take 4, 3 and 2 per cents respectively. Domestic passenger transport is carried out by highways with 95 per cent share. International freight transport is mainly realized by maritime, while international passenger transport is carried out by air transport.

### **Highways**

When compared to the EU member countries, Turkey lags both in terms of highways density and pavement standards of the existing network. While the average highways density is 0.389 km/km<sup>2</sup> for the EU countries, this figure is 0.196 km/km<sup>2</sup> for Turkey, including the rural roads connecting villages to towns.

As of end of 2002, out of the 63,201 km of highway network, 1,851 km is motorways, 31,297 km is state roads, and the remaining 30,053 km is provincial roads. Of the 291,000 km long rural roads network serving the villages, only 86,000 km has been paved.

Although 59,000 km of the highway network is paved, total length of asphaltic concrete pavements capable of handling heavy vehicle traffic is only 6,067 km, whereas this total should have been about 13,000 km. This situation, along with excessive loadings beyond the 11.5 tons legal axle load standard, results in premature deterioration of pavements and significant maintenance and overlay expenditures. Existing budgetary appropriations are insufficient in meeting necessary maintenance expenditures.

The fact that almost all the domestic freight transportation is realized through highways results in a heavy vehicle traffic well above the EU levels (30-40 per cent in Turkey compared to 15 per cent EU average), which in turn reduces traffic safety and causes capacity shortages in the highways. Multi-lane highways, including the motorways, have a total length of approximately 6,200 km, and constitute only a small portion (approximately 10 per cent) of the overall highways network in Turkey.

### **Railways**

Total railway network in Turkey is 10,948 km, 8,671 km of which is the main lines. 2,122 km of the network is electrified and 2,505 km of it is signalled. In terms of railway density, Turkey has the lowest figure among the EU member and candidate countries. Railway transportation is carried out on a very old infrastructure along the corridors connecting main cities. In terms of total traffic per km, which shows the utilization ratio of the railway network, Turkey with 1.7 is well behind the 3.2 EU average. In other words, both railway density and the traffic density on the network are very low. Moreover, with 20 per

cent, Turkey is also well behind the EU average of 50 per cent in terms of electrified lines. The biggest problem of railway sector in Turkey is that the lines between main cities are not suitable for high speed and comfortable service.

### **Maritime**

Along the 8,300 km coastline of Turkey, there are 149 ports and piers. At these coastal facilities, a total of 119 million tons of load were handled in 1995 and this figure increased to 157 million tons in 2001, excluding the containers. While the quantity of containers handled in 1995 was 765,000 TEU, this quantity increased to 1,250,000 TEU in 2001. The biggest 7 ports of Turkey are operated by General Directorate of Turkish State Railways (TCDD) which is a public entity. TCDD ports handle one fifth of total load and two thirds of total containers handled along Turkish coasts. Besides TCDD, General Directorate of TDI that is another public institution, owns the infrastructure of 15 important goods and passenger ports, 2 of which are operated by TDI and 13 were privatised by transfer of operation rights. Moreover, there are big ports in the Aegean and Marmara Regions, which totally belong to private sector. Other ports and piers are operated by industrial organizations, municipalities or other private companies.

Total freight handled along Turkish coasts is low compared to that of main ports of the EU in the Mediterranean. Since large-scale ports could not be built on time, together with increasing trade demand result in construction of many small-scale ports and piers, which causes freight traffic to disperse. As a result, although the total freight handling is not low, freight handled per port remains low.

### **Air Transport**

The number of the airports, which are operated by General Directorate of State Airports Enterprise (DHMI), has reached to 34, 21 of which have an international status. Approximately 95 per cent of the passenger traffic in the airports operated by DHMI is realized through Atatürk, Antalya, Esenboğa, Adnan Menderes, Dalaman, Bodrum/Milas, Adana and Trabzon Airports. Therefore, the major priorities of this sector are to increase the capacity of these airports and quality of the services.

### **Urban Transport**

In Turkey, where 65 per cent of the population lives in urban areas, daily number of urban trips is estimated as 49 millions with a per capita motorized vehicle urban trip generation coefficient that is equal to 0.7.

In provision of urban transport services, priority is given to buses and/or other intermediary modes of transportation while rail system projects are encouraged only in large metropolitan areas with populations exceeding one million and to transportation corridors with high commuting demands.

However, lack of clarity in the duties and responsibilities of institutions both at the local and the national level, insufficiencies and complexities of legislations coupled with the

adverse effects of the lack of consistent policies for financing urban transport projects have resulted in municipalities' undertaking extremely costly public transport investments, especially in the form of rail systems through foreign borrowing while at the same time assuming minimum financial responsibility.

### ***TOURISM***

Turkey, compared to its competitors, is a destination that is new, not under the pressure of mass tourism and unknown in other continents. During the growth phase of the product life cycle that corresponds to the ten years between 1987-1997, Turkish tourism grew very fast. Despite crises that caused demand shortage, Turkey's performance in terms of the rate of tourist arrivals and tourism revenues has been 4.5 times higher than the world averages between 1987 and 1997.

International tourist arrivals reached 11.6 million and tourism revenues were realised as 8.1 billion dollars in 2001. For the year 2002, the number of foreign visitors reached 13.2 million by a rise of 14 per cent compared to the previous year and tourism revenues were realised around 8.5 billion dollars.

In 2002, the number of foreign visitors from OECD countries increased 11.6 per cent compared to previous year, in which arrivals from Eastern Europe, the increase was 24.1 per cent. OECD countries contributed 65.8 per cent and Eastern Europe countries 23.8 per cent to the total arrivals. The ranking of international arrivals with destination to Turkey by country of origin is Germany (26.3 per cent), United Kingdom (7.9 per cent) and Russian Federation (7.1 per cent).

In the last decade, the number of beds certified by the Ministry of Culture and Tourism increased from 200 thousand to 393 thousand. It is estimated that the total bed capacity in Turkey is over one million, including 223 thousand beds at investment stage, 375 thousand beds of the hotels certified by the municipalities, and second homes used for tourism purposes. 4,344 travel agencies are active in the sector.

Turkey has a considerable share of 3 per cent in European tourism market. With respect to growth rate in arrivals and tourism revenues, Turkey is 19th among the top tourism destinations of the World and 11th in terms of tourism revenues.

Despite the rapid increase in bed capacity in recent years, there are problems in airways and maritime transportation and technical infrastructure that need to be solved in a short time. The certification system regarding tourism education has not been put into practice yet. It is considered that both in Turkey and the world, problems of the civilian aviation sector will grow more.

### ***INFORMATION AND COMMUNICATION TECHNOLOGIES***

Turkey has relatively low level of competitive advantage in terms of provision of information society services compared to the EU member states. The four main factors that

should be considered as high priority areas for the Turkish economy to become a knowledge-based economy and gain competitiveness are appropriate environment for the development of businesses, qualified human resources, information and communication infrastructure, and innovation systems.

The environment for the development of business which is affected by the factors like macroeconomic performance, public administration, legal infrastructure, investment environment, foreign direct investments, market entry and exit costs, privatisation, financing opportunities is still in the development phase. During the period of 1990-2000, while the average foreign direct investment per capita in Turkey was about 200 dollars, it was 2200 dollars in Czech Republic and 2100 dollars in Hungary.

As can be seen in Table 1.8, Turkey is well below regarding R&D expenditures out of GDP, compared to EU member states.

**Table: 1. 8. R&D Expenditures in GDP (1998)**

Country	Percentage
Sweden	3.85
Finland	2.91
Germany	2.31
France	2.24
Netherlands	2.09
Denmark	1.96
England	1.82
Belgium	1.67
Austria	1.59
Ireland	1.55
Italy	1.52
Spain	0.84
Portugal	0.65
Greece	0.48
Turkey (2000)	0.64

Source: SIS (2002), SPO (2003).

The Turkish market for information and communications technologies was estimated to grow 12 per cent and reach 9.2 billion dollars in 2002 compared to the year before. In 2001, 85 per cent of the total market, which corresponds to 7 billion dollars, comes from telecommunication sector, and the remaining 1.2 billion dollars comes from information technologies. In 2002, the public investment allocation for information and communication technologies was about 190 million dollars for 203 projects in total.

PSTN market has been affected by tremendous growth in GSM market in recent years. The PSTN capacity decreased from 21.3 million in 2001 to 21.2 million in 2002 and the

number of PSTN subscribers increased to 18 million and 915 thousand with the addition of only 10 thousand new subscribers in 2002.

By the end of 2002, PSTN subscriber density decreased to 27 per cent. On the other hand, the number of subscribers and the density for GSM increased to 23.4 million and 33.3 per cent, respectively.

Even though there has been a rapid increase in the use of personal computers, the number of computer per 100 inhabitants was 4.1 and the density of Internet usage was 5.7 per cent in 2002. Turkey is still in the last place as compared with the EU candidate countries.

Decreasing PSTN subscriber numbers and a growing GSM market have also affected Turkey as in the EU. In the voice transmission service provided by the incumbent telecommunications operator, Turkish Telecom, the number of subscribers is decreasing.

Since 1994, GSM market has grown very rapidly. At the end of 2002, the number of GSM subscribers reached to 23.4 million. This figure is higher than the number of GSM subscribers in each of the EU candidate countries and which makes Turkey the sixth largest market in the EU.

Turkish Telecom's monopoly position in the sector, low speed at Internet access and high access prices have been the main factors adversely affecting the extension of Internet usage. Besides, insufficient number of sites that provides Turkish content and the low level of value added services delivered are some of other factors affecting lower internet penetration rates in Turkey, compared to the other EU candidate countries.

### ***POPULATION***

It's estimated that Turkey's population is to reach to 70.7 million in the mid-2003 and population growth rate will be 1.48 being approximate to that of the developing countries (1.55 per cent).

Although there is a decline in birth rate, Turkey still keeps its young populated structure due to high birth rates in the previous periods. While the proportion of the young population group in the total population is decreasing in time, the proportion of the group in working age and over 65 is rising.

The dependency rate of the population at working life period and between the ages of 15-64 has become 54.7 per cent as of 2000. In 2000, this rate was 48.4 per cent in developed countries and 61.3 per cent in developing countries.

The decline in the birth rate in women aged between 15-49 has been continuing. According to the research held in 1998 on Population and Health in Turkey the total birth rate in Turkey is 2.61 per cent. With this rate, Turkey is below the world average of 2.82 and above that of developed countries whose rate is 1.57. There are, however, great differences among the regions in terms of total birth rate. This rate is 2.03 in Western Anatolia and 4.19

in the Eastern Anatolia. Total birth rate is estimated to be 2.46 in 2002, and is expected to fall to 2.43 per cent in 2003.

In the period of 1995-2000, while the life expectancy at birth is 75 years in developed countries, it is 63 in developing countries and 67 in Turkey. It is estimated that life expectancy at birth is 68.5 years in 2002, though it is expected to reach 68.7 years in 2003.

### **EDUCATION**

As of 2000, in the age group of 6 and over, the literacy rate is 87.3 per cent in total, of which 93.9 per cent is in males and 80.6 per cent is in females.

In the 2002-2003 academic year, there are 13.7 million students and 558 thousand teachers in pre-school, primary and secondary education institutions and 1,894 thousand students and 74 thousand instructors in 75 universities. In 7,181 public and private apprenticeship and non-formal education institutions, 3 million people educated. Enrolment rates are 96.3 per cent in primary education, 81.0 per cent in secondary education 26.2 per cent of which is in vocational technical education and 54.8 per cent in general school education, 35.8 per cent in higher education 23.3 per cent of which belongs to formal higher education.

It is aimed that the share of vocational-technical education in secondary and higher education is to be increased by encouraging vocational and technical education. Due to the reasons such as insufficiency of resources, ineffective use of existing resources, lack of effective guidance system and inadequate cooperation with the labour market, the targeted number of students in the vocational and technical education could not be achieved and the education systems in quality and type required by the labour market could not be developed. The review of the contents of vocational education programmes and new programmes in line with the demands of labour market is still important.

While 43.8 per cent of the secondary education students were in vocational and technical education in the beginning of 1990s, this ratio decreased to 32.3 per cent in 2003. In 2001 an encouraging regulation caused an increase in demand for vocational higher education institutions. In 2002-2003 academic year, 193 thousand students enrolled to these institutions. The share of students in vocational higher education institutions in total higher education increased from 12 per cent to 15 per cent in a year. However, the inadequacy of infrastructure and manpower prevents these institutions from increasing the number of students and quality of education.

Due to the increase in the number of students in general secondary education and insufficient capacity in higher education institutions, the demand for higher education and qualified manpower by labour market could not be met.

The efforts for using new technologies widely in education are still going on. A great deal of importance has been attached to transition to computer aid education, provision of Internet access to every school and dissemination of curriculum software programmes.

## ***HEALTH***

The infant mortality rate decreased to 39.4 per cent in 2002. In Turkey the number of population per doctor is 773 and the number of population per bed is 392. First step health care services are being supplied in 5,893 health centres, 11,837 village health stations, 293 mother and child health care centres, 272 tuberculosis dispensaries and 83 public health laboratories.

The increase in the proportion of urban population in total population to 65 per cent has led to rapidly increasing need for health investments and significant problems of changes in the social and economic structure.

## ***CHILD***

According to 1999 Child Labour Force Survey, there are 1.6 million children who are working and there are 511,000 children are under the age group of 6-14 that is below the legal minimum working age. The number of children working in the streets is estimated to be 50,000.

There is no accurate information about the number of children in need of protection. 17,870 children are served through the Social Services and Child Protection Agency.

## ***CULTURE***

The social change process has gained speed with outward policies, evolving communication technologies, industrialization and urbanization, however, the need for addressing economic, social and cultural policies in an integrated manner persists.

It is important to take necessary actions for the improvement and protection of Turkish language and culture by Turkish citizens living in European countries within the framework of international agreements.

## ***INCOME DISTRIBUTION***

According to the surveys on the household income distribution and consumption expenditure carried out in 1987 and 1994, the Gini coefficient for rural areas has not changed, while it has increased from 0.44 to 0.51 for urban areas. According to the temporary results of income distribution research conducted by the SIS in 2002, inequality of income distribution has remained the same between 1994 and 2003. However, as a result of the economic crises in recent years, life quality of all social classes has fallen and the need for social services and assistance has increased.

The rising share of the domestic loan payments in the budget and the economic stability programme, which gives priority to fiscal discipline narrow the limits of the government to implement policies with a view to improving social welfare in general and income distribution in particular, and alleviating poverty.

**EMPLOYMENT**

In 2002, labour force rose to 23.8 million by increasing about 1.4 per cent compared to the previous year, the per cent employment rate, on the other hand, dropped to 21.3 million by decreasing about 0.7 per cent. While the unemployment rate rose to 10.3 per cent, underemployment rate decreased from 6 per cent to 5.4 per cent. Thus, the idle labour force rate has become 15.7 per cent.

**Table: 1. 9. Developments in the Domestic Labour Market**

	(15+ age thousand people)	
	2001	2002
Civil labour force	23,491	23,818
Civil employment	21,524	21,354
Agriculture	8,089	7,458
Industry	3,774	3,954
Services	9,661	9,942
Labour force participation rate (%)	49.8	49.6
Unemployed	1,967	2,464
Underemployment rate (%)	8.4	10.3
Underemployment	1,405	1,297
Underemployment rate (%)	6.0	5.4
Idle labour force rate (%)	14.4	15.7

Source: SPO, SIS.

The fundamental problems of the labour force market still remain. In 2002, the share of agricultural employment in total employment was 34.9 per cent. The share of industry sector in total employment has become 18.5 per cent and that of services sector has become 46.5 per cent. In EU countries, the shares of agriculture, industry and services sectors in total employment are 4.9 per cent, 36.2 per cent and 58.9 per cent respectively.

**Table: 1. 10. Sectoral Breakdown of Civilian Employment**

	(15+ age thousand people)			
	2001		2002	
	Number	Proportion (Percentage)	Number	Proportion (Percentage)
Agriculture	8,089	37.6	7,458	34.9
Industry	3,774	17.5	3,954	18.5
Services	9,661	44.8	9,942	46.5
<b>Total</b>	<b>21,524</b>	<b>100.0</b>	<b>21,354</b>	<b>100.0</b>

Source: SPO and SIS.

Labour force participation rate in 2002 is 49.6 per cent. This rate is 71.6 per cent in men and 27.9 per cent in women. In urban areas the labour force participation rate is 68.7 per cent in men and 19.1 per cent in women, whereas this rate is 74.5 per cent in men and 41.4 per cent in women in rural areas.

According to figures of 2001, only 4.9 per cent of female labour force works in agricultural sector in EU countries, whereas this rate is 61.1 per cent in Turkey due to the widespread practice of unpaid family workers.

Education level of total labour force and employees is low. According to 2002 data, 70.8 per cent of labour force and 72 per cent of the employees consist of graduates of primary school or junior high school, the non-graduates and the illiterate. This situation demonstrates the need for upgrading the quality of the labour force.

**Table: 1. 11. Education Level of Labour Force (2002)**

(15+ age, thousand person)

	Civilian labour force		Civilian employment		Unemployed	Percentage
		Percentage		Percentage		
Illiterate	1,583	6.97	1,504	7.41	79	3.28
Literate without any diploma	683	3.01	638	3.14	45	1.87
Primary school graduate	11,264	49.62	10,196	50.26	1,068	44.28
Primary education	145	0.62	128	0.63	16	0.66
Junior high school	2,390	10.53	2,084	10.27	307	12.73
Vocational school at junior high school level	27	0.12	24	0.12	3	0.12
High school	2,467	10.87	2,103	10.37	364	15.09
Vocational school at high school level	1,821	8.02	1,546	7.62	276	11.44
Higher education	2,319	10.22	2,064	10.17	254	10.53
<b>TOTAL</b>	<b>22,699</b>	<b>100</b>	<b>20,287</b>	<b>100</b>	<b>2,412</b>	<b>100</b>

Source: SPO and SIS.

Increasing employment rate among disadvantaged groups (the disabled, women, unqualified persons) and decreasing long-term unemployment are serious challenges of the labour force market.

### **LABOUR ISSUES**

With a view to adjusting labour legislation with Turkey's changing conditions as well as ILO and EU legislation, new Labour Law No. 4857 was put into effect in 2003. The Law aims, *inter alia*, to bring flexibility into working life. In particular; it contains arrangements concerning flexible working types, flexibility in working times, establishment of a guarantee fund for the protection of workers in the event of employer's solvency, transfer of undertakings, employer's obligation to inform employees, maternity leave, gender equality, establishment of a tripartite consultation board, job security, health and safety at work, and establishment of private employment offices.

## ***ENVIRONMENT***

The national environmental impact assessment legislation, which is under the scope of horizontal legislation, has been mostly harmonized with the EU directives, while the need for some revisions in annexes and for sectoral eliminating-scanning guidelines still continues. Access to the environmental information and establishment of required infrastructure are the other important environmental issues.

According to 2001 statistics, the rate of access to drinking water in municipalities has reached to 93 per cent.

When the access rates to sewerage network are considered, the proportion of the population connected to sewerage system in municipalities to total municipal population is 76 per cent. While this rate is over the average in the regions of Middle Anatolia, Aegean, and Marmara, it is about 60 per cent in Eastern and Mediterranean Regions. The proportion of municipal population whose wastewater is treated in a plant to total municipal population is 42 per cent. The Marmara region is over the average with 67 per cent of its population that use wastewater treatment plant. The Eastern Anatolia and Black Sea are the regions that have the least access to waste water treatment plants.

The municipalities still have problems in terms of qualified staff and finance in providing water supply and wastewater services.

The proportion of the population that utilizes solid waste disposal services to total municipal population is 98 per cent and to total population is 77 per cent.

The number of municipalities collecting, carrying and disposing medical wastes separately is 432, and the amount of medical waste that is collected is 71 thousand tones. 18 per cent of collected medical wastes are disposed in sanitary landfill areas and 15 per cent of it is disposed in incineration plants.

The feasibility study dated 2002 revealed that the majority of existing air quality measurement stations need to be supported in terms of infrastructure, equipment, measurement methods and personnel.

Legal and institutional defects in sustainable use of biodiversity, hierarchical complexity related to protected area status and lack of coordination are the main problems.

The National Report regarding the Agreement on Combating with Desertification is being prepared with a participatory approach.

Environmental investments of energy production facilities using solid fuels have a significant importance due to the emission limits set for the large combustion plants by the relevant EU directives regarding industrial pollution. In this context, environmental investments are considered as a part of the new plants, and upon the privatisation of energy sector, these measures are to be taken by private sector.

In order to comply with Integrated Pollution Control Directive, the analysis of the legal framework and a project for enhancing the relevant capacity has been started within the scope of Netherlands Technical Cooperation. Regarding the SMEs, measures to develop cleaner production methods and technologies in the context of integrated pollution prevention are envisaged in the SME Strategy and Action Plan prepared towards harmonization with the EU.

### ***RURAL AREAS***

According to the 2000 General Census, 35.1 per cent of the total population lives in rural areas.

As of 2002, there are 78,625 settlements in total in rural areas, 36,527 of which are villages and 42,098 of which are their sub-village settlements. Settlements in the rural areas are scattered and fragmented. This situation leads to problems in the physical and social infrastructure services to be delivered.

In Turkey, the population growth is much faster in the cities than in the villages. In the period of 1990- 2000, the population growth rate was 2.68 per cent in the cities and 0.429 per cent in the villages.

In rural areas, infrastructure services such as electrification, communication and stabilized roads have been completed to a large extent. However, these infrastructures need to be improved.

In rural areas, work towards dissemination of social infrastructure services, such as water supply and sewerage networks and wastewater treatment plants, and improvement of standards is being carried out. Whereas 89 per cent of the villages have hygienic and adequate drinking water, 8 per cent of the villages have hygienic but inadequate water. 3 per cent of the villages do not have clean drinking water. 76 per cent of the villages that have hygienic drinking water have also water delivery network system.

## **1.3. REGIONAL DEVELOPMENT**

### **1.3.1. Disparities Between Economic and Social Development Levels of Regions**

Turkey has been divided into 26 NUTS II regions (See Annex 2 and Annex 3) for the purposes of more efficient implementation and analysis of regional development policies and ensuring harmonization with the EU. In order to evaluate interregional development disparities and determine regional policies, various indicators are being employed. The leading ones of these indicators are; GDP per capita in terms of purchasing power parity, demographical structure, unemployment rate, breakdown of GDP and employment by sectors, and the other statistical data that reflect economic and social development levels. In the process of alignment with the EU, efforts towards harmonization of statistical databases including the above-mentioned indicators are continued. As of the end of 2005, economic, social and environmental indicators on NUTS II basis will be produced within "Project on the

Improvement of Turkish Statistical System”, which is run by the State Institute of Statistics and financed by EU funds.

Data presented below are composed of GDP, general development rankings including 58 socio-economic variables, sectoral data and ranking of development levels by sectors.

At national level, an analysis covering 26 NUTS II regions has been performed in the determination of regional development strategy; however, 12 NUTS II regions, which have priority, are focused on by taking into account the suggestions of the EU in the formation of pNDP’s fourth development axis (Regional Development Axis). These regions are Kastamonu, Samsun, Trabzon, Erzurum, Ağrı, Malatya, Van, Gaziantep, Şanlıurfa, Mardin, Konya and Kayseri. The mentioned 12 NUTS II regions; except Gaziantep, Konya and Kayseri provinces, are within the scope of Priority Regions for Development. However, economic and social disparities among provinces in these three NUTS II regions (Gaziantep, Konya, Kayseri) are of considerable importance.

According to the “Survey on the Ranking of Provinces and Regions by Socio-Economic Development Levels”, which was prepared in 2003 by employing 58 variables, selected 12 regions (except Gaziantep, Kayseri, Konya) are at lower ranks among 26 NUTS II regions. Each of the values of the indicators like GDP per capita, schooling rate, literacy rate in population, electricity consumption per capita, added value of manufacturing industry per capita, asphalted road rates, bank deposits per capita and bank credits per capita of these regions are quite below the averages of Turkey. On the other hand, in respect of indicators like fertility rate, infant mortality rate, population per doctor, values of 12 NUTS II regions are well above Turkey averages.

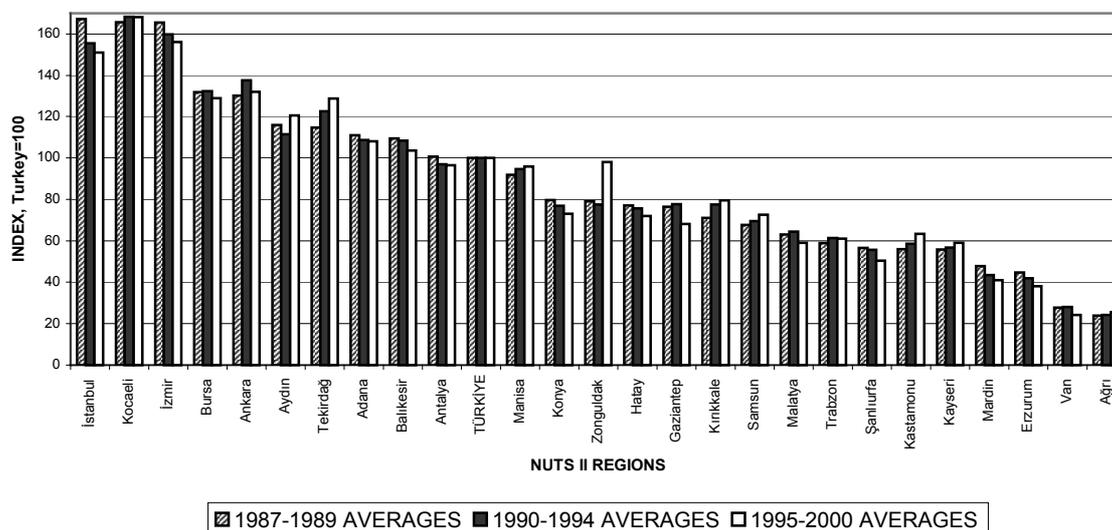
In the preparation period of pNDP, due to the unavailability of data on income per capita in terms of purchasing power parity, employment, unemployment, sectoral production, production per employee, labour force participation rate, average wages on NUTS II basis, it is difficult to make comprehensive and comparative analysis in terms of interregional economic development, competitiveness and sectoral specialization.

Main indicators with respect to NUTS II Regions and general evaluation thereof are presented below.

### **Development Status of NUTS II Regions**

In Chart 1.1, the GDP values of 26 NUTS II regions for three periods (1987-1989, 1990-1994 and 1995-2000) are given. Averages of each period calculated by arithmetical average method show the GDP values per capita in NUTS II regions, taking the Turkey average as 100.

CHART 1.1: PER CAPITA GDP INDEX ACCORDING TO NUTS II REGIONS

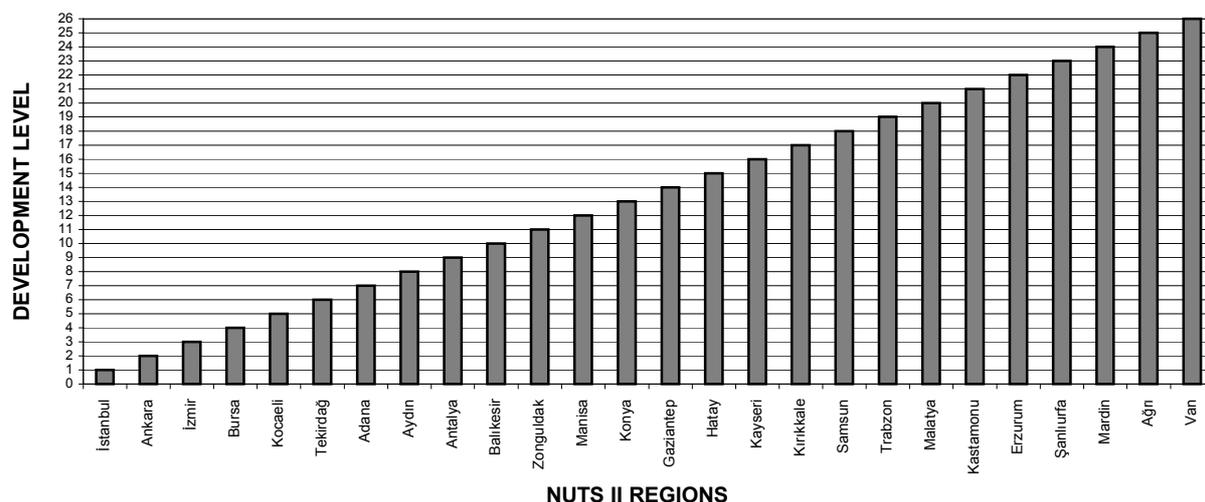


Source: SPO (For all data presented in all tables and graphs)

According to per capita GDP index, Kocaeli, İzmir and İstanbul are the most developed NUTS II regions. In these regions, values of GDP per capita are quite higher than the country averages. For İstanbul NUTS II region, this rate was 167.3 in 1987-89 period, 155.5 in 1990-94 period and 151 in 1995-2000 period. In İstanbul region, GDP per capita values have declined relatively (Chart 1.1). Main reason behind this tendency is high migration rates due to the attractiveness of the region.

As regards GDP per capita, 12 NUTS II regions within pNDP have similar values. In these regions, values of GDP per capita are approximately half the country averages.

In Turkey, another data group used in the evaluation of the development performances on the basis of provinces and regions is “Surveys aiming to Rank Provinces on the basis of Socio-Economic Development Levels”. The results of these surveys indicate structural characteristics of provinces and regions from economic and social aspects and are of importance in that they are prepared by using the composite index of variables, which are classified as demography, employment, education, healthcare, industry, agriculture, construction, financial and other welfare indicators. With the survey results, it is possible to determine provinces and regions displaying different levels of developments, analyse the regions and provinces, and thus, identify the homogenous regions.

**CHART 1.2: LISTING SOCIO- ECONOMIC DEVELOPMENT LEVELS ACCORDING TO NUTS II REGIONS (2003)**

Results of Surveys aiming to Rank Provinces on the basis of Socio-Economic Development Levels, which was prepared in 2003 are shown on the basis of NUTS II regions (Chart 1.2). Development data reflect the composite index of 58 variables chosen from economic and social fields and calculated by Basic Components Analysis Technique.

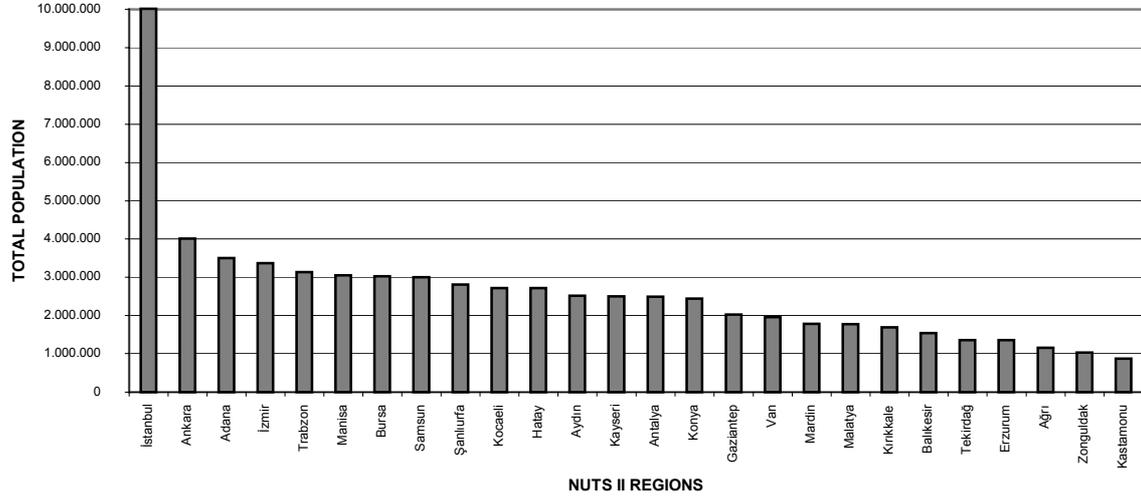
As can be seen from the Chart above, in terms of socio-economic development level, the first five most developed NUTS II regions of the country are: İstanbul, Ankara, İzmir, Bursa and Kocaeli, respectively.

9 of 12 NUTS II regions within the scope of pNDP are at the end of the ranking among 26 regions (from 18 to 26). Within the 12 NUTS II regions, the regions which are at the upper part of the list are: Konya as the 13<sup>th</sup>, Gaziantep as the 14<sup>th</sup>, and Kayseri as the 16<sup>th</sup>, respectively. The improvements achieved by all of these three NUTS II regions in industry and trade have increased their levels of development.

### Demographic Structure

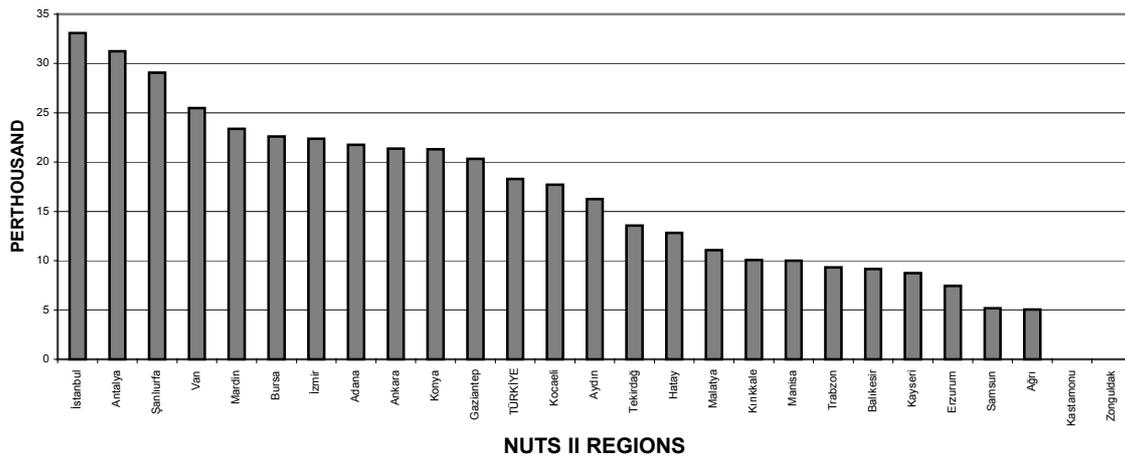
NUTS II regions which have the highest population are: İstanbul, Ankara, Adana, and İzmir, respectively. Regions that have the highest population out of 12 NUTS II regions within pNDP are: Trabzon (as the 5<sup>th</sup>), Samsun (as the 8<sup>th</sup>) and Şanlıurfa (as the 9<sup>th</sup>). The other NUTS II regions are listed as Kayseri (as the 13<sup>th</sup>), Konya (as the 15<sup>th</sup>), Gaziantep (as the 16<sup>th</sup>), Van (as the 17<sup>th</sup>), Mardin (as the 18<sup>th</sup>), Malatya (as the 19<sup>th</sup>), Erzurum (as the 23<sup>rd</sup>), Ağrı (as the 24<sup>th</sup>) and Kastamonu (as the 26<sup>th</sup>) respectively and these regions are at the bottom of the population ranking (Chart 1.3).

**CHART 1.3: TOTAL POPULATION ACCORDING TO NUTS II REGIONS**



Considering the population increase rate, the first five regions out of 26 NUTS II regions are; İstanbul, Antalya, Şanlıurfa, Van, and Mardin respectively. Within 12 NUTS II regions under pNDP, regions having the highest population increase rate are: Şanlıurfa (as the 3<sup>rd</sup>), Van (as the 4<sup>th</sup>), and Mardin (as the 5<sup>th</sup>), respectively. According to the population increase rate, other NUTS II regions are ranked as follows; Konya (as the 10<sup>th</sup>), Gaziantep (as the 11<sup>th</sup>), Malatya (as the 16<sup>th</sup>), Trabzon (as the 19<sup>th</sup>), Kayseri (as the 21<sup>st</sup>), Erzurum (as the 22<sup>nd</sup>), Samsun (as the 23<sup>rd</sup>), Ağrı (as the 24<sup>th</sup>), Kastamonu (as the 25<sup>th</sup>) (Chart 1.4).

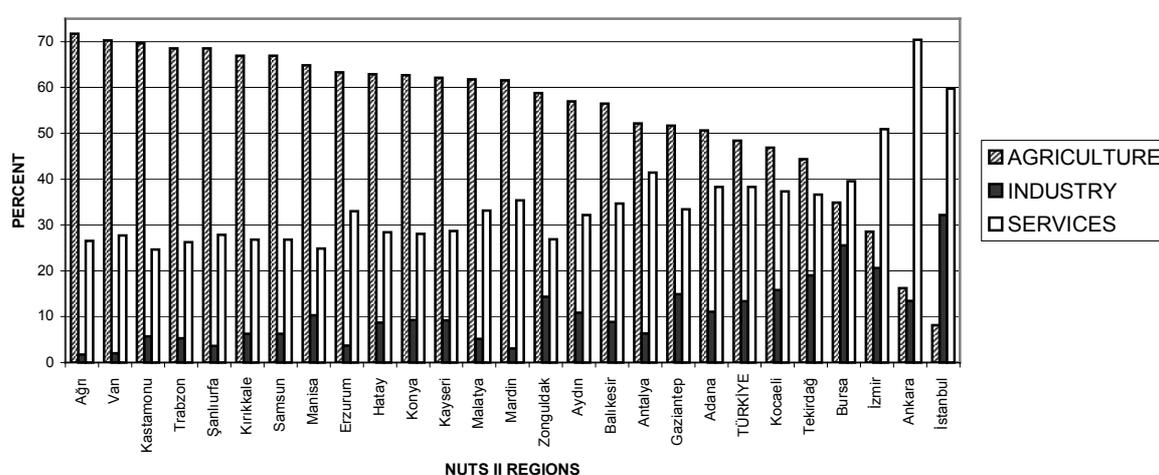
**CHART 1.4: POPULATION GROWTH RATE IN NUTS II REGIONS (1990- 2000)**



## Sectoral Distribution of Employment

Employment indicators of 26 NUTS II regions by agriculture, industry, and services sectors, are presented in the chart below. In the services sector, Ankara has the highest level of employment, while İstanbul has the highest level of employment in the industrial sector (Chart 1.5).

**CHART 1.5: SECTORAL DISTRIBUTION OF EMPLOYMENT  
IN NUTS II REGIONS**



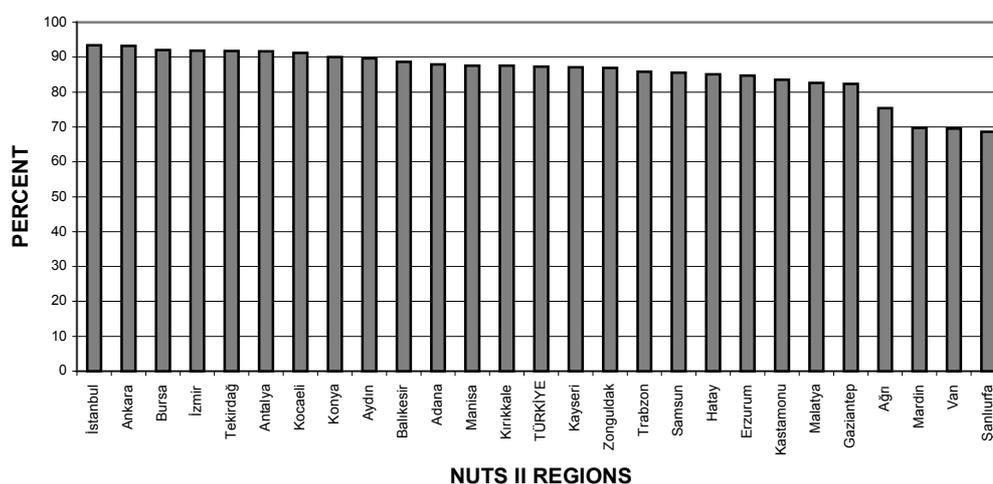
Considering employment in agricultural sector, 12 NUTS II regions under pNDP are placed at the upper ranks among 26 NUTS II regions. Among 12 NUTS II regions, considering the agricultural sector, regions that have relatively lower level of employment are Malatya, Mardin, and Gaziantep. On the other hand, these 12 NUTS II regions are placed at the bottom of the list considering the industry and trade sectors. It is observed that among 12 NUTS II regions, Konya, Kayseri and Gaziantep have relatively higher level of employment in industry sector.

As for industry and trade sectors, Konya, Kayseri and Gaziantep are the most developed regions among 12 regions. In 9 of 12 NUTS II regions, structure and sectoral breakdown of employment have characteristics of less developed regions, where the agricultural sector is dominant. Moreover, in such regions efficiency is low and the level of hidden unemployment is high in agriculture.

## Education

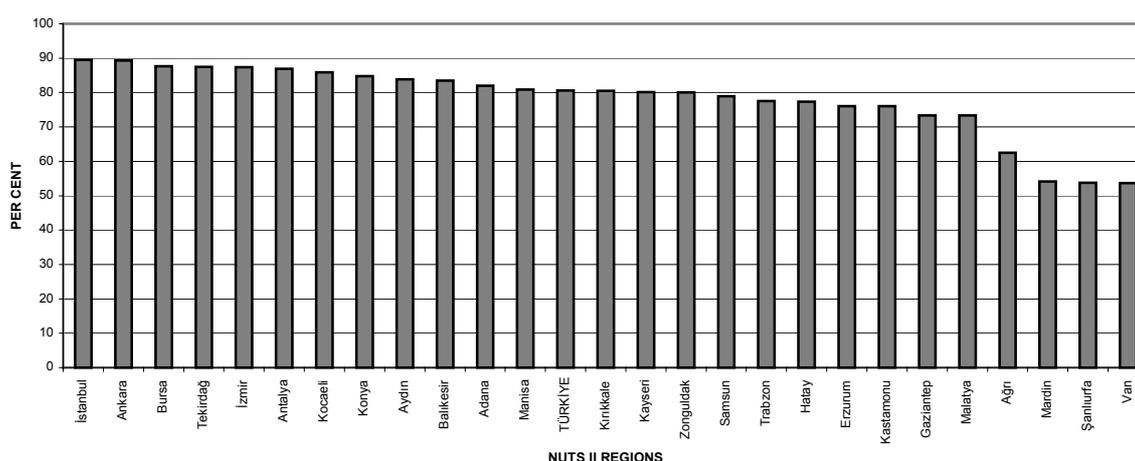
Concerning literacy rate in total population and in female population, these 12 regions are placed at the bottom of the lists. Konya region is the only exception, which is ranked 8th in both lists.

**CHART 1.6: LITERACY RATES IN NUTS II REGIONS**



Considering the literacy rate in population, Şanlıurfa, Van, and Mardin have the lowest levels among NUTS II regions. In all these 3 regions, literacy rate is below 70 per cent (Chart 1.6). Similarly, the same 3 regions are at the bottom of the list in terms of literacy rate in female population. In these regions, literacy rate in female population is below 60 per cent (Chart 1.7). The low level of education of women is one of the main factors hindering their participation in social and economic activities.

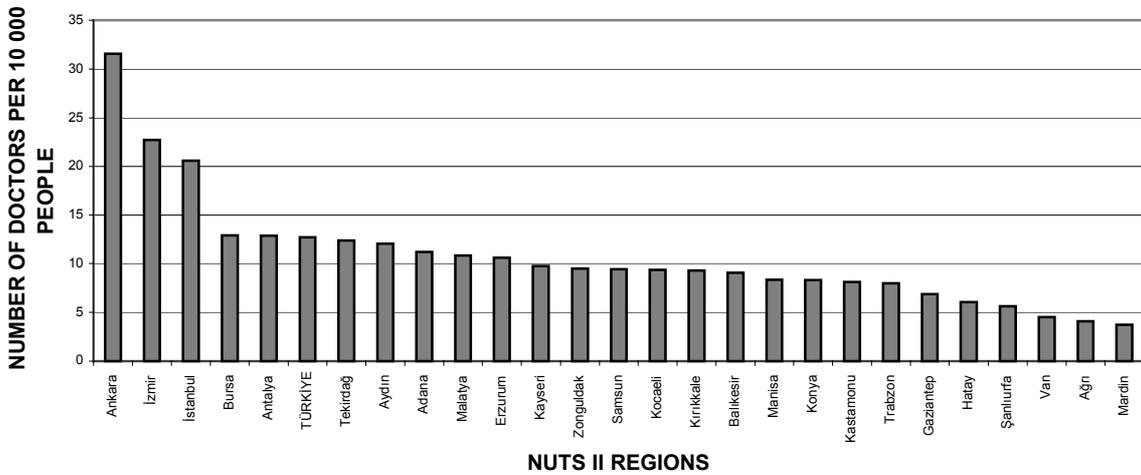
**CHART 1.7: LITERACY RATES IN WOMEN POPULATION IN NUTS II REGIONS (2000)**



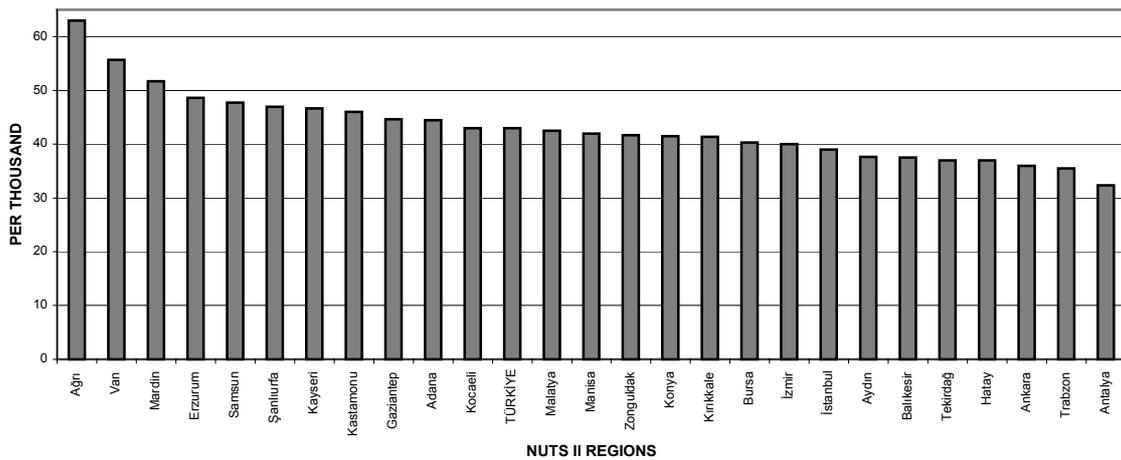
### Health

Considering the number of doctors per 10 000 people indicator, the most developed regions are Ankara, İzmir, and İstanbul, respectively (Chart 1.8). 12 NUTS II regions under pNDP are placed at lower ranks among 26 NUTS II regions. Considering infant mortality rate indicator, 12 regions have relatively high numbers compared to the other regions. Among 12 NUTS II regions, Trabzon region has the lowest infant mortality rate (Chart 1.9).

**CHART 1.8: NUMBER OF DOCTORS PER 10 000 PEOPLE IN NUTS II REGIONS (2000)**



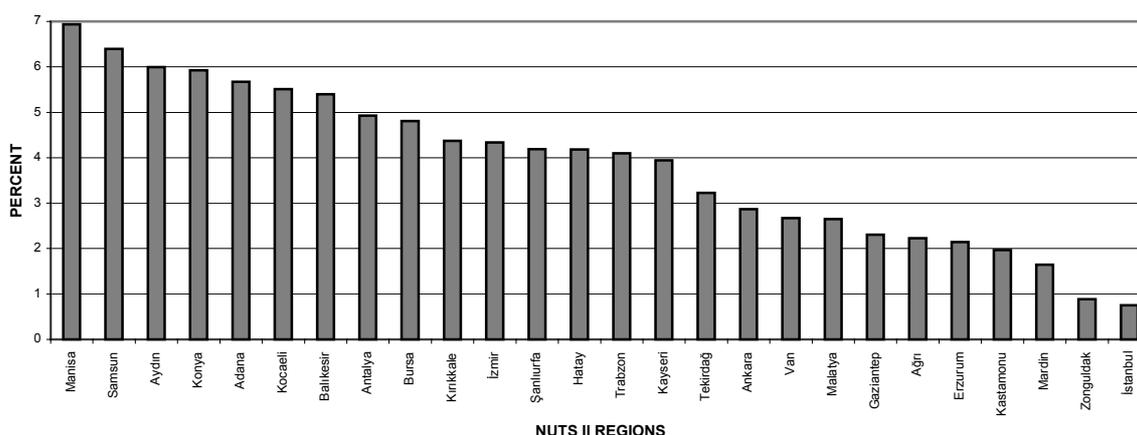
**CHART 1.9: INFANT MORTALITY RATES IN NUTS II REGIONS (2000)**



## Agriculture

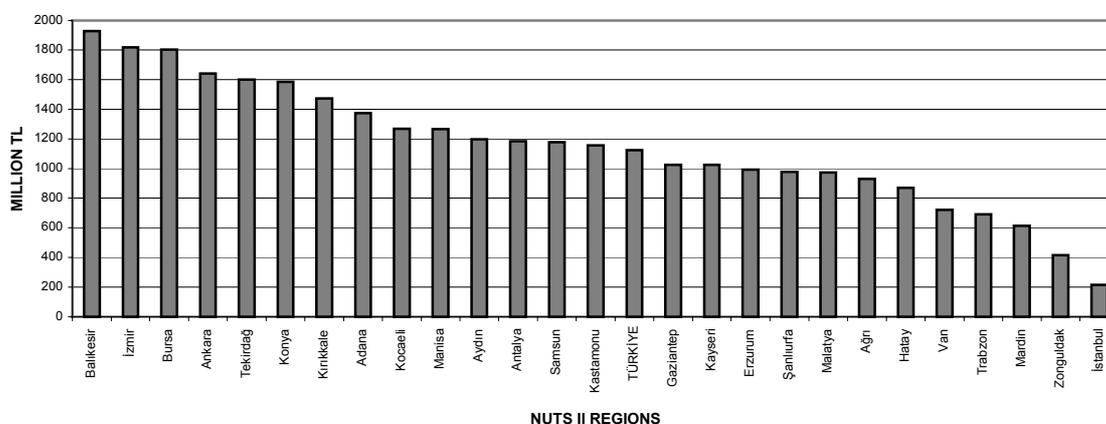
Two main indicators in relation to agriculture sector are presented below. These are the share of regions in the country’s agricultural production value and per capita agricultural production value in rural population, respectively. (Charts 1.10-1.11).

**CHART 1.10 : SHARE OF AGRICULTURAL PRODUCTION VALUE IN TOTAL AGRICULTURAL PRODUCTION IN NUTS II REGIONS**



As being one of the 12 NUTS II regions under pNDP, Samsun is the second region among 26 NUTS II regions by its contribution to country’s agricultural production. Samsun is followed by Konya as the 4<sup>th</sup>, Şanlıurfa as the 12<sup>th</sup> and Trabzon as the 14<sup>th</sup>. The other regions are at lower ranks of the list (Chart 1.10).

**CHART 1.11: AGRICULTURAL PRODUCTION PER RURAL POPULATION IN NUTS II REGIONS**

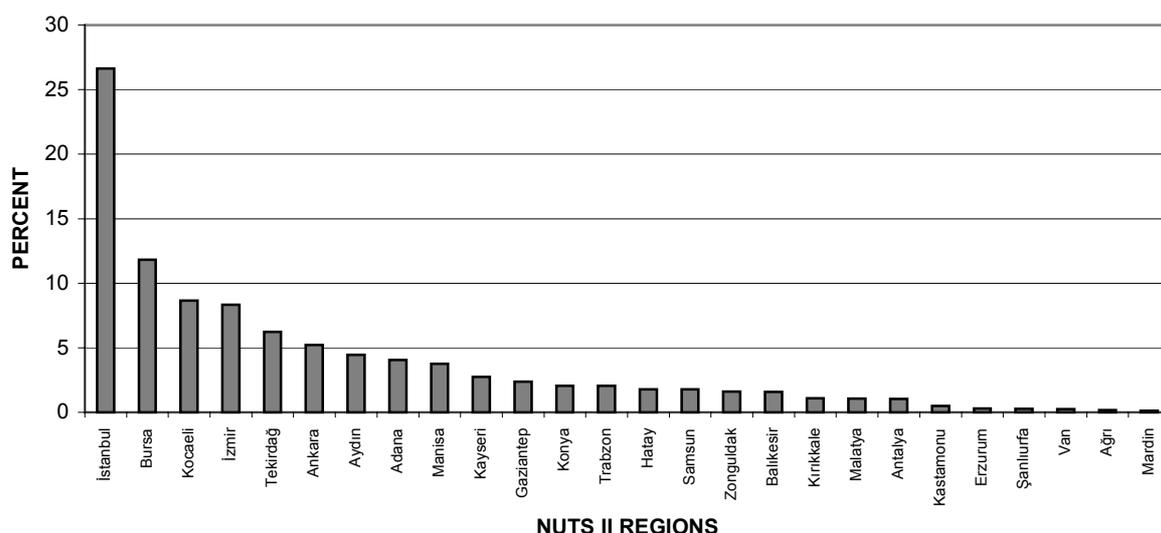


Despite the fact that agriculture sector, considering production and employment, is important in 12 NUTS II regions, agricultural efficiency is quite low (Chart 1.11). This fact implies hidden unemployment in these regions. High level of hidden unemployment in the agricultural sector is the main factor behind migration to more developed regions.

### Industry

Istanbul region and Kocaeli, Tekirdağ, and Bursa regions in the vicinity are the most developed regions of the country in terms of industrial development. The share of these regions in annual average employment of Turkish manufacturing industry confirms this fact (Chart 1.12). Due to internal and external factors, İstanbul-oriented industry expanded to the neighbouring regions in time.

**CHART 1.12: ANNUAL AVERAGE SHARE OF THE WORKERS IN MANUFACTURING INDUSTRY IN NUTS II REGIONS (2000) IN TURKEY**

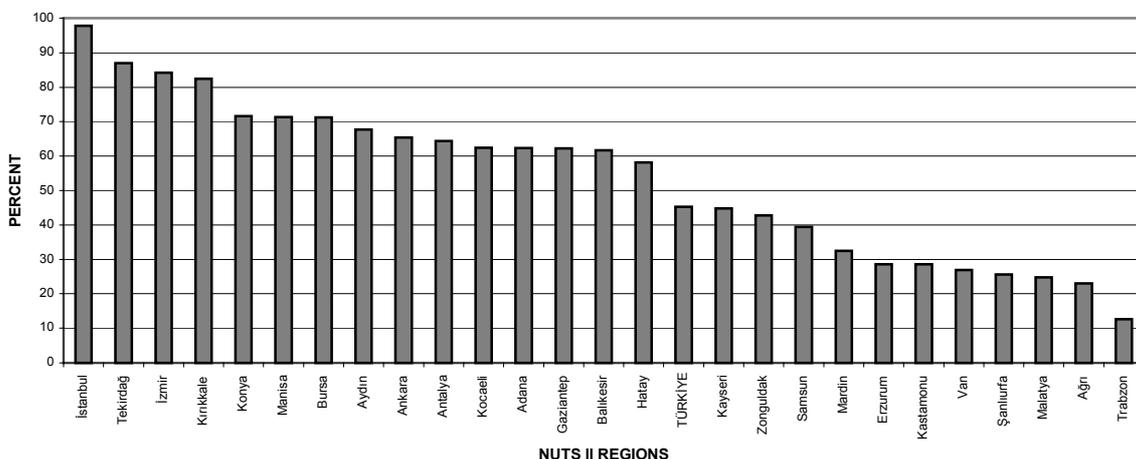


Among 12 NUTS II regions, considering industrial development Gaziantep, Kayseri, Konya and Samsun are the regions attracting attention. Manufacturing industry figures for these regions are relatively high. Considering the industrial data, other regions are placed at lower ranks of the development scale among 26 regions.

### Infrastructure

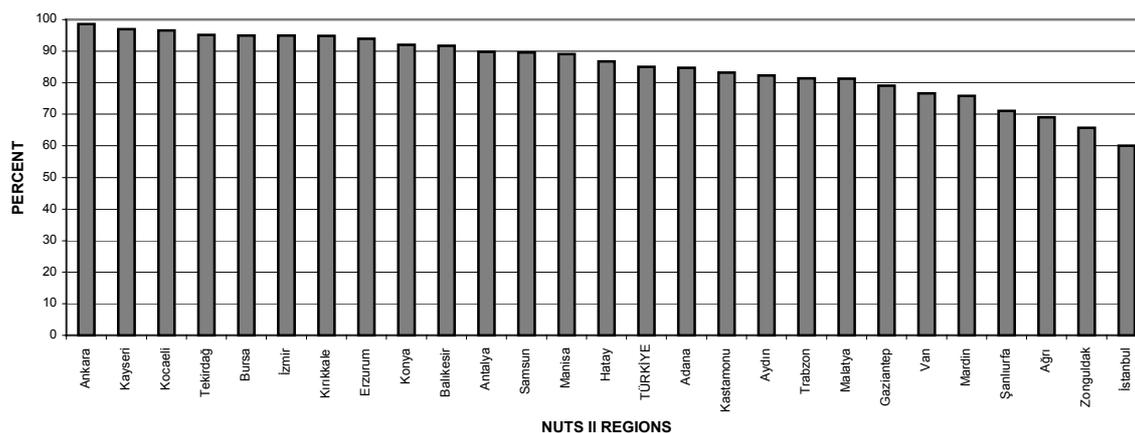
Among 12 NUTS II regions, considering the asphalted road rates in rural settlement areas, Konya has the highest level as being 4<sup>th</sup> of 26 regions. Gaziantep follows Konya region as being 13<sup>th</sup> (Chart 1.13). In terms of this indicator, it is observed that basic infrastructure problems of less developed regions have priority.

**CHART 1.13: ASPHALTED ROAD RATES IN RURAL AREAS IN NUTS II REGIONS (2000)**



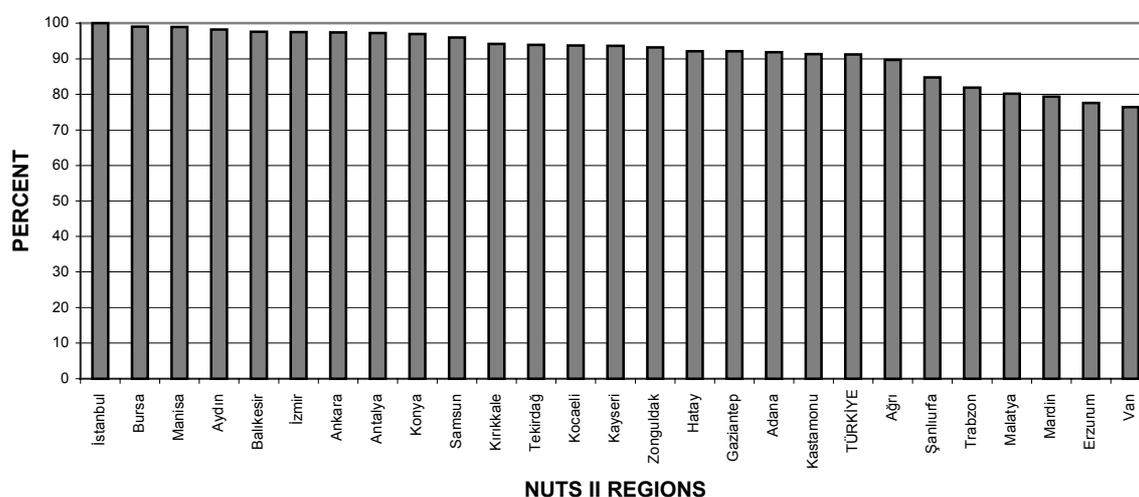
Considering the rate of population having drinking water, except Kayseri and Erzurum regions with values above Turkey averages, it is observed that all less developed regions are at the lower ranks of the list (Chart 1.14).

**CHART 1.14: POPULATION HAVING ADEQUATE DRINKING WATER IN NUTS II REGIONS (2000)**



Considering the rate of State and provincial asphalted roads, among 12 NUTS II regions under pNDP, regions at the upper ranks of the list are: Konya as the 9<sup>th</sup> and Samsun as the 10<sup>th</sup> (Chart 1.15). Other regions among 12 regions are placed at lower ranks of the list of NUTS II regions in terms of three infrastructure indicators.

**CHART 1.15: ASPHALTED ROAD RATES OF STATE AND PROVINCE ROADS IN NUTS II REGIONS**



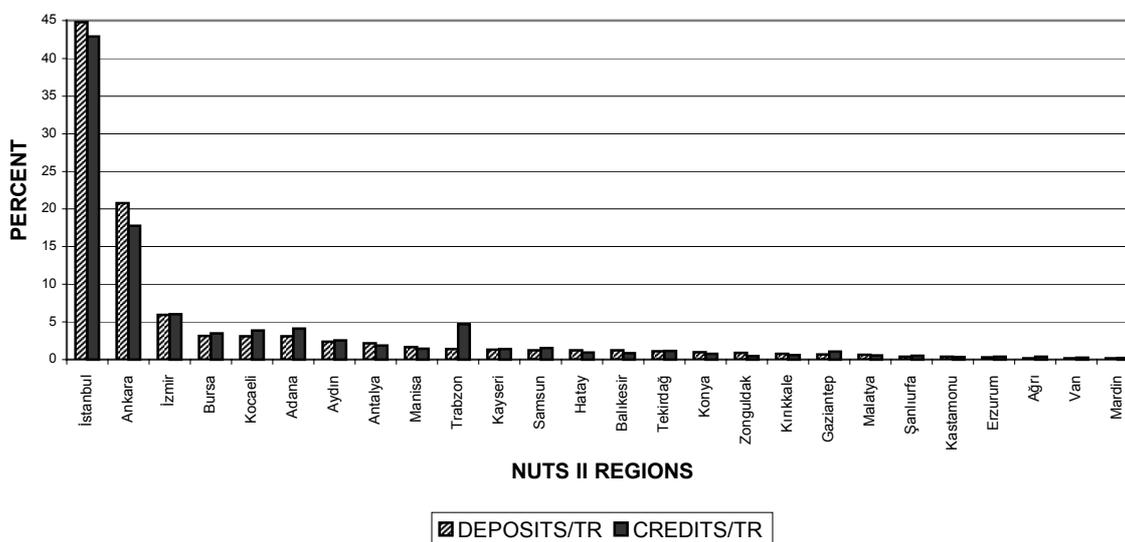
### Financial Structure

Considering share of bank deposits in Turkey's total deposits and share of bank loans in total loans, İstanbul, Ankara, and İzmir NUTS II regions are ranked as the first three in the list. Especially, İstanbul region holds around 45 per cent of total deposits and bank loans (Chart 1.16).

NUTS II regions, which rank at the top of the list in terms of their shares in total deposits of Turkey, are Trabzon (10<sup>th</sup>), Kayseri (11<sup>th</sup>), and Samsun (12<sup>th</sup>).

Among NUTS II regions, considering the share of total loans of Turkey, Trabzon has the highest level at 4<sup>th</sup> place. Samsun(10<sup>th</sup>), and Gaziantep(14<sup>th</sup>) follow Trabzon in the list.

**CHART 1.16: NUTS II REGIONS, THE SHARE OF BANK DEPOSITS AND CREDITS IN TURKEY**



**General Evaluation**

As can be seen from the economic and social indicators, 12 NUTS II regions under pNDP consist of the least developed regions of Turkey in terms of socio-economic development level. Despite minor differences, the common characteristic of these regions is the predominance of the agricultural sector, which is peculiar to less developed regions. In addition, agricultural productivity is low and the hidden unemployment rate is high in agricultural sector. Due to these factors, there has been a mass migration, including capital and young labour force, from these regions to developed regions, which in turn feeds the vicious circle of underdevelopment. Without external interference by effective public policies, it seems difficult for these regions to get out of this vicious circle.

In this context, the need for improving regional competitiveness of the selected 12 NUTS II regions by stimulating their internal potential, which will approximate the development indicators of these regions to those of the national average and thus, constitute a balanced regional pattern throughout the country is obvious. National resources and external means such as EU supports shall perform an important function in achieving this aim. In addition, while allocating the resources the main objective should be to improve regional competitiveness and stimulate their internal potential for achieving a sustainable regional development pattern. The main problems, which should be solved immediately, are as follows:

- As can be observed from social indicators, especially educational ones, infrastructure for improving human resources is limited in these regions. The low skilled population with predominantly rural characteristics naturally have less entrepreneurship capacity. For this reason, policy instruments to improve human resources are needed urgently.
- The industrial potential of the selected 12 NUTS II regions, excluding Konya, Kayseri and Gaziantep, are below the national average as can be seen from economic indicators. The existing industrial enterprises are comprised of enterprises mostly founded under the guidance or with the participation of the public and small-sized private sector firms operating in labour intensive sectors, which are dependent on local market and resources, and using low technology. As far as the low industrial potential of the region along with the employment and competitiveness capacity of SMEs are concerned, improvement of existing and future SMEs is important. SMEs' development strategies, containing industrial infrastructure practices like OIZ and SIE, KOSGEB and entrepreneurship support agencies and development and implementation of favourable loan policies should be given priority particularly in these regions. In addition, priority should be given to policies and measures, which are oriented towards providing information flow and technology transfer among SMEs and enhancing the co-operation and partnership potential on the basis of networks, all of which in turn will improve collective competitiveness.
- Due to the negative effects of geographic conditions and spatial pattern, insufficient investment returns have been noticed in all sectors. These circumstances prevent transition to urban economies, which is important for the development of local economies and for the existing and potential investments. Furthermore, low level of physical and social infrastructure investments have negative effects on the quality of urban and rural life, influencing the choice of entrepreneurs and qualified labour forces in favour of more developed regions. Due to these reasons, as a matter of urgency, physical and social infrastructure projects aiming to improve urban and rural infrastructure should be carried out and the level of these infrastructures should be approximated to national levels.
- One of the most significant common characteristics of these regions, which can also be seen from agricultural indicators, are the low level of agricultural productivity and the high level of hidden unemployment in agricultural sector, despite the predominance of agricultural sector in these regions. Therefore, measures towards modernizing the agricultural structure and organisation and creating alternative employment opportunities in rural areas continue to have priority. Moreover, in view of the existing disparities between rural and urban structures, which stimulate rural migration, significance of the policies for the improvement of infrastructure and quality of life in rural areas becomes apparent.

- New regional development approach depends to a greater extent on the organization capacity consisting of cooperation, trust and solidarity motives and the strength of institutional capacity. However, besides having a low quality of human resources, the capacities of organization and institutionalisation are also low in the above-mentioned regions. Therefore, the reinforcement of local institutional structures by means of new governance models, which will enhance local participation, enlarge common enterprise spheres and regulate the collective intervention of all relevant actors in local economic development process is vital in those regions.

### **1.3.2. Policies and Means of Regional Development in the Planned Era**

Turkey has been carrying out its social, economic and cultural development through Five-Year Development Plans since the beginning of 1960s. Thus, it is convenient to examine the efforts towards regional development in Turkey in two separate parts as pre-planned era and planned era.

In the first years of the Republic, the policies of spreading population and investments within the country and keeping them in certain centres were implemented. The approach adopted by the State in establishing industrial facilities throughout the country (the choice of Black Sea, inner Aegean and Inner Anatolia Regions besides İstanbul and Marmara for settlement) is indicative of this.

It is observed that before the planned era in Turkey, the regional planning was considered as a means of construction rather than a means of development planning and its main objective was defined as the establishment of a physical settlement plan.

With the beginning of the planned era in 1960, regional planning understanding has changed and an integrated planning approach in which the physical, social, and economic dimensions are evaluated together have been implemented, dispensing with the construction planning. With this approach, a special importance has been attributed to regional development and the elimination of interregional development disparities. Elimination of interregional disparities has been one of the priority fields of all development plans.

Besides regional development plans, which are fundamental means of ensuring regional development and eliminating interregional disparities, instruments such as investment incentives and Priority Regions for Development (PRD) policies, OIZ and SIE, and rural development projects have been used in Turkey.

In the context of integrating sectoral priorities of development plans with spatial dimensions, several development plans aiming to reduce interregional development disparities and realize sustainable development have been prepared. The foremost among these are; East Marmara Planning Project, Antalya Project, Çukurova Region Project, Southeastern Anatolia Project (GAP), Zonguldak-Bartın-Karabük Regional Development Project, Eastern Anatolia Project and Regional Development Plan for the Eastern Black Sea Region. Nonetheless,

excluding GAP, regional development projects prepared until recent years, could not be implemented effectively. (See Annex 4 - Current Regional Development Plans and Rural Development Projects)

In the framework of the objectives and strategies of the Eighth Five-Year Development Plan; regional and provincial planning studies towards determining the characteristics, differences, development levels, basic problems and potentials of the regions with a view to reducing regional development disparities, improving the welfare of the population in less developed areas, stabilizing the migration tendency dynamics that brings a huge burden on metropolitan areas and solving problems stemming from unplanned urbanization are underway.

In this context, preparatory work to ensure the consistency of regional development programmes, which will be implemented through EU financial support, with national regional development strategy, and to make regional plans for the regions outside the scope of these programmes has been initiated.

In order to eliminate interregional disparities, enlarge capital base, increase employment, ensure utilization of high and appropriate technologies that having high added values and enhance international competitiveness, investment incentives to promote investments were firstly introduced in 1913. During the planned era, with the launching of development plans, which are non-compulsory guidelines for the private sector, investment incentives have been carried out by means of decrees and notifications issued within the framework of development plans and annual programmes. One of the objectives of the incentive policies regulating the State Investment Aids has been the implementation of specific incentive policies for economically and socially less developed regions to ensure their development. Within this scope, Priority Regions for Development (PRD) were determined and incentive policies were put into practice for these regions. The scope of Priority Regions for Development was determined firstly in 1968. It was extended during 1990s and covers 49 provinces and 2 districts (Gökçeada and Bozcaada Islands) today.

In the planning, programming and implementation stages of development activities, PRD policy was carried out in conjunction with incentives system and resource allocation policies. Although there were no specific measures for less developed regions within the scope of overall incentive legislation, nation-wide incentive measures are implemented in PRD (provinces and districts) with higher rates.

PRD policy is a general policy implemented by the State for less developed regions. The state aids introduced within the scope of this policy have not only been limited to incentive measures. Other state aids applied within PRD scope can be summarized as follows: (1) Measures relatively improving wages in PRD, (2) Credit support for agricultural and vocational objectives, (3) Financial support for investments from Public Participation Fund: Financial support provided for Public, Public Participation and private sector investments, (4) Financial facilities from the SPO budget for the projects run by local administrations.

A way of improving infrastructure for industrial enterprises in Turkey is to establish Organised Industrial Zones (OIZ) for middle-scale industries and SIE for small-scale industries. OIZ and SIE policy, which have been applied since the beginning of planned era, have functioned as a development tool for keeping local capital within the province and transferring that capital to local industry. OIZ and SIE have significant contributions in the formation of external economies, localization of industry and improvement of complementary relationships among industrial units. Moreover, OIZs and SIEs make considerable contributions to the localization of industry by means of providing suitable environment for the improvement of local SMEs and thus also contributing to the balanced distribution of industry among regions.

When investment incentives, PRD, OIZ and SIE policies are generally evaluated, although they could not wholly succeed in bridging the gap between developed and less developed regions, they provided a significant motivation for some regions which are or were within the scope of PRD and where the local conditions are ripe. It can be said that there is an important role of PRD and incentive policies implemented within this framework together with industrial infrastructure practices like OIZ and SIE behind the success of industrial centers like Denizli and Gaziantep in particular, and Çorum and Kahramanmaraş.

Among the regional development plans being implemented, the Southeastern Anatolia Project (GAP), which has with adequate financial means, is the most successful one. The main objective of GAP, which covers Gaziantep, Şanlıurfa, and Mardin NUTS II regions, is to convert Southeastern Anatolia Region to an agriculture-based exporting region. For this purpose, with the dams to be built on the Rivers Euphrates (Fırat) and Tigris (Dicle) together with hydroelectric power plants and irrigation systems, through the investments in the sectors like agricultural infrastructure, transportation, industry, education, health, settlement, tourism and other sectors, are to bring changes, which will affect not only the project field but also the country as a whole.

At the beginning of 1960s the studies initiated to utilise the irrigation and energy potential of Fırat and Dicle Rivers were combined under the name of Southeastern Anatolia Project. In 1986, responsibility for coordinating the activities was given to the SPO. As a result of integrated regional planning studies started by the SPO, GAP Master Plan, which determines a development strategy for the region was prepared in 1989. The total investment cost of Project is 32 billion dollars and its cash realization ratio as of the end of 2002 is 50 per cent. 22 dams were planned to be built and 13 of them are completed. On the other hand, 19 Hydroelectric Power Plants were planned to be built and 7 of them are completed. The total energy production is 196.3 billions kWh and average annual production capacity is 26,824 GWh.

Following the completion of the irrigation projects, approximately 1.8 million hectares of land within the GAP will be irrigated. At present, approximately 224 thousand hectares of area is being irrigated.

During 1987-2001 period, GAP's annual average rate of GDP growth is 3.2 percent and annual average per capita GDP growth is 0.4 per cent. In the same period, Turkey's annual average rate of GDP growth is 2.8 percent and annual average per capita GDP growth is 0.9 per cent. Annual average rate of growth of the region with respect to the sectors is 4.3 percent in agriculture, 2.2 percent in industry and 3 percent in services. Annual average rate of growth of Turkey with respect to the sectors is 0.8 percent in agriculture, 3.5 percent in industry and 3 percent in services. As can be seen from the sectoral growth rates, while a growth ratio in agricultural production is realised well above Turkey average in GAP region, it is below the country average in services and industry sectors. It is expected that capital accumulation obtained from agricultural production will further support other sectors in subsequent years.

Despite the fact that GAP was initiated as a project based mainly on energy and irrigation, it became an integrated multidimensional development project in time. In GAP 2010 Integrated Plan, a comprehensive evaluation of all the projects realized up to now is made and new objectives and strategies foreseen for 2010 perspective are determined.

### **1.3.3. Regional Development Programmes for which Financing Agreement is Signed with the EU**

Financing agreement of the regional development programmes presented below is signed with the EU and preparatory work towards their implementation has been almost completed. Funds allocated for these programmes (approximately 133,3 million euro) are outside the scope of the pNDP.

#### **Samsun (Amasya, Çorum, Samsun and Tokat), Kastamonu (Çankırı, Kastamonu and Sinop) and Erzurum (Erzurum, Erzincan and Bayburt) NUTS II Regions, Integrated Regional Development Programme**

A single project fiche under the heading of "Regional Development Programme" for three different NUTS II regions mentioned above, is prepared and submitted to the EU. In line with regional development axis, the following chosen as priority items in this programme;

- 1) Supporting SMEs,
- 2) Improving small-sized infrastructure investments,
- 3) Supporting local development initiatives,
- 4) Technical cooperation.

#### **Eastern Anatolia Development Programme**

The programme prepared for Van (Van, Bitlis, Muş, Hakkari) NUTS II Region aims to reduce the regional disparities, ensure sustainable economic and social development and increase the job opportunities in the region and income level of the population in rural areas. The priority areas of the programme are determined as:

- 1) Supporting agriculture and stockbreeding,
- 2) Supporting SMEs,

- 3) Supporting tourism and protecting the environment,
- 4) Improving the social services.

### **Cross-border Cooperation Program**

The cross-border cooperation programme, which contributes to regional development and has special importance for the EU aims at:

- Reinforcing cross-border economic, social and cultural links,
- Contributing to the improvement of economic potential of the border regions.

Within the scope of cross-border cooperation programme established between Bulgaria and Turkey, it is agreed to establish a “Common Small Projects Fund” for 2003 and transfer a certain amount to this fund every year. Main priority areas in the project fiche prepared for Common Small Projects Fund are as follows:

- Increasing Institutional Capacity,
- Economic Development,
- Environment-Tourism,
- Cultural Exchange,
- Planning and Development Studies.

Main priority areas are determined in the “Common Programming Document” which will define the framework of the cross-border programme between Bulgaria and Turkey and which will be arranged for the period 2004-2006.

- SMEs,
- Support to Regional Entrepreneurship,
- Infrastructure.

Notable progress has also been made in the cross-border cooperation between Turkey and Greece. During the workshops held in Brussels, Athens and Ankara, Common Programming Document was finalised with the contributions of the European Commission. Infrastructure, environment, economic development and technical assistance have been determined as main priority areas in the document submitted to the European Commission for its approval.

### **Twinning**

With this programme, it is aimed to provide technical support for the institutions and organizations in Turkey in the establishment of necessary mechanisms to implement and improve the regional policies and in the preparation and implementation of the projects supported by EU funds. For this purpose, a general announcement has been made, and the Italian team was selected for the twinning programme among the interested countries' teams. The Italian team made its first contacts in the SPO.

## 2. TURKEY AND THE EU: MAJOR ECONOMIC AND SOCIAL INDICATORS

In this part, Turkey’s convergence to the EU in terms of economic and social indicators is considered. Despite being lower than the EU member countries and the averages of EU countries on the basis of various indicators, Turkey intends and endeavours to bridge this gap by mobilising its growth and development potential.

Two important points appearing on the comparison tables are national income according to PPP and unemployment rates. While the calculation of national income of Turkey is still made according to PPP on the NUTS II regional classification, PPP values calculated according to OECD definition has given for Turkey on the tables below. The given unemployment rate for Turkey is calculated in accordance with the ILO definitions. The calculations based on the unemployment used definitions in EU countries are being made within the framework of the ongoing studies about new data set.

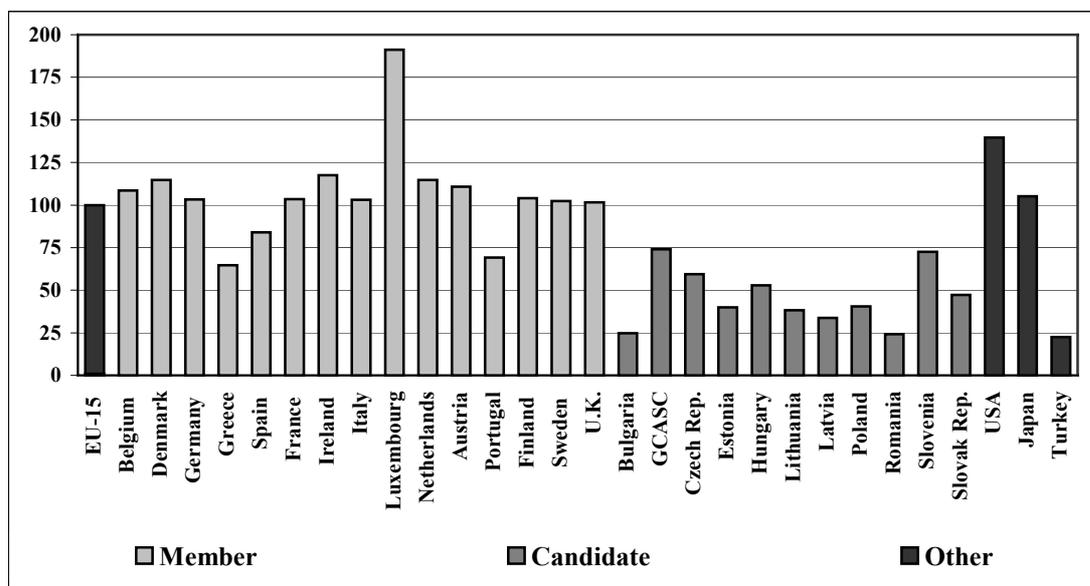
### 2.1. ECONOMIC INDICATORS

#### 2.1.1. GDP and National Income Per Capita

During the 1970-2002 period, by growing 4.1 per cent average annually, the economic growth performance of Turkey was higher than the average growth rate of EU countries.

**Chart: 2.1. National Income Per Capita, in PPP, in 2001**

(EU-15=100)



Source: EUROSTAT.

However, the increase in national income per capita is limited because of the increase in population growth rate. The national income per capita, which was 519 dollars in 1970s rose up to 2,985 dollars in 2000. On the other hand, after declining to 2,103 dollars in 2001 as a result of crises, per capita income recovered steadily and rose up to 2,586 dollars in 2002. Per capita national income according to PPP increased in time, as well. While being 4,700 dollars in 1990, per capita national income increased to 6,158 dollars in 2001.

Despite the high growth rate, Turkey's national income according to PPP is quite low compared to EU member countries and EU candidate countries. When the index values are considered by taking EU average as 100 units, Turkey is at very low levels with 22.5 index value in the year 2001.

### 2.1.2. Labour Productivity, Unemployment and Employment

When the rate of labour productivity is evaluated by periods, it is observed that the values in Turkish economy are higher than EU averages. Despite the negative values in productivity in parallel with the decline in employment during the crises, the average labour productivity growth rate in the 1990-2002 period was 2.2 per cent.

**Table: 2. 1. Labour Productivity Growth Rates <sup>(1)</sup>**

	(Per cent)						
	1961-73	1974-85	1986-90	1991-95	1995-2000	2001	2002
Belgium	4.4	2.2	2.1	1.7	1.6	-0.4	0.8
Denmark	3.3	1.2	1.2	2.0	1.5	1.8	2.3
Germany	4.0	1.9	1.9	2.1	1.1	0.1	0.8
Greece	9.0	0.7	0.5	0.7	2.8	4.5	4.2
Spain	6.5	3.2	0.9	1.9	0.7	0.3	0.7
France	4.7	2.3	2.4	1.6	1.6	-0.1	0.6
Ireland	4.3	3.7	3.5	2.7	3.9	2.6	4.6
Italy	5.5	1.8	2.1	2.1	1.1	0.1	-0.7
Luxembourg	3.0	1.3	4.2	1.3	2.5	-4.3	-2.4
Netherlands	4.0	2.0	1.2	1.3	1.1	-0.5	1.1
Austria	4.9	2.3	2.6	2.1	2.0	0.2	1.4
Portugal	6.6	2.6	4.6	2.3	1.9	0.3	0.3
Finland	4.5	2.4	3.0	3.1	2.5	-0.6	1.3
Sweden	3.5	1.0	1.4	3.4	2.5	-0.8	1.7
U.K.	2.9	1.5	1.4	2.8	1.5	1.5	1.1
EU-15	4.4	2.0	1.8	2.1	1.3	0.3	0.7
Turkey	-	-	2.4	2.6	3.2	-6.5	8.2

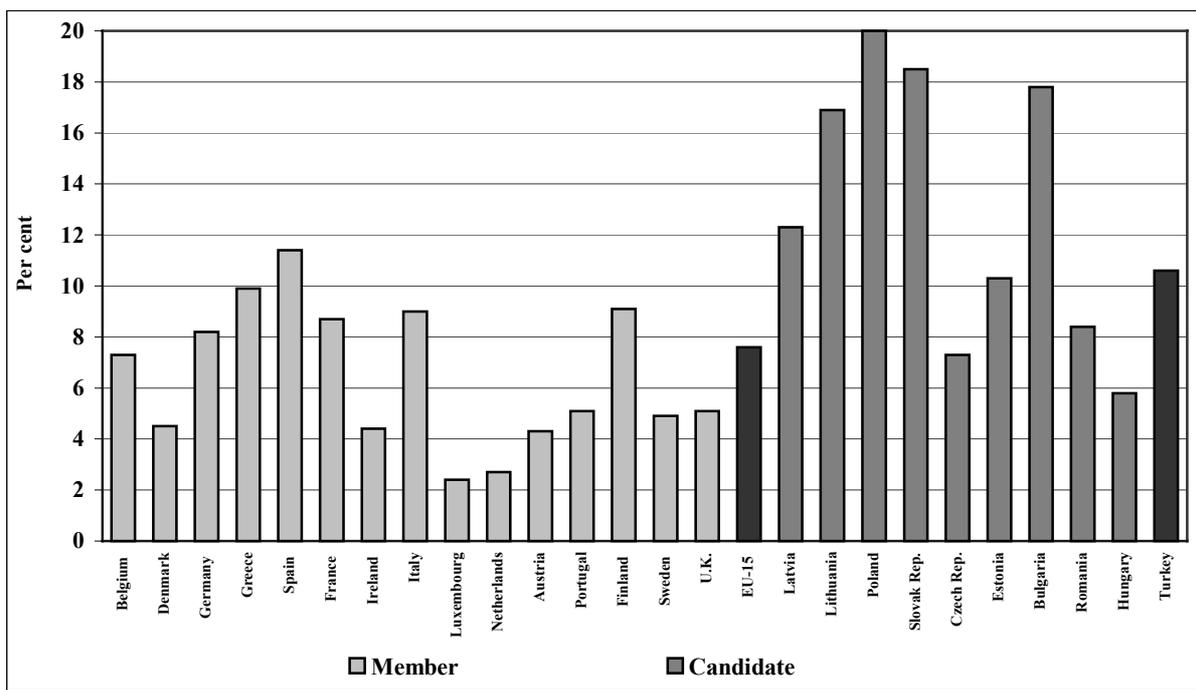
Source: European Economy, Spring 2003, EC and SIS.

(1) Labour productivity is defined by real GDP divided by employment.

Unemployment rates vary among the EU countries. In Spain, Finland, Greece, and Italy, the rate of unemployment is markedly high, whereas in Luxembourg, Netherlands, Austria, and Ireland this rate is relatively low. In addition, the average unemployment rate of EU countries, which was 10.1 per cent in 1995, has declined gradually down to 7.6 per cent in 2002. In Turkey, unemployment rate fluctuated around 6-7 per cent during 1995-2000 period and realised as lower than EU averages. However, since the unemployment rate in Turkey is calculated according to ILO definitions and based on households' labour surveys, differences in definitions and methodology produce low rates of results in Turkey. On the other hand, with the effect of crisis in 2001, unemployment rate tended to increase in 2001 and 2002 and rose up to about 10 per cent.

In Turkey, the labour force participation rate was 48.9 per cent in 2002. This rate was 70.6 per cent in men and 27.4 per cent in women. While the labour force participation rate in urban areas was 68.7 per cent in men and 18.9 per cent in women, this rate in rural areas was 73.8 per cent in men and 41.9 per cent in women.

**Chart: 2. 2. Unemployment Rates in 2002**



Source: European Economy, Spring 2003, EC and CBRT.

**Table: 2. 2. Employment by Sectors in 2002**

	(Per cent)		
	Agriculture	Industry	Services
Belgium	2.2	22.6	75.2
Denmark	3.4	22.4	74.2
Germany	2.5	27.9	69.7
Greece	15.8	22.5	61.7
Spain	5.9	31.2	62.9
France	3.6	23.9	72.5
Ireland	7.0	28.2	64.9
Italy	5.0	31.8	63.2
Luxembourg	1.8	26.2	71.9
Netherlands	-	-	-
Austria	5.7	29.8	64.5
Portugal	12.4	34.2	53.4
Finland	5.4	26.9	67.7
Sweden	2.2	23.3	74.5
U.K.	1.4	24.2	74.4
EU-15	5.3	26.8	67.9
Poland	16.4	30.1	53.5
Hungary	6.3	34.7	59.1
Czech Rep.	4.7	39.5	55.8
Slovak Rep.	6.3	38.3	55.4
Turkey	34.9	18.5	46.6

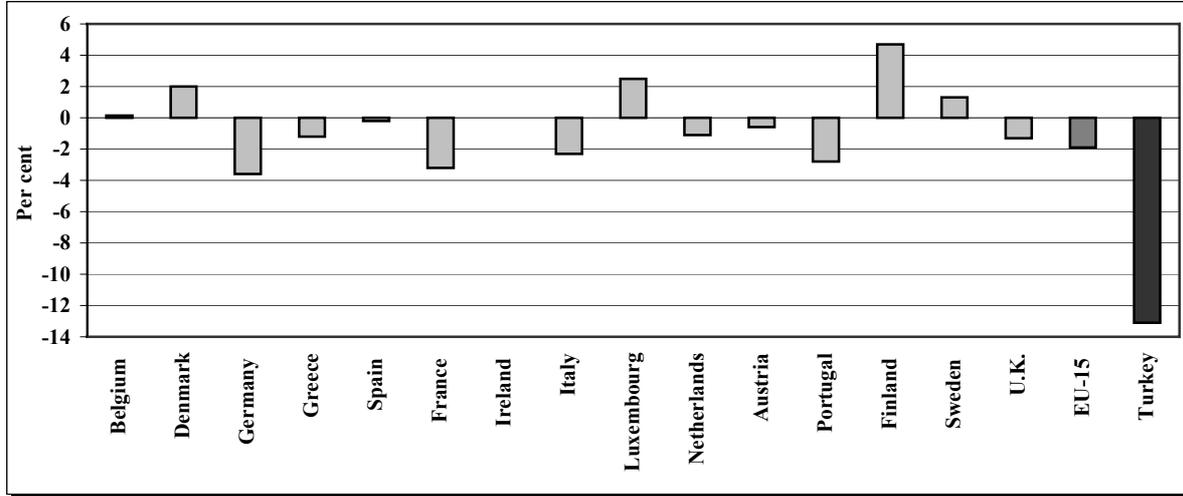
Source: IMD World Competitiveness Yearbook, 2003.

According to 2002 data, excluding Greece and Portugal, share of agriculture in employment in EU countries varies between 1.4 and 7 per cent. In 2002, share of agriculture in employment was 5.3 per cent, the share of industry was 26.8 per cent and the share of services was 67.9 per cent in EU countries. In Turkey, the share of agriculture sector in employment was 34.9 per cent, the share of industry was 18.5 per cent, and the share of services was 46.6 per cent in 2002.

### **2.1.3. Public Expenditures and Debt Stock**

One of the most important subjects requiring convergence between Turkey and EU countries is public finance. While the rate of budget deficit to GDP in EU countries in 2002 was 1.9 per cent, it was 13.1 per cent in Turkey. Within the framework of the current economic programme, it is expected that the high budget deficit will decline with the realization of public reform and financial discipline.

**Chart: 2. 3. The Ratio of General Government Budget Balance to GDP in 2002 <sup>(1)</sup>**



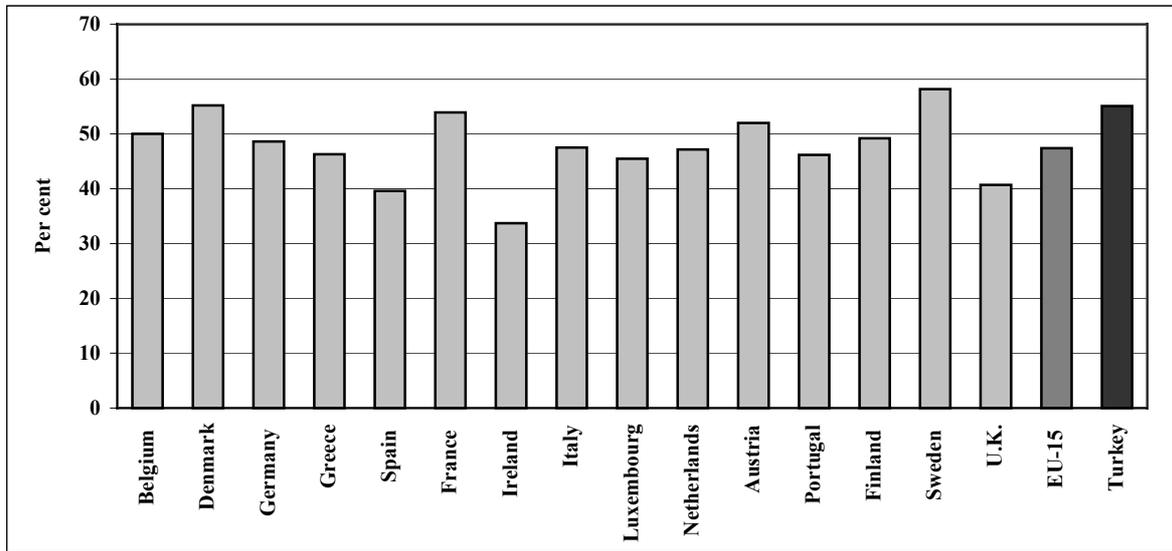
Source: Eurostat and SPO.

(1) According to ESA'95 definition.

(-) Refers to deficit, (+) refers to surplus.

In Turkey the rate of general government expenditures to GDP is higher than EU averages, but not at a very high level. It is expected that resources will be used more effectively by ensuring the budget equilibrium.

**Chart: 2. 4. The Ratio of the General Government Expenditures to GDP in 2002 <sup>(1)</sup>**

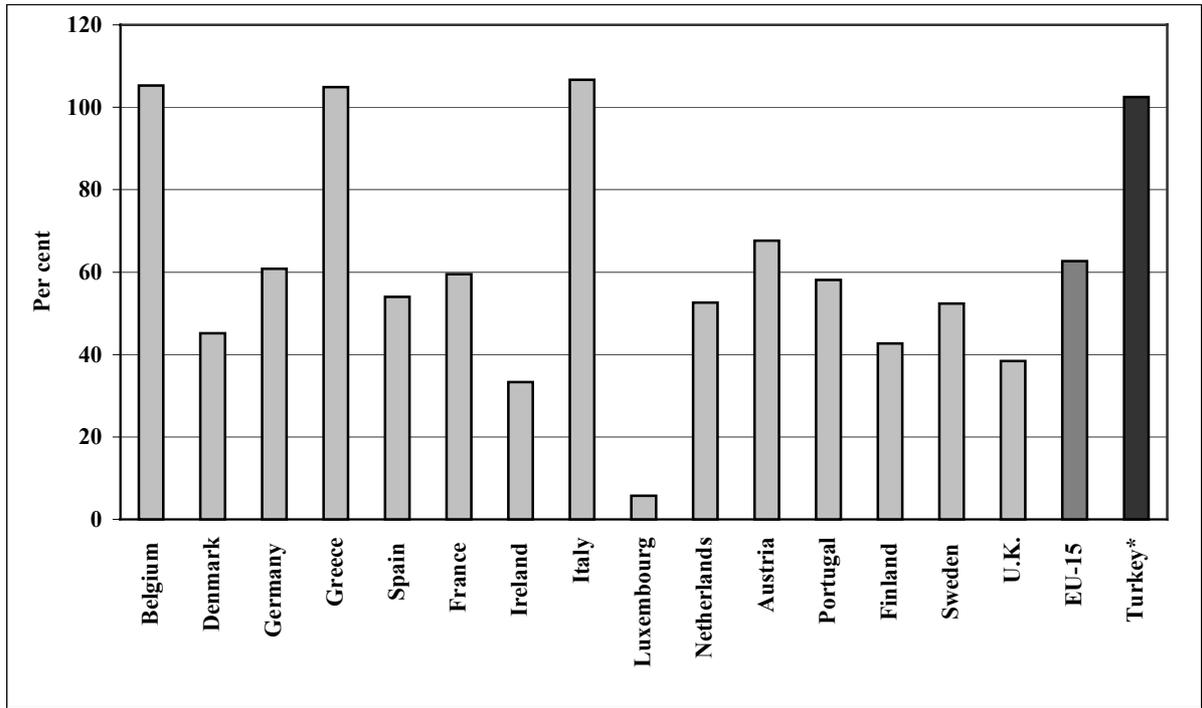


Source: Eurostat and SPO.

(1) According to ESA'95 definition.

Another indicator concerning the convergence of public finance to EU averages is the rate of general government debt stock to GDP. The total gross debt stock has increased rapidly due to the worsening public balance, recent economic crises, reforms in banking sector and the duty losses of the state banks. In 2002, the rate of total debt stock to GDP was 102.5 per cent. This rate has a falling tendency but it is still quite higher than the EU averages, which is currently 62.7 per cent.

**Chart: 2. 5. The Ratio of the General Government Debt Stock to GDP in 2002 <sup>(1)</sup>**



Source: Eurostat and SPO.

(1)According to ESA'95 definitions.

\* Includes CBRT.

### 2.1.4. Inflation

Turkey needs to converge with EU averages in respect of price stability as well. In EU countries, prices increase in single digit numbers. The chronic inflation since 1980s, though still high, has a falling tendency during the period of 1995-2002, excluding the crisis year of 2001. With the continuing economic programme, growth rate of annual average consumer prices, which are expected to decline to single digit numbers in following two years, has decreased to 26.3 per cent.

**Table: 2. 3. Inflation** <sup>(1)</sup>

	(Per cent)			
	1995	2000	2001	2002
Belgium	1.3	1.3	2.0	2.3
Denmark	1.8	3.1	2.0	1.1
Germany	2.0	-0.3	1.4	1.6
Greece	9.8	3.4	3.4	3.7
Spain	4.9	3.5	4.2	4.4
France	1.7	0.7	1.4	1.7
Ireland	3.0	4.3	5.3	5.6
Italy	5.0	2.1	2.7	2.7
Luxembourg	2.4	2.8	2.3	1.7
Netherlands	2.0	4.2	5.3	3.2
Austria	2.5	1.4	1.6	1.3
Portugal	3.4	3.2	4.7	4.6
Finland	4.1	2.9	3.6	1.3
Sweden	3.4	1.3	2.0	1.3
U.K.	2.6	2.2	2.3	3.2
EU-15	2.8	1.5	2.4	2.5
Turkey	87.2	49.9	54.8	43.5

Source: European Economy, Spring 2003, EC and CBRT.

(1) GDP deflator.

### 2.1.5. Foreign Trade

Comparing the rate of current account balance to GDP ratio of Turkey and EU-averages, it is observed that Turkey's data does not diverge very much from EU averages, excluding 1974-85 period, 1993 and the year 2000. Despite all the economic crises endured during 1971-2002 period, Turkey has a sustainable structure in current account balance, which may be taken as an indicator of Turkey's trade relations with the rest of the world.

Turkey has reached a trade structure that is more open to the external world and competition with the effects of Customs Union and liberalization of trade since 1980s. Therefore, Turkey-EU trade volume has increased.

Since the beginning of the year 1996, following the Customs Union Decision with the EC, all quotas and tariffs on the industrial products imported from EU countries has been removed and Common Customs Tariff is implemented to the imports from the third countries. Therefore, while the share of imports from EU countries in total imports had been 44.4 per cent in 1990, it rose to 53 per cent in 1996. With the effects of 2001 crisis, this rate declined to 44.2 per cent, however this rate increased to 45.4 per cent in 2002 with the improvements in the economy.

Exports to EU countries increased to 18.3 billion dollars from the level of 7.2 billion dollars during 1990-2002 period, but share of exports to EU in total exports has fluctuated between 52-55 per cent during the same period.

**Table: 2. 4. Trade with the EU Countries**

	(Billion Dollars)				
	1990	1995	2000	2001	2002
<b>I. EXPORTS</b>					
- Exports to EU Countries	7.2	11.1	14.5	16.1	18.3
- Total Exports	13.0	21.6	27.8	31.3	35.8
- Exports to EU Countries/Total Exports (%)	55.4	51.2	52.2	51.4	51.1
<b>II. IMPORTS</b>					
- Imports from EU countries	9.9	16.9	26.6	18.3	23.3
- Total Import	22.3	35.7	54.5	41.4	51.3
- Imports from EU Countries/Total Imports (%)	44.4	47.2	48.8	44.2	45.4

Source: CBRT and SPO.

**2.1.6. Foreign Direct Investment**

Turkey cannot get a satisfactory share from foreign capital inflows. Economic fluctuations and crises are effective in this fact. In the period of 1993-2002, net direct foreign capital inflow to Turkey was limited with 7.6 billion dollars. Compared with the EU member states, Turkey gets a little share from the international capital. However, with a more stable atmosphere as a result of the economic program and the realization of the structural transformation in Turkey, it is expected that there will be more foreign capital inflow.

**Table: 2. 5. Foreign Direct Investments (1993-2002)**

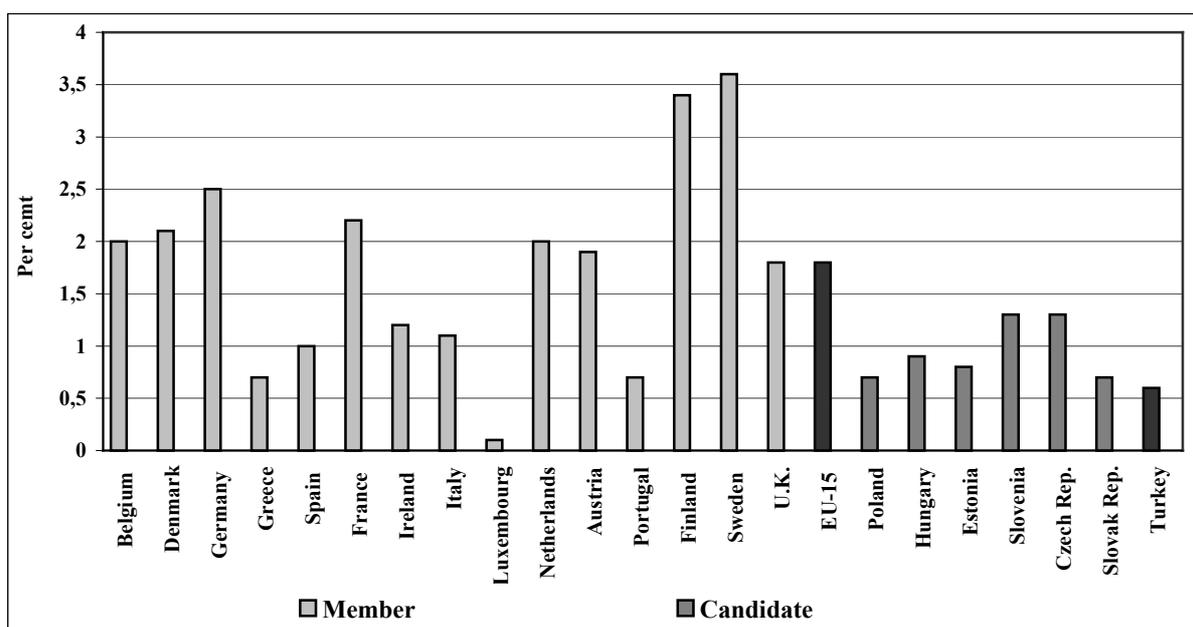
	(Cumulative, Billion Dollars)		
	Inflow	Outflow	Net Inflow
Belgium and Luxembourg	682.4	680.3	2.1
Denmark	88.9	79.4	9.5
Germany	393.8	489.7	-95.9
Greece	9.3	3.7	5.6
Spain	152.7	196.9	-44.2
France	322.4	634.4	-312.0
Ireland	97.2	26.4	70.8
Italy	73.3	110.5	-37.2
Netherlands	272.5	346.8	-74.3
Austria	36.3	28.2	8.1
Portugal	28.7	29.4	-0.7
Finland	45.2	83.6	-38.4
Sweden	167.9	141.3	26.6
U.K.	484.5	891.5	-407.0
EU-15	2855.1	3742.1	-887.0
Poland	49.4	0.8	48.6
Hungary	22.7	2.5	20.2
Czech Rep.	35.9	1.1	34.8
Slovak Rep.	9.6	0.1	9.5
Turkey	10.7	3.1	7.6

Source: OECD "Trends and Recent Developments in Foreign Direct Investment, June 2003".

### 2.1.7. R&D Expenditures

While the rate of R&D to GDP in EU countries during 1999-2001 period was between 1.8-1.9 per cent, this rate in Turkey was between 0.5-0.6 per cent. Turkey has a lower share than EU and the candidate countries. It is expected that the 6th Framework Programme signed with EU will provide significant contribution to R&D expenditures in forthcoming periods.

**Chart: 2.6. The Ratio of the R&D Expenditures to GDP in 2001**



Source: IMD World Competitiveness Yearbook, 2003.

## 2.2. DEMOGRAPHIC AND SOCIAL WELFARE INDICATORS

### 2.2.1. Population and Land

Turkey with a total land area of 775 thousand square-kilometres is the biggest country among both EU countries and candidate countries. With a population of 70 million, it has the highest population after Germany. Despite the high population in Turkey, density of population is lower than the average of both the EU member states and candidate countries.

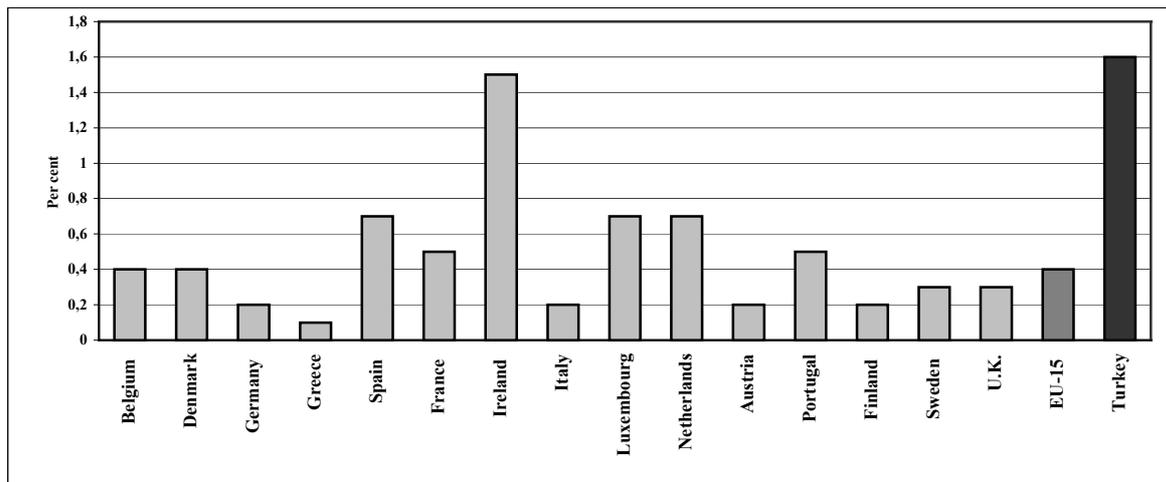
On the other hand, the urban population rate is 59.3 per cent in 2002 concerning the share of population in urban and rural areas. Turkey still has a high rural population. When the population is classified by age groups, 0-14 age group makes up 30 per cent of the population, 15-64 age group makes up 65 per cent of population and 65 and upper age group makes up 5 per cent of the total population. This shows that Turkey has a young population.

**Table: 2. 6. Demographic Indicators in 2002**

	Land (1000 km <sup>2</sup> )	Population (million people)	Population Density (number of person per km <sup>2</sup> )
Belgium	31	10.3	333
Denmark	43	5.4	125
Germany	357	82.5	231
Greece	132	11.0	83
Spain	505	40.5	80
France	552	61.2	111
Ireland	70	3.9	56
Italy	301	58.0	193
Luxembourg	2.6	0.4	171
Netherlands	41.5	16.2	389
Austria	84	8.1	97
Portugal	92	10.4	113
Finland	338	5.2	15
Sweden	450	8.9	20
U.K.	245	60.1	245
EU-15	3244.1	382.1	118
Poland	313	38.6	123
Hungary	93	10.2	110
Czech Rep.	79	10.3	130
Slovak Rep.	49	5.4	110
Turkey	775	69.6	90

Source: European Economy, Spring 2003, EC and IMD World Competitiveness Yearbook, 2002.

In EU countries, population growth rate was 0.32 per cent during the 1995-2002 period. In the same period, the average annual population growth rate in Turkey was 1.73 per cent. Despite the fact that population growth rate in Turkey is higher than EU countries, it has a falling tendency since last twenty years. The population growth rate, which was 1.84 per cent in 1995 declined to 1.6 per cent in 2002.

**Chart: 2. 7. Population Growth Rate in 2002**

Source: European Economy, Spring 2003, EC and SIS.

### 2.2.2. Education

The schooling rate in Turkey has reached to 11.4 per cent in pre-school education, to 96.3 per cent in primary education, of which 94.2 per cent is formal, to 81 per cent in secondary education, of which 65 per cent is formal and to 35.8 per cent in higher education, of which 23.3 per cent is formal, in 2003.

The average schooling rate in EU countries is 85 per cent in pre-school education, 106 per cent in primary education, 102 per cent in secondary education and 55 per cent in higher education, according to the data of year 2000.

In Turkey, literacy rate of population (aged 15 and over) increased steadily in recent years. However it is still not at desired levels especially among female population. The target is to raise this rate to 100 per cent.

**Table: 2. 7. Educational Structure of Population**

	<b>(Literacy rate among adults*, per cent)</b>				
	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Total	78.4	85	86.5	86.3	87.5
Male	89.8	93.8	94.5	94	95.3
Female	67.4	76.3	78.4	78.3	79.9

Source: SIS, Household Labour Survey.

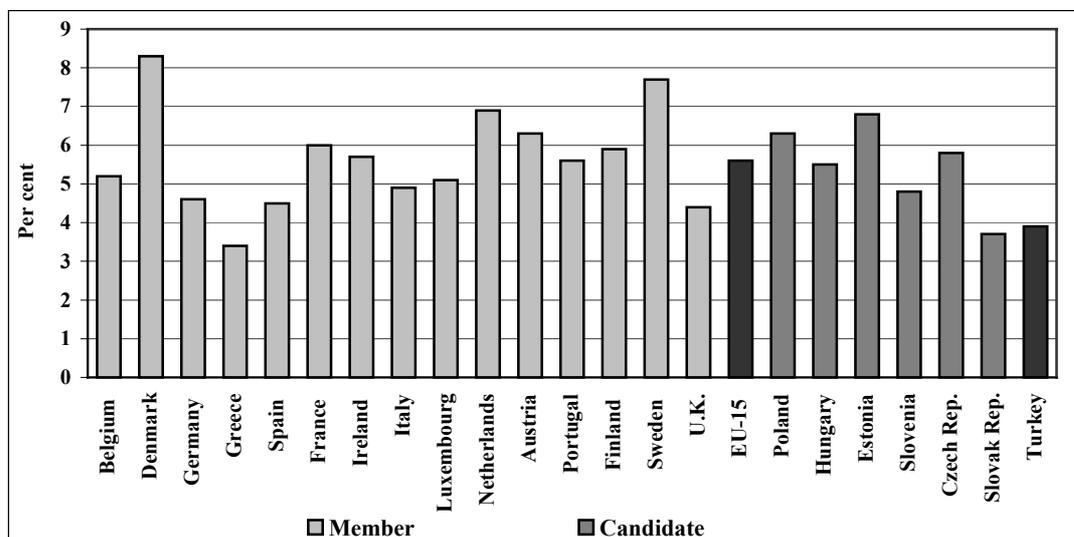
\*Literacy rate above 15 years of age.

While in 2000, the average formal education period in EU countries is 8.6 years for 15 years of age and above, it is 4.3 years in Turkey.

While the share of education in total public expenditures is 11.7 per cent in EU countries in 2000, it is 9.4 in Turkey. In Turkey, the share of education in total public expenditures is 9.2 per cent in 2003.

The rate of public education expenditures to GDP in Turkey is 3.9 per cent as of 2001, whereas EU average is 5.6 per cent. Public expenditures for education are at unsatisfactory levels to cover increasing education demands of the young population. However, as a result of the financial discipline in the public sector and more effective use of resources to be achieved in the framework of the current economic programme, it is expected that education expenditure levels will come closer to EU averages.

**Chart: 2.8. The Ratio of the Public Education Expenditures to GDP in 2001**

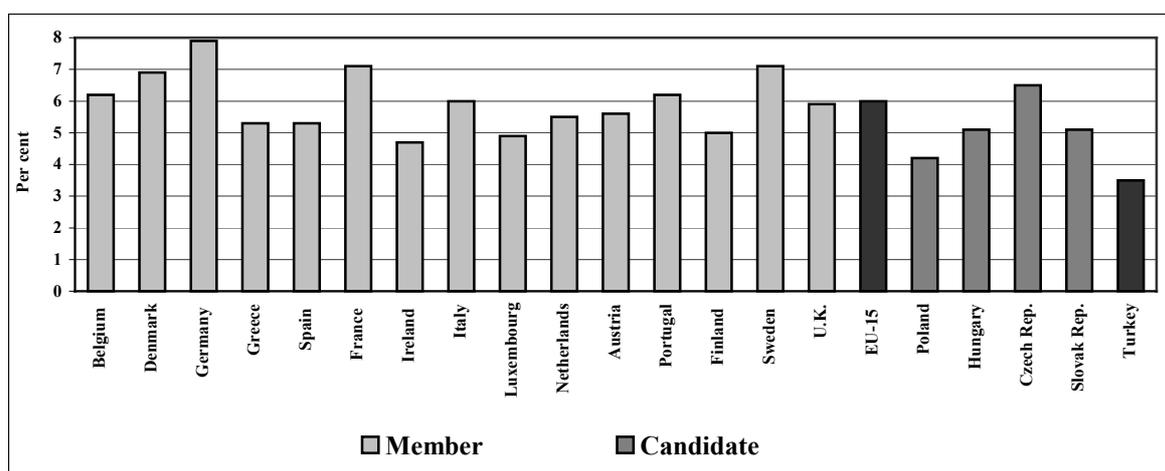


Source: IMD World Competitiveness Yearbook, 2002 and 2003.

**2.2.3. Health**

The rate of public health care expenditures to GDP, which was 0.9 per cent in 1970 rose up to 3.5 percent in 2000. However, compared to EU countries, this increase is unsatisfactory to meet the health care needs of the population. According to 2000 data, this rate is in the range of 6 to 8 per cent among developed countries.

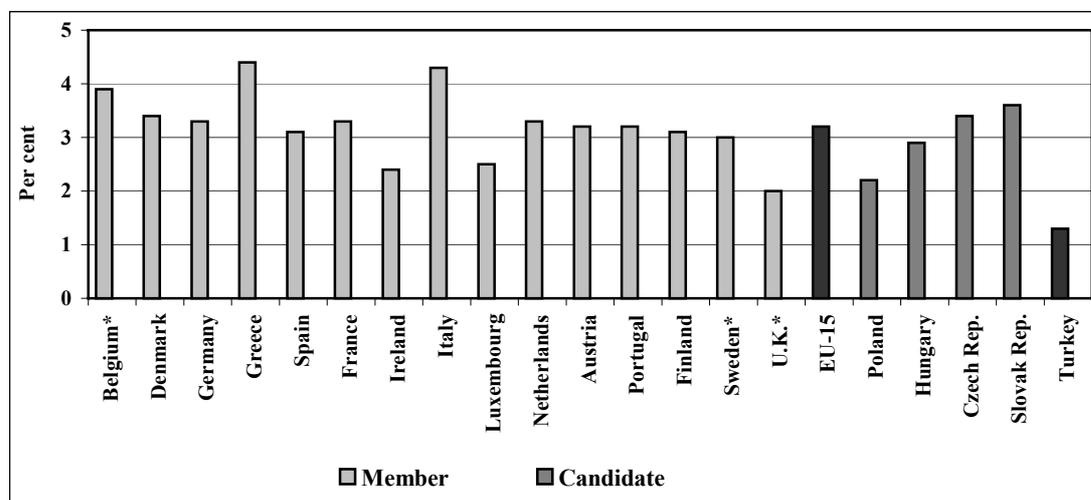
**Chart: 2.9. The Ratio of Public Health Care Expenditures to GDP in 2000**



Source: OECD Health Data, 2003 and SPO.

While the number of total doctors per thousand people in Turkey was 0.3 in 1960s, it rose up to 1.3 in 2001. The number is still very low compared to the EU average.

**Chart: 2.10. Number of Total Doctors per Thousand People in 2001**



Source: OECD Health Data, 2003.

\*As of 2000.

**Table: 2. 8. Life Expectancy at Birth**

	1960		1970		1980		1990		2000		2001	
	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men
Belgium	73.5	67.7	74.2	67.8	76.8	70	79.4	72.7	80.8	74.6	-	-
Denmark	74.4	70.4	75.9	70.7	77.3	71.2	77.7	72	79.3	74.5	79	74.3
Germany	72.4	66.9	73.6	67.2	76.1	69.6	78.4	72	-	-	-	-
Greece	72.4	67.3	73.8	70.1	76.8	72.2	79.5	74.6	-	-	80.7	75.4
Spain	72.2	67.4	74.8	69.2	78.6	72.5	80.3	73.3	82.7	75.5	82.9	75.6
France	73.6	67	75.9	68.4	78.4	70.2	80.9	72.8	82.7	75.2	83	75.5
Ireland	71.9	68.1	73.5	68.8	75.6	70.1	77.6	72.1	79.2	74.2	-	-
Italy	-	-	-	-	77.4	70.6	80.1	73.6	82.4	76.3	82.9	76.7
Luxembourg	72.2	66.5	73.4	67.1	75.9	69.1	78.5	72.3	81.3	74.9	-	-
Netherlands	75.4	71.5	76.5	70.8	79.2	72.5	80.9	73.8	80.5	75.5	80.6	75.7
Austria	71.9	65.4	73.4	66.5	76.1	69	78.9	72.4	81.2	75.4	81.7	75.9
Portugal	66.8	61.2	70.8	64.2	75.2	67.7	77.4	70.4	79.7	72.7	80.3	73.5
Finland	72.5	65.5	75	66.5	77.6	69.2	78.9	70.9	81	74.2	81.5	74.6
Sweden	74.9	71.2	77.1	72.2	78.8	72.8	80.4	74.8	82	77.4	82.1	77.5
U.K.	73.7	67.9	75	68.7	76.2	70.2	78.5	72.9	80.2	75.4	80.4	75.7
Poland	70.6	64.9	73.3	66.6	74.4	66	76.3	66.7	77.9	69.7	78.4	70.2
Hungary	70.1	65.9	72.1	66.3	72.7	65.5	73.7	65.1	75.7	67.2	76.5	68.2
Czech Rep.	73.4	67.9	73	66.1	73.9	66.8	75.4	67.6	78.4	71.7	78.5	72.1
Slovak Rep.	72.7	68.4	72.9	66.7	74.3	66.8	75.4	66.6	77.4	69.2	77.6	69.5
Turkey	50.3	46.3	56.3	52.0	60.3	55.8	68.7	64.2	70.4	65.8	70.6	66

Source: OECD Health Data, 2003.

In Turkey, life expectancy in years for women and men at birth were 50.3 year and 46.3 year in 1960, respectively. It rose up to 70.6 year for women and 66 year for men in 2001 in parallel with the improvements in life standards. However, compared to the average of life expectancy in years in EU countries, it is still very low.

### 2.2.4. Transportation and Telecommunications

During 1990-2002 period, share of services in GDP rose to 57.7 per cent owing to the growth realised in transportation and telecommunications. Share of transportation sector in GDP was 13.2 per cent in 2002. In parallel, there were also improvements in the infrastructure of transportation. However, Turkey is at a lower level compared to EU countries.

**Table: 2. 9. Transportation and Telecommunications Indicators**

	Roadways (km per km <sup>2</sup> )		Railways (km per km <sup>2</sup> )		Airway Transportation (number of passengers per thousand)	Wired Phones (per thousand person)	Mobile Phones (per thousand person)
	2000	2001	2000	2001	2001	2001	2002
Belgium	4.86	0.1114			8489	506	714
Denmark	1.65	0.0476			6382	735	790
Germany	1.77	0.1010			57334	635	667
Greece	0.89	0.0180			7303	578	818
Spain	1.31	0.0275			41470	460	824
France	1.62	0.0533			50817	584	617
Ireland	1.32	0.0274			16374	503	799
Italy	1.59	0.0543			31031	477	910
Luxembourg	2.01	0.1060			886	776	914
Netherlands	4.00	0.0676			20474	653	717
Austria	2.40	0.0688			6514	494	821
Portugal	0.77	0.0306			6651	441	890
Finland	0.23	0.0173			6698	551	865
Sweden	0.52	0.0244			13123	750	900
U.K.	1.62	0.0669			72772	613	824
EU-15	1.77	0.0548			23088	584	805
Poland	1.17	0.0643			2670	296	352
Hungary	0.33	0.0855			2075	368	646
Estonia	1.12	0.0214			278	372	600
Slovenia	1.0	0.0585			690	394	900
Czech Rep.	1.62	0.1195			2560	378	840
Slovak Rep.	0.87	0.0747			43	329	399
Av. of Cand. Count. <sup>(*)</sup>	1.02	0.0707			1386	356	623
Turkey	0.50	0.0112			9905	282	372

Source: IMD World Competitiveness Yearbook, 2003.

(\*) The average of the candidate countries in the table.

The average road km per km<sup>2</sup> is 1.77 km in EU, 1.02 km in candidate states and 0.5 km in Turkey. Also the average railway km per km<sup>2</sup> in EU countries, in candidate countries and in Turkey are 0.0548 km, 0.0707 km and 0.0112 km, respectively. Number of passengers carried by airway transportation in Turkey was 9.9 million, this number is higher than the candidate countries average, which is 1.4 million persons, but lower than EU member states, which is 23.1 million persons. Despite the improvements in telecommunications sector, Turkey is at a lower level compared to EU member and candidate countries in terms of wire phones and mobile phone lines.

### 2.2.5. Energy

With respect to the energy production and supply, Turkey's level is higher than the candidate countries' level, but lower than that of the EU member countries. Although Turkey has reached to EU averages in total energy supply, energy consumption per capita is still under the EU averages.

**Table: 2. 10. Energy Indicators in 2000**

	Energy Production (Mtoe)*	Total Primary Energy Supply (Mtoe)	Electricity Consumption (TWh)	Carbondioxide Emission	Total Primary Energy Supply/ GDP (PPP)	Electric Consumption/ Population (kWh/capita)
Belgium	13.4	59.2	84.5	120.3	0.2	8244.3
Denmark	27.9	19.5	34.6	50.1	0.1	6483.9
Germany	134.3	339.6	549.2	833.0	0.2	6684.0
Greece	10.0	27.8	49.6	87.8	0.2	4694.1
Spain	31.9	124.9	209.6	284.7	0.2	5248.3
France	131.4	257.1	441.3	373.3	0.2	7301.8
Ireland	2.2	14.6	22.1	41.2	0.1	5823.9
Italy	26.9	171.6	301.8	425.7	0.1	5227.7
Luxembourg	0.1	3.7	6.8	8.0	0.2	15319.7
Netherlands	57.2	75.8	104.4	177.1	0.2	6560.4
Austria	9.7	28.6	56.8	62.8	0.2	7004.6
Portugal	3.1	24.6	41.1	59.6	0.2	4102.6
Finland	15.1	33.2	79.1	54.8	0.3	15285.4
Sweden	30.7	47.5	138.9	52.0	0.2	15658.8
U.K.	272.7	232.6	358.3	531.5	0.2	5995.7
EU-15	51.1	97.4	165.2	210.8	0.2	7975.7
Poland	80.1	90.0	124.6	292.8	0.3	3223.5
Hungary	11.1	24.8	33.4	55.2	0.2	3331.1
Estonia	2.9	4.5	6.3	14.0	0.4	4634.0
Slovenia	3.1	6.5	11.5	14.5	0.2	5781.2
Czech Rep.	29.9	40.4	58.5	118.8	0.3	5694.4
Slovak Rep.	6.0	17.5	26.2	37.9	0.3	4843.9
Bulgaria	10.0	18.8	30.0	42.7	0.4	3675.0
Romania	28.3	36.3	44.6	86.5	0.3	1988.5
Av.of Cand. Count.**)	21.4	29.8	41.9	82.8	0.3	4146.5
Turkey	26.2	77.1	104.5	204.1	0.2	1563.9

Source: International Energy Agency (IEA).

\*1 Mtoe = 11,628 TWh.

(\*\*) The average of the candidate countries in the table.

### 3. DEVELOPMENT STRATEGY AND MACROECONOMIC FRAMEWORK

#### 3.1. DEVELOPMENT STRATEGY

The Eighth Five-Year Development Plan Strategy, covering the 2001-2005 period, was prepared within the framework of the Long-term Strategy for 2001-2023. The Plan Strategy is the basic document setting out Turkey's approach for the solution of its main economic and social problems for the period concerned.

The strategy of the pNDP, which has been prepared with a view to economic and social cohesion with the EU, covers 2004-2006 and takes the Plan Strategy into account. The development axes that form the basis of the pNDP Strategy are derived from the medium-term objectives and priorities laid down in the Plan Strategy. However, the scope of the development axes has been devised by narrowing down the medium-term objectives and priorities on the basis of the results of the SWOT<sup>2</sup> analysis and in view of the limited availability of funds. During this process, the evaluations in Chapter 2 and priority policy areas of the EU have also been considered.

#### 3.1.1. Strengths and Weaknesses of the Turkish Economy, Opportunities and Threats

##### *Strengths*

- Structural transformation projects have been implemented in some major areas to improve the efficiency of the economy, and significant progress has been made in reducing inflation,
- Steps have been taken to remove the weaknesses in the financial system,
- Significant steps have been taken in the direction of a rational and effective administrative approach through establishment of autonomous regulatory bodies that will ensure the proper functioning of the markets without being influenced by the political developments,
- Political and societal will for EU membership,
- In line with globalisation and integration with the EU, legislation in major areas, including judicial system, was harmonised to a large extent,
- Efforts have been made towards transition from centralised to decentralised structure in public administration,
- Young and dynamic nature of population,

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<sup>2</sup> SWOT analysis is based on the Eighth Five-Year Development Plan, Pre-Accession Economic Programmes, and other national documents. An evaluation for most of the SWOT items is given in Chapter 1. Detailed information for them and other SWOT items not contained in Chapter 1 is available in the above-mentioned documents.

- Highly motivated, vigorous, and internationally experienced entrepreneurs,
- Significant progress has been made towards the institutionalisation of the markets,
- Customs Union between Turkey and the EC,
- A more competitive and stronger industrial structure,
- Rich socio-cultural heritage, long and mostly unspoiled coastline, and a well-developed tourism infrastructure particularly in certain regions,
- A natural gateway for Eurasian oil and natural gas to world markets owing to geo-strategic location of the country, being at the intersection of three continents.

### *Weaknesses*

- Still relatively high rate of inflation, although declining gradually,
- Though gradually improving, high total debt stock-to-GNP ratio,
- High level of real interest rate on public borrowing,
- High level of unregistered economy,
- Slowdown in investments,
- Inadequate foreign direct investment,
- Low per capita GDP,
- Low productivity in the economy, particularly in agriculture,
- High share of agricultural employment,
- High share of low value added sectors in production, investments and exports,
- High energy prices,
- High employment-based fiscal burden on enterprises,
- Low quality of physical standards of the superstructure of highways and of railway transportation services,
- Limited generation, use, and diffusion of technology,
- Inadequate information and communications infrastructure,
- Inadequate transparency in the public sector, and low efficiency of public services,
- Slow functioning of the judicial system,
- High unemployment rate,
- Significant differences in development levels of the regions,

- Inequality in distribution of income,
- Low standards of education and health services in terms of quality and quantity,
- Low skill level of the workforce,
- The structure of the social security system that leads to fragile actuarial balances,
- Insufficient environmental awareness.

### ***Opportunities***

- Significant progress has been made in integrating with the EU towards membership,
- Significant level of foreign direct investment in the world, and its flow into the new markets,
- The increasing rate of liberalization of international trade,
- The growth and diversification of tourism activities in the world,
- The development of intra-regional economic and trade relations in Turkey's region,
- Continuing advances in global information and communications technologies in the world, and, in particular, the growth of electronic trade,
- The growing demand for organic agricultural products in the world due to changing consumption patterns,
- Support from the international organizations for structural reforms,
- Acceleration in the process of adoption of the structural reforms.

### ***Threats***

- Adverse developments that may arise due to globalisation, such as digital divide,
- Unforeseen external shocks that may further deteriorate the public debt stock and its composition,
- External shocks that may adversely affect the demand for Turkish exports,
- Slowdown in the integration process with the EU and the possible delays as parties fail to take the necessary measures at each stage,
- Interruption in the liberalization process of international trade,
- High and persistent rise in energy raw material prices in the world,
- Political instability that may arise in Turkey's region,
- Insufficient international cooperation against global terrorism.

### **3.1.2. Basic Objectives and Priorities of the Long-term and Medium-term Strategies**

The general framework of the development strategy of Turkey is given in Table 3.1.

#### **Long-term Strategy**

According to the Long-term Strategy covering 2001-2023 period, Turkey aims to attain a more competitive production structure, and a higher level and a better distribution of income; to complete largely its transition to information society; and to observe the fundamental principles of the respect for human rights, rule of law, participatory democracy, secular constitution of the state and freedom of religion. Turkey shall also continue to promote peace in the region.

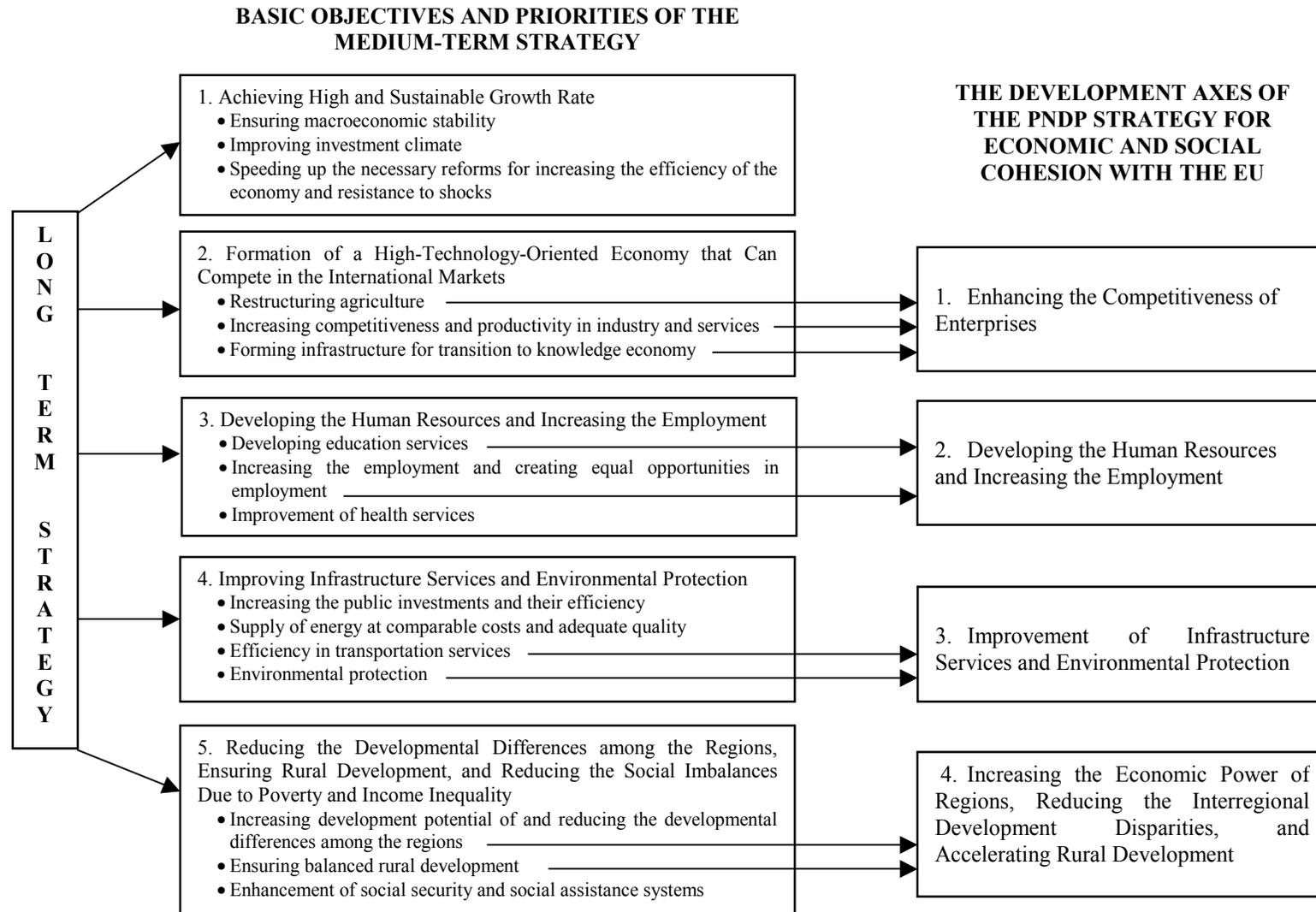
Implementing the basic economic and social reforms in a participatory manner without delay, restructuring the state while preserving its unitary structure, reducing the developmental differences among regions, raising the level of education of the society, enhancing the health services, reinforcing the science and technology capacity, improving the efficiency of infrastructure services, and protecting the environment in line with sustainable development are very important in attaining the above-mentioned objectives, and will accelerate the process of Turkey's EU membership.

#### **Medium-term Strategy**

The main objectives and priorities below are based on the medium-term strategy set forth by the Eighth Five Year Development Plan Strategy of Turkey.

- (i) Achieving high and sustainable growth rate.
- (ii) Formation of a high-technology-oriented economy that can compete in the international markets.
- (iii) Developing the human resources and increasing the employment.
- (iv) Improving infrastructure services and environmental protection.
- (v) Reducing the developmental differences among the regions, ensuring rural development, and reducing the social imbalances due to poverty and income inequality.

**Table: 3. 1. Development Strategy of Turkey**



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**Priorities**

The priorities under the five main objectives of medium-term development are as follows.

**(i) The priorities under the objective of achieving high and sustainable growth rate:**

- ***Ensuring macroeconomic stability***

With a view to bringing down the already falling inflation to single digit levels, fiscal adjustment and appropriate income policies shall be continued until a sustainable public sector balance is achieved. Monetary policy shall aim at reducing inflation, and the current floating exchange regime shall be maintained.

Effective administration and monitoring of public resources shall be ensured. Fiscal discipline in expenditures will be maintained, and public deficit will be reduced without delay. Programmes and budgets shall be prepared with a medium-term perspective, in order to enhance the efficiency of the public decision making process by strengthening the linkages between the Plan, Programme and the Budget.

The tax system shall be simplified and made more comprehensible; adequate and efficient documentation system and auto-control mechanisms shall be developed; tax losses and tax evasion shall be reduced; and tax base shall be broadened.

Necessary arrangements shall be made for strengthening the financial system; financial institutions shall be strengthened, transparency shall be ensured, and efficient auditing and monitoring system shall be established. Fiscal burden on the banking intermediary costs shall be gradually reduced.

- ***Improving investment climate***

Investment policies shall focus on integrating with the world, forming knowledge economy, and encouraging foreign direct investment. Activities and investments related with; R&D and technological development especially information and communication technologies, protecting the environment, increasing the competitiveness of small and medium-sized enterprises, providing qualified manpower, creating employment, and reducing disparities between regions shall be supported considering both harmonization with the EU and other international obligations.

Efforts towards reducing bureaucratic barriers to investment shall be continued.

Necessary arrangements shall be made to improve corporate governance. The rules about corporate activity shall be harmonized with international norms. Structure of the capital markets shall be improved to facilitate long-term borrowing.

- 
- ***Speeding up the necessary reforms for increasing the efficiency of the economy and resistance to shocks***

Restructuring public administration, based on a review of the functions and administrative structure of public institutions, will focus on introducing strategic planning in public institutions, performance management and supervision, broadening the applications of e-government, improving the quality of goods and services provided by public sector in order to better serve the citizens, employing the required number of qualified personnel, and establishing a participatory and people-oriented management approach.

In accordance with the principle of administrative integrity within a unitary structure, central administration and local administrations shall be redesigned to have a structure that is based on allocation of tasks and effective coordination. Efficiency of the local administration services shall be enhanced, and these administrations shall be provided with firm income sources.

Privatisation activities, which will let the state focus on its main functions instead of direct production of goods and services, and efficient utilization of resources, shall be accelerated.

Legal framework related to the business climate shall be strengthened and processes shall be accelerated.

Efforts to prevent corruption shall be continued.

**(ii) The priorities under the objective of formation of a high-technology-oriented economy that can compete in the international markets:**

- ***Restructuring agriculture***

Instead of direct government intervention, agricultural production shall be subject to demand conditions. It is also essential to prevent excess stocks, and to increase and stabilise producer income level. In determining agricultural policies, the WTO Agreements, the Common Agricultural Policy of the European Community and other international obligations shall be taken into consideration. Arrangements shall be made to harmonize national fisheries policy with that of the EC.

In the agricultural sector, enhancing productivity, training farmers, extending consultancy services, strengthening producers' organizations, supporting R&D activities, increasing competitiveness of agricultural enterprises, and improving the marketing network shall also be given importance.

- ***Increasing competitiveness and productivity in industry and services***

In order to increase competitiveness of SMEs, activities aimed at raising the level of technology and product quality, facilitating access to information, providing advisory and

consultancy services, developing financial sources and instruments, integrating main and sub-industries, expanding joint marketing organizations, increasing cooperation and electronic trade opportunities between enterprises, shall be supported.

Turkish industrial legislation shall be aligned with that of the EU, and cooperation in the fields of capital, technology and trade shall be improved.

Efforts shall be made to implement policies towards improving commodity and market diversification of exports and to establish a Turkish brand image in world markets. Competitiveness and export orientation of traditional industries shall be increased. Policies to increase the share of high technology, knowledge-intensive and high value added goods in exports shall be implemented. Enterprises, especially their R&D activities, shall be supported in compliance with the international obligations.

The commitments to be made within the General Agreement on Trade in Services, and the process of trade liberalisation in services with the EU shall be taken into consideration, and competitiveness of the services sector will be enhanced. In this context, harmonisation with the international standards will also be important for the tourism enterprises, and the sector will be strengthened.

- ***Forming infrastructure for transition to knowledge economy***

Activities towards technological development, which will accelerate the transition to information society, shall be supported. To this end, necessary physical and legislative infrastructure and human capital shall be developed, and national innovation system shall be strengthened. Universities' contribution in this area shall be encouraged, and state aids towards R&D shall be increased, techno-parks shall be supported, and venture capital shall be promoted.

Support for universities' scientific research, innovation and technological development activities shall be continued, especially in the form of increasing investment allocations. Joint R&D ventures among the university, public and private sector shall be promoted.

Developing information and technology intensive industries such as defence and aviation, machinery, chemistry, and electronics, and utilization of advanced technology in the industrial sector will be given importance.

Access to information shall be facilitated by improving the national information infrastructure. Internet access capacity shall be upgraded in line with the international developments. New legislation and administrative arrangements shall be adopted in order to improve electronic trade and information security within the framework of international rules and standards and the EU acquis.

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**(iii) The priorities under the objective of developing the human resources and increasing the employment:****• *Developing education services***

Turkey has a very young population; therefore the education of the youth is of great importance.

The education system shall be improved continuously to meet the qualified manpower need of the economy and to enhance Turkey's competitiveness. The education system shall be restructured in an integral manner on the basis of life-long learning, effective counselling, equal opportunities, and production-oriented education. Restructuring studies that have been started in primary education shall also be stepped up in secondary, higher and adult education.

At each stage of education, technology will be fully benefited; distance learning and new education methods using high technology will be put into practice.

Formal and mass vocational technical education at the secondary and higher education levels will be given importance.

Education levels of women shall be increased in order to expand their role in society, and to ensure that they can enjoy equal opportunities.

**• *Increasing the employment and creating equal opportunities in employment***

With regard to working life, unregistered employment will be reduced and labour markets will be made more flexible. Participatory social dialogue mechanisms shall be strengthened. Norms and standards of the ILO and the EU will be taken into consideration.

Training of qualified manpower needed by the industry will be given importance.

SMEs will be supported to make use of their employment generating potential.

Arrangements shall be made to increase women's labour force participation, and hence to development process.

**• *Improvement of health services***

Preventive health services will be given importance, and they will be complementary to basic health services with a view to effective provision of services. Family practitioner system shall be put into effect.

Every stage of health services shall be improved in terms of manpower, infrastructure, administration, and technology. The provision of health services and their financing shall be separated, and efficiency of hospital administrations shall be improved. With the health insurance system, everyone shall be able to choose between the health services (hospitals and doctors).

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**(iv) The priorities under the objective of improving infrastructure services and environmental protection:**

- ***Increasing the public investments and their efficiency***

With regard to public investments; education, health, technological infrastructure, energy, irrigation, urban infrastructure investments, and investments aimed at balancing transportation modes will be given importance in line with regional development strategies. Rationalisation efforts, that have come quite far, will continue in order to increase the efficiency of the public investment programme. Measures shall be implemented towards increasing efficiency in project cycle management and improving the institutional capacity in public sector.

Principles of efficiency and public interest shall constitute the basis for providing infrastructure services. In accordance with these principles, while developing new funding models, Build-Operate and similar models shall also be implemented in a more effective way in those sectors where such actions are possible.

- ***Supply of energy at comparable costs and adequate quality***

Emphasis will be put on reinforcing the competitive market system introduced in the electricity and gas sectors, promoting the appropriate investment climate for new private investments, and reducing the energy costs to internationally comparable levels in a competitive production, distribution, and marketing structure.

- ***Efficiency in transportation services***

In order to provide transportation services safely and economically, and in line with the requirements of the economic and social development, railway and maritime transportation shall be developed. Balance shall be ensured among the modes of transportation, in line with the needs of the country. The security of persons and goods shall be ensured while environmental damage shall be minimized.

Superstructure of state and provincial roads shall be adjusted to the traffic intensity. Investments and measures towards increasing traffic security in transportation shall be given importance.

Participation in the Europe-Asia transportation systems with the most suitable transportation infrastructure shall be realized, and transportation policies and legislation shall be aligned with those of the EU.

- ***Environmental protection***

Policies and strategies to be implemented and developed in order to solve environmental problems in the medium and long-term shall be in compliance with the EU norms and international standards, and at the same time taking into account circumstances of the country.

**(v) The priorities under the objective of reducing the developmental differences among the regions, ensuring rural development, and reducing the social imbalances due to poverty and income inequality:**

- *Increasing the development potential of and reducing the developmental differences among the regions*

The main approach in regional policies shall be to reduce the developmental differences among the regions. Especially in the less developed regions, measures shall be taken to stimulate local potential, and emphasis shall be put on capacity building, particularly in respect of project making.

In devising regional development policies, the principles of sustainability, interregional integration, quality of life, social and economic balance, cultural development and participation shall be observed. Focus shall be on the harmonization of regional policies with those of the EU.

Regional activities shall be accelerated also by considering neighbouring countries' potential.

- *Ensuring balanced rural development*

In rural development projects, mobilisation of local resources will be given importance. Participation of NGOs and beneficiaries in the projects shall be ensured. Efforts shall continue to increase productive employment, to develop human resources, to organise, and to support non-agricultural economic activities.

- *Enhancement of social security and social assistance systems*

The aim of the social security system is to cover whole population. Socially insured active population shall be increased and unregistered employment shall be decreased through effective monitoring.

Effective implementation of the unemployment insurance scheme and utilization of financial resources in accordance with the fund administration principles shall be ensured.

Transfer payments system will be designed so as to redistribute income in favour of the groups that are poor and in danger of getting poor. In order to provide effective social insurance for those and other disadvantaged groups, the social services and social assistance system shall be restructured. Cooperation among public institutions, local administrations and voluntary organizations providing social services and social assistance shall be secured.

### **3.1.3. Basic Objective and Strategy of the Preliminary National Development Plan (2004-2006)**

The main objective of the pNDP is, towards economic and social cohesion with the EU and within the limits of available funds to be provided by the EU during 2004-2006

period, to attain a structure where agricultural productivity is increased, entrepreneurship is encouraged, competitiveness, human resources and employment capacity are developed, infrastructure services are improved, gradual transformation into a knowledge-based economy is realized, protection of environment is ensured and interregional development disparities are reduced.

Within this framework, the strategies under the development axes of the pNDP are mainly designed to increase productivity, competitiveness and employment, and to reduce interregional development disparities.

### **Development Axes of the Preliminary National Development Plan**

The development axes of the pNDP are linked with the objectives and priorities of the medium-term strategy, within the framework of the SWOT analysis of the Turkish economy (Table 3.2). However, the limited fund availability from the EU in 2004-2006 is reflected in the scope of the development axes. Thus, pNDP Strategy may be regarded as a subset of the medium-term strategy.

#### **i) Enhancing the competitiveness of enterprises**

Productivity is generally low in Turkish economy, particularly in agriculture. In agricultural sector, employment is high and organisational and marketing infrastructure is weak. Generation, utilization and diffusion of technology are insufficient in industrial sector. It is important that the necessary measures be taken in the corporate sector for Turkey's adaptation to the increasingly competitive global economy. In this context, SMEs, which have high job creation capacity, are especially important. However, relative to their weight in the economy, the support and services provided to SMEs are insufficient.

In Turkey, for the purposes of expanding the corporate sector, increasing productivity and employment, and creating well-developed regional centres, emphasis will be put on finding solutions to conjectural and structural problems of SMEs.

In this context, SMEs will be financially supported, their technology transfer capacity will be enhanced and necessary infrastructure for trade and fast data transfer will be developed.

In general, productivity and quality awareness and use of new technologies will be expanded in industrial enterprises, with due regard to the environmental concerns.

*Complementary axes: Developing the human resources and increasing the employment; Increasing the economic power of regions, reducing the interregional development disparities, and accelerating rural development*

**Table: 3. 2. Linkages Between the Medium-term Objectives and pNDP's Development Axes**

	<b>Medium-term Objectives</b>		<b>Development Axes of pNDP</b>
1	Achieving High and Sustainable Growth Rate (1)		
2	Formation of a High Technology-Oriented Economy that Can Compete in the International Markets	1	Enhancing the Competitiveness of Enterprises
3	Developing the Human Resources and Increasing the Employment	2	Developing the Human Resources and Increasing the Employment
4	Improving Infrastructure Services and Environmental Protection	3	Improvement of Infrastructure Services and Environmental Protection
5	Reducing the Developmental Differences among the Regions, Ensuring Rural Development, and Reducing the Social Imbalances Due to Poverty and Income Inequality	4	Increasing the Economic Power of Regions, Reducing the Interregional Development Disparities, and Accelerating Rural Development

(1) The policies that are being implemented towards this objective within the context of the current Economic Programme and forecasts based on these policies are in Section 3.2.

## **ii) Developing the human resources and increasing the employment**

In Turkey, education and health services are still unsatisfactory in terms of quality and quantity. Despite the limited resources allocated to education, its importance is increasingly recognised. Considering the young population of Turkey, the necessity of training a qualified labour force that is demanded by the knowledge economy raises the importance of education further.

In line with integration with the EU, developing the human resources needed by the competitive economy and information society will be the main focus.

The aim is to endow the labour force with the skills needed by the economy, to improve the linkage between vocational training and labour market, and to increase the participation of women in the development process.

Increasing the quality of education will ensure that Turkey will benefit the most from its young population. To this end, information and communications technologies will be utilized at each stage of education.

*Complementary axes: Increasing the economic power of regions, reducing the interregional development disparities, and accelerating rural development*

## **iii) Improvement of infrastructure services and environmental protection**

Physical standards are low and accident rates are high on Turkish highways. Railway transportation infrastructure is worn out, service quality is low and its competitiveness is declining.

In Turkey, passengers and freight are transported mainly on highways. Limited public resources do not allow this structure to change in the near term.

As Turkey becomes a more open economy in line with the integration with the EU, links with the Trans-European transport networks and the routes between Europe and Asia that cross the country need to be improved. Safety norms in highways need to be upgraded to European levels.

Efforts towards raising the quality and efficiency of urban transportation services will be continued to improve the quality of life. Also, the quality and efficiency will be improved in the fields of railway and maritime transportation.

Environmental protection will be given importance, considering its significance for sustainable development. To this end, water resources shall be protected, and efficiency of municipal water and sewerage services shall be increased. With a view to effective environmental protection, increasing the administrative capacity is important.

*Complementary axes: All axes*

**iv) Increasing the economic power of regions, reducing the interregional development disparities, and accelerating rural development**

Although the Turkish economy has a remarkable long-term growth performance, this is not reflected in regions evenly and interregional development differences still remain. To this end, the Regional Development Strategy at National Level has been designed to reduce these differences among the regions. The Strategy, which covers 26 NUTS II regions and provides a general framework for this axis will be explained in detail in Chapter 5.

Within the pNDP, the efforts to reduce the differences in the development level of regions will focus on 12 NUTS II regions.

Support mechanisms shall be developed for the SMEs in these target regions.

Small-scale infrastructure investment shall be supported for creating new local industrial centres.

Efforts for developing human resources shall be encouraged in the target regions.

Local entrepreneurship that will help local development shall be supported. Institutional capacity that is required for programme and project implementation related to regional development shall be enhanced.

Projects and activities, which will mobilise the regions' tourism potential, shall be supported.

Rural development shall be accelerated by improving agricultural activities and supporting non-agricultural activities.

*Complementary axes: -*

**3.2. MACROECONOMIC FRAMEWORK (2004-2006)**

The economic policies explained in the 2003 PEP in detail will be implemented in line with the "achieving high and sustainable growth rate" objective of the medium-term strategy presented in section 3.1. These economic policies and macroeconomic projections based on them are summarized below. Although not dealt with under a development axis of the pNDP, these policies provide a basic framework towards fulfilling the Copenhagen economic criteria and converging to the Maastricht criteria in the medium-term.

**Main Objectives of the Macroeconomic Policy**

The main objective of the macroeconomic policy during the period of 2004-2006 is to increase the welfare of the society. To this end, strengthening macroeconomic stability and thereby increasing the resources for the implementation of social policies will be the primary targets.

In this context, the main priorities of Turkey's macroeconomic policies are to ensure a sustainable growth environment in the economy, to secure a permanent reduction in inflation and to converge public deficit and public debt stock ratios to GDP to EU averages.

In the integration process with the EU, fulfilling the Copenhagen criteria and the convergence towards the Maastricht criteria constitute the main perspectives in the setting of economic policies. Strengthening the market economy and improving the competitiveness of the economy are priority targets. In this context, reducing the role of the state in the economy through privatisation, transferring the function of market regulation to independent regulatory authorities, strengthening private entrepreneurship and eliminating legal obstacles and economic uncertainties that have a negative impact on the functioning of the market are of special importance. Moreover, reform efforts in the public sector and efforts to open up public sector monopolies to competition will be continued. A further important aim of the economic policy is to reduce the development gap among the regions and between Turkey and the EU.

In the process of setting and implementing macroeconomic policies, emphasis will be given to increase the dialogue with the EU.

In the period of 2004-2006 the main objectives of the fiscal policy are to secure a permanent reduction in the ratio of public debt stock to national income and in public deficit, to secure a balanced budget structure, to contribute to the establishment of a sustainable growth environment and to support the disinflation process.

The Central Bank Law that entered into force in 2001 has made price stability the primary objective of the Central Bank and secured the implementation of an autonomous monetary policy by the Bank.

The setting of the monetary policy in this manner is also compatible with the target of converging to the Maastricht criteria in the integration process with the EU. Since inflation is one of the main causes of macroeconomic instability in Turkey, its permanent reduction will contribute to securing macroeconomic stability and creating a predictable economic environment. At the same time, this process will bring the inflation rate closer to the EU averages.

The monetary policy will be implemented to reduce inflation to the targeted levels in the short term and to secure and maintain price stability in the medium-term. In this context, once the necessary pre-conditions are met, the Central Bank will launch the inflation targeting policy.

In the period ahead, implementation of the floating exchange rate regime will continue. The exchange rate will be determined by the supply and demand conditions in the market, however the Central Bank may intervene in the case of excessive fluctuations, without affecting the long-term level of the exchange rate. Once macroeconomic stability is achieved, under the floating exchange rate regime, the target is to make national currency stable.

With the aim of supporting the disinflation policy, in the short term, the incomes policy will be determined taking into consideration the inflation targets. In the medium-term, the incomes policy will be determined taking into consideration the price stability, productivity and profitability parameters. In order to ensure the private sector also implements a wage policy in conformity with the inflation targets, and to secure a consensus among the social partners the Government will continue to make use of the Economic and Social Council (ECOSOC) and similar platforms.

Structural reforms will play a crucial role in reaching the foreseen targets and securing macroeconomic stability. The main objective of implementing structural reforms is to secure a sustainable growth environment, to create a highly competitive economic structure based on market rules, and thereby to fulfil the Copenhagen criteria.

In this context, it is targeted to reduce the role of the public sector in the economy and to increase economic efficiency through privatisation, to create a transparent and efficient public administration, to form a robust banking sector to channel resources to the real sector, to strengthen the market mechanisms through regulatory institutions created in various areas, and to further strengthen the role of the private sector in the economy. In addition, reforms in the fields of agriculture and infrastructure will be accelerated.

In the context of the improvements in the public finances, the share of education, health, R&D and social expenditures will be increased in order to improve the life quality in the society, the qualifications of human capital, and the income distribution, to combat poverty and to reduce regional development gaps.

### **3.2.1. Growth and Employment**

It is foreseen that the positive effects of the strict monetary and fiscal policies to be implemented in the period of 2004-2006, such as securing confidence in the economy and reducing risk premium and inflationary expectations will be more pronounced, and therefore will have a supportive effect on growth. The fact that the tight fiscal policies being implemented target not only increases in revenues, but also efficiency and cost saving in public expenditures will further enhance these positive effects.

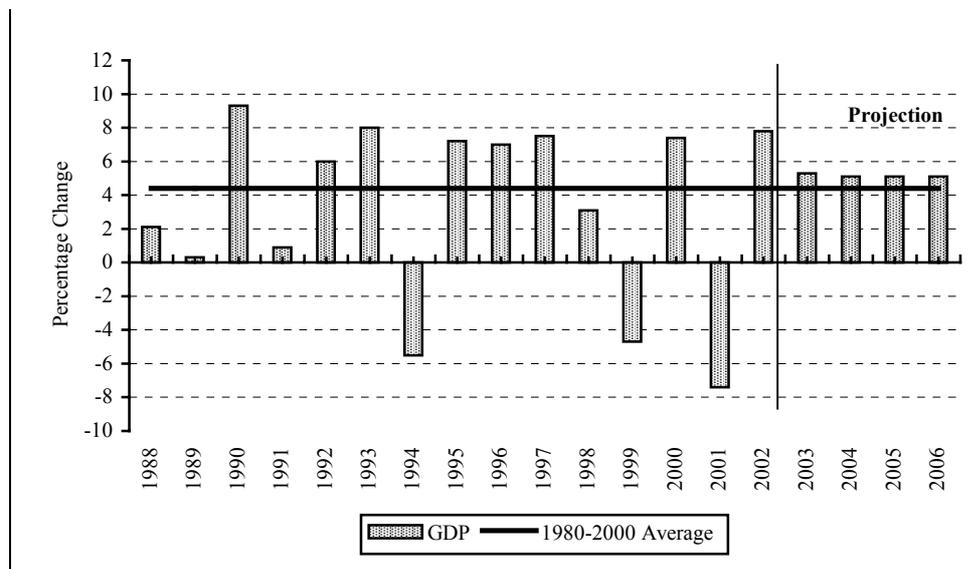
In this context, it is estimated that in the period of 2004-2006 the production will catch up with its potential level and that the average annual GDP growth rate will be around 5 per cent. It is expected that during this period a stable growth will be ensured, and along with the recovery in total final domestic demand, increase in exports will contribute to growth considerably.

Depending on the prospective increases in growth and investments, it is expected that considerable number of new jobs will be created in the period 2004-2006 and thereby a reduction will be achieved in the unemployment rate.

In the period of 2004-2006, average annual GNP growth rate is expected to be 5.2 per cent and the average annual GDP growth rate 5.1 per cent. In terms of demand components,

growth is estimated to come mainly from the increase in investments and in exports. In this period, average annual rates of increase in total fixed capital investments, private investments and public investments are expected to be 13.8 per cent, 15 per cent, and 10.2 per cent, respectively. In the same period, it is estimated that average annual rates of increase will be 9.2 per cent for the exports of goods and services and 7.7 per cent for the imports of goods and services. On the other hand, private consumption expenditures are estimated to register an average annual rate of increase of 3.3 per cent, while the average annual rate of increase in public consumption expenditures are targeted to be 2.4 per cent.

**Chart: 3. 1. GDP Growth Rate**



As a result of the strict fiscal policy and the structural reforms being implemented, significant improvements were achieved in public finances in 2002. A considerable slowdown in domestic borrowing and a serious decrease in interest rates were observed. In this context, a significant improvement in public debt management, a sustained decrease in interest rates, and parallel to these developments an expansion in financing means for private investments are expected in the period of 2003-2006. Additionally, improvement in the market sentiment in parallel with the progress in EU-Turkey relations and the market enlargement in line with the integration with the EU is expected to result in a rise both in domestic and foreign investments. The share of private sector investments in GDP, which is estimated to be 13.4 per cent in 2003 is foreseen to rise to 17.8 per cent in 2006.

As a result of the ongoing rationalization efforts for public investments and the strict fiscal policy, public investments expected to drop to 4.6 per cent of the GDP in 2003 are expected to increase in parallel with the improvements achieved in public finances in the period ahead and to reach 5.3 per cent in 2006.

Thus, the share of fixed capital investments in GDP, which is expected to be 18 per cent in 2003, is foreseen to reach 23.1 per cent in 2006. When the changes in stocks are taken into account, the share of total investments in GDP expected to be 22.2 per cent in 2003 is estimated to reach 23.3 per cent in 2006.

In the period of 2003-2006, as a result of the expected efficiency increases in the public debt management and the improvements in the market sentiment, it is expected that the ratio of interest expenditures to GDP, which has a very large share in public expenditures will decrease, causing public disposable income to increase. In this context, the public savings-investment gap is expected to narrow, depending on the increase in public disposable income and the slow-down in the increase of public consumption expenditures.

Depending on the increase in the share of public disposable income in GDP, it is foreseen that the share of private disposable income and consequently the share of private savings in GDP will decrease.

**Table: 3.3. Total Savings-Investment Balance**

	(Per cent of the GDP)								
	Average		Realization			Forecast			
	90-94	95-99	2000	2001	2002	2003	2004	2005	2006
Total Investment	23.1	23.2	23.9	15.9	21.3	22.2	22.4	22.9	23.3
-Fixed Capital Formation	24.2	22.9	21.7	17.2	16.7	18.0	19.9	21.9	23.1
-Public	6.3	5.5	5.8	5.3	5.7	4.6	5.1	5.2	5.3
-Private	17.9	17.4	15.9	11.9	11.0	13.4	14.8	16.7	17.8
-Change in Stocks	-1.2	0.3	2.1	-1.3	4.6	4.2	2.5	0.9	0.2
Total Savings	23.1	23.2	23.9	15.9	21.3	22.2	22.4	22.9	23.3
Domestic Savings	21.3	19.2	16.6	18.2	19.6	19.0	20.0	21.0	21.8
Foreign Savings (1)	1.8	4.1	7.3	-2.3	1.7	3.2	2.4	1.9	1.5

(1) The savings-investment balance is based on the SIS figures of the GDP-by expenditures. Public investments in the table include the investments of the State Economic Enterprises (SEEs) in addition to those of the general government.

Considering the savings-investment balance as a whole, in the period of 2003-2006, the domestic savings, which will increase parallel to the rise in the market confidence, will have a positive effect on total investments as well. On the other hand, foreign savings that were registered as 1.7 per cent of GDP in 2002 are expected to rise to 3.2 per cent in 2003. However, in the period of 2004-2006 foreign savings are foreseen to decrease and go down to the level of 1.5 per cent in 2006. It is foreseen that through the implementation of strict monetary and fiscal policies, total savings-investment gap will be kept under control and this will in turn lead to a reduction in the foreign saving requirement after the year 2003.

The growth rates foreseen for the period of 2003-2006 will be supported by the increase in production factors as well as the productivity increases. As a result of the high rates of increases in investments foreseen for this period, the average annual capital accumulation is expected to be 4.8 per cent. It is envisaged that the investment increases foreseen for this period will create new employment opportunities, and that thereby labour demand will also increase parallel to the increase in the capital stock. In this context, it is estimated that employment will increase at an average annual rate of 2.5 per cent. Moreover, total factor productivity is expected to increase considerably during this period as well. As a result of these developments expected in factors of production, in the Pre-Accession Economic Programme period the contributions of the capital stock, employment and total factor productivity to growth are estimated to be 37 per cent, 30.7 per cent, and 32.3 per cent, respectively.

In Turkish economy, the share of agriculture in GDP is expected to continue to decline in the period of 2003-2006. It is expected that in the period of 2004-2006 the value added of agriculture will display an average annual growth rate of 2.4 per cent, and that its share in the total value added will decline from its level of 13.5 per cent in 2002 to 11.9 per cent at the end of the period. It is estimated that in the period of 2003-2006 the GDP will grow by an average annual rate of 5.1 per cent, and that the average annual growth of the industry and the services sectors will be slightly higher than the GDP increase. It is thereby expected that the shares of the industry and services sectors in GDP that were recorded as 28.8 per cent and 57.7 per cent in 2002, will rise to 29.4 per cent and 58.7 per cent respectively in 2006.

**Table: 3. 4. Value Added by Sectors**

	(Per cent)						
	Realization			Forecast			
	2000	2001	2002	2003	2004	2005	2006
	<b>Growth Rates</b>						
Agriculture	3.9	-6.5	7.1	0.5	2.5	2.4	2.3
Industry	6.0	-7.5	9.4	6.2	5.5	5.5	5.4
Services	8.9	-7.7	7.2	5.9	5.5	5.5	5.5
GDP	7.4	-7.5	7.8	5.3	5.1	5.1	5.1
	<b>Shares in the GDP</b>						
Agriculture	13.3	13.6	13.5	12.9	12.6	12.2	11.9
Industry	28.4	28.4	28.8	29.1	29.2	29.3	29.4
Services	58.2	58.0	57.7	58.0	58.3	58.5	58.7
GDP	100	100	100	100	100	100	100

In the period of 2003-2006, it is expected that the foreseen increases in investments will create new employment opportunities. However, it is expected that the decline in the

unemployment rate will remain limited due to the increase in the labour force parallel to the population increase. The labour force participation rate that was recorded as 49.6 per cent in 2002 is expected to display a moderate increase in the following years and to reach 50.8 per cent in 2006. It is estimated that in the programme period, parallel to the increases achieved in employment, the unemployment rate will decline from its level of 10.3 per cent in 2002 to the level of 9.6 per cent in 2006. The average annual increase in employment is expected to be 2.5 per cent.

**Table: 3. 5. Developments in the Labour Market**

	Realization		Forecast		
	2002	2003	2004	2005	2006
Civilian Labour Force (thousand people)	48,041	48,909	49,793	50,680	51,598
Labour Force Participation Rate (per cent)	49.6	50.2	50.4	50.6	50.8
Employment (thousand people)	21,354	21,760	22,488	23,074	23,703
Employment (percentage change)	-0.8	1.9	3.3	2.6	2.7
Unemployment Rate (per cent)	10.3	11.4	10.4	10.0	9.6

### 3.2.2. Balance of Payments

The positive trend in the rate of increase in exports is expected to continue throughout the programme period. Imports are expected to display an increasing trend in parallel with the recovery in domestic demand.

In this framework, the current account deficit is expected to be 7.4 billion dollars in 2003, 6.6 billion dollars in 2004, 5 billion dollars in 2005, and 3.2 billion dollars in 2006. As a result, the ratio of the current account deficit to GDP is estimated at 3.2 per cent in 2003 and 2.7, 1.9 and 1.2 per cent respectively in 2004, 2005 and 2006.

Capital flows are expected to finance current account deficits in 2003 and 2004 and are also expected to pave the way for a 1.6 billion dollar increase in reserves for 2003 and 2 billion dollar increase for 2004. However, the approximate 17.6 billion dollars to be repaid to the IMF in 2005 and 2006 are expected to reduce the official reserves by 4.1 billion dollars in 2005 and 2.2 billion dollars in 2006.

Annual foreign direct investments are expected to be realized at an average of 1.6 billion dollars throughout the programme period. Portfolio investments are expected to contribute significantly to the total capital inflow in 2003-2006 period and pave the way for a 3.9 billion dollar net capital inflow in 2006.

**Table: 3. 6. Balance of Payments Forecasts**

	(Billion Dollars)				
	Realization	Forecast			
	2002	2003	2004	2005	2006
<b>Current Account</b>	<b>-1.5</b>	<b>-7.4</b>	<b>-6.6</b>	<b>-5.0</b>	<b>-3.2</b>
Balance on Goods	-8.4	-12.0	-12.4	-11.8	-10.9
Goods: Exports (f.o.b.)	39.8	47.5	52.8	59.0	65.7
Goods: Imports (f.o.b.)	-48.2	-59.5	-65.2	-70.8	-76.6
Balance on Services	7.9	7.2	8.2	8.8	8.9
Balance on Income	-4.5	-6.2	-6.7	-6.9	-6.4
Current Transfers	3.5	3.6	4.3	4.9	5.3
<b>Capital and Financial Account</b>					
<b>Financial Account</b>	<b>1.7</b>	<b>7.8</b>	<b>6.6</b>	<b>5.0</b>	<b>3.2</b>
Direct Investment Abroad – net	0.8	1.4	1	1.3	1.6
Portfolio Investment – net	-0.6	1.1	2.5	3.4	3.9
Other Investments – net	7.5	7	5.1	-3.8	-4.4
Official Reserves	-6.2	-1.6	-2.0	4.1	2.2
<b>Net Errors and Omissions</b>	<b>-0.1</b>	<b>-0.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

### 3.2.3. Monetary Policy, Exchange Rate Policy and Inflation

The monetary policy strategy implemented in 2002 and 2003 covers a transitional period. The Central Bank declared that before officially switching to inflation targeting as the final framework of the monetary policy, it would implement a policy of implicit inflation targeting, and that it might make changes in short-term interest rates only in view of the probable inflation values in future. In order to support this strategy, to remain within the limits of a monetary expansion compatible with the macroeconomic targets and to convince economic units that such limits should not be exceeded, a monetary targeting policy was implemented. The Central Bank will maintain the framework of this monetary policy, which yielded positive results until shifting to inflation targeting officially.

Although the shift to the regime of inflation targeting is planned for the forthcoming period, the final date of this shift will be determined by taking into consideration the developments and expectations in the domestic and foreign markets.

The Central Bank considers the floating exchange rate regime as the main element of achieving a permanent reduction in inflation, since it ensures the compatibility of exchange rates with economic fundamentals. In this context, limited interventions will be performed only with the aim of preventing excessive fluctuations in the exchange rates without distorting the long-run equilibrium level of the exchange rates. In addition, if there is a surplus in the foreign currency supply in the market as a result of the reverse currency substitution and strong balance of payments situation, transparent auctions for the buying of foreign currency will be performed.

The permanent reduction of the inflation rate and its convergence with the levels in EU member countries is one of the primary targets of 2003-2006 period. To this end, as was the case in 2002, also in the forthcoming period, the monetary policy will be set within the framework of the main object of price stability stated in the Central Bank Law, and short-term interest rates as an instrument of the monetary policy will be used effectively only with the aim of reaching the inflation targets. Until shifting officially to inflation targeting, the strategy of implicit inflation targeting will be maintained and the monetary base will continue to function as an additional anchor for the monetary policy.

Within the framework of the implemented programme, the main indicator of fiscal discipline is the primary surplus target. The implementation of the primary surplus target in conformity with the economic programme will facilitate the rollover of the debt stock and thereby reduce the risk premium. The reduction in the risk premium will lead to a decline in the real interest rates and this will in turn make further positive contributions to the process. This positive process will facilitate both the economic recovery and the struggle against inflation, through improving the expectations and confidence in the economy. Accordingly, reinforcing the current monetary policy by fiscal discipline, by public pricing and income policies that are compatible with inflation targets, and by structural reforms has been determined as the main strategy to be pursued in the struggle against inflation in the period ahead.

**Table: 3. 7. Price Targets and Projections**

	(12-Month Percentage Change)			
	2003	2004	2005	2006
CPI (1)	20.0	12.0	8.0	5.0
WPI (2)	21.0	12.0	8.0	5.0
GDP Deflator (3)	25.1	13.6	9.4	6.0

(1) The year-end target for the 2003-2004 period, projection for 2005-2006.

(2) The year-end projection.

(3) Projection for average annual change.

The implementation of the foreseen policies is expected to reduce the rate of increase in the CPI from 20 per cent in 2003 to 12 per cent in 2004 and to single digit numbers in 2005 and thereafter. In this context, the targets and projections for the period 2003-2006 concerning the year-end CPI and WPI and the annual average rate of increases in the GDP deflator are presented in the table below.

#### **3.2.4. Public Finance**

The main objectives of the fiscal policy are to contribute to the establishment of a sustainable growth environment, to support the efforts towards disinflation and to achieve a substantial level of primary budget surplus each year in order to ensure the sustainability of

the debt stock. Public revenue, expenditure and debt management policies will be implemented in a consistent and effective manner, taking into account the main objectives of the fiscal policy.

In 2002, the taxation strategy prepared for the purpose of restructuring the tax administration and tax policy was put into effect. The tax strategy consists of various arrangements to be carried out during the 2002-2004 period. The main goals of these arrangements are to simplify the tax legislation and harmonize it with the EU.

Within the tax strategy; the effective tax burden on financial instruments will be harmonized. In the area of corporate taxation, arrangements will be made to index interest income and expenses; arrangements on discretionary capital ownership and discretionary distribution of earnings will be updated; and arrangements regarding the taxation of investment funds will be made. The work carried out in order to reorganize the General Directorate of Revenues will be completed to render this Directorate more efficient with an operationally effective structure. In this framework, expert staff positions in line with the functional structure will be developed and work towards strengthening the tax policy development function will be carried out. The work towards extending the tax base and bring the unregistered economy within the scope of the registered economy will continue. In this framework, all tax offices will be fully on-line and the use of the tax identification number will be expanded. In addition, the work towards rendering tax audits more effective and the implementation of the annual audit plan coordinated within this scope will continue. Programmes to scan for high-risk taxpayers and areas, and to carry out preliminary computerized audits will be prepared. Services to the taxpayer will be improved. On-line acceptance of tax declarations and tax payment services will be expanded.

These activities carried out within the framework of the tax strategy will allow the tax system to work more efficiently, to control the unregistered economy and to ensure fairness in the taxation system.

The main expenditure policy is to control expenditures by increasing efficiency in public service and to refrain from creating pressure on public sector borrowing requirement stemming from expenditures. In respect of expenditures, a comprehensive personnel policy reform is foreseen in the medium-term regarding expenditures. In the reform process, the public sector personnel system will be reorganized. Over employment in the public sector will be reduced.

The policy of restricting new personnel employment (excluding education, health care and public security services) in the institutions within the scope of the consolidated budget will continue for the purpose of reducing personnel expenditures. Wages in the public sector will be determined in consistency with the inflation target and in a way so as to maintain the public finance balance and fair distribution of wages.

The health expenditures of social security institutions will be brought under control. Measures concerning expenditures on medicine and health care, and premiums to be paid will continue to be implemented to reduce transfers from the budget to social security institutions.

It is of vital importance to restructure public administration with the aim of reducing expenditures and ensuring efficient allocation and utilization of resources according to strategic priorities. To this end, allocation of responsibilities between the central and local administrations will be redefined and the restructuring process aiming to increase the authority and responsibilities of the local administrations will continue.

Efforts to rationalize the public investment programme will be continued taking into consideration sectoral priorities and available resources.

To increase the efficient utilization of resources in public sector and to meet the demands of society through an outcome-effective approach, the necessary capacity to implement strategic planning in governmental institutions will be developed in line with the national policy framework. Pilot organizations under the guidance of the SPO will complete their strategic plans in 2004 and prepare their budgets for 2005 in line with this strategic plan.

Preparations for a draft law reorganising the revenue and expenditures of revolving funds will be completed to streamline the legislation and put the revolving funds under control.

Special revenue and funds will be limited to a great extent. Thus, expenditures will be readily controlled by being foreseen in the initial budget.

The policy of reducing the total number of personnel including civil servants, personnel under contract, temporary or permanent workers employed at State Economic Enterprises and their subsidiaries will continue in accordance with programme targets. Accordingly, up to only 10 per cent of previous years' vacancies may be refilled in the current year.

The scheme for direct income support for farmers has been initiated to allow prices of agricultural products to be determined in the market and to secure a certain amount of income for farmers. Efforts towards downsizing and/or privatising agricultural SEEs in the sector will continue.

A new budget code system (analytical budget code system) has been initiated within the framework of the Public Fiscal Management Project to meet the need for a proper budgeting classification in line with the activities undertaken by the State and the analysis of the impact of these activities on the national economy. This project has been in implementation in six pilot organizations since January 2002. It is aimed that the new budget code structure will be implemented in all organizations within the scope of the consolidated budget in 2004 and all institutions within the scope of the General Government in 2005.

The general government tax revenues, which make up 61.4 per cent of total general government revenues, are expected to be around 26.7 per cent of GDP in 2003. The general

government revenue, expected to be 42.6 per cent of GDP in 2003. It increases by 0.9 per cent to 43.6 per cent of GDP when privatisation revenues are included. The total general government revenue, which is expected to be 41.3 per cent of GDP in 2006, reaches up to 42.3 per cent of GDP with a 1 percentage point increase when privatisation revenues are included.

**Table: 3. 8. General Government Revenues and Expenditures**

	(Per cent of GDP)			
	2003	2004	2005	2006
Taxes	26.7	25.2	24.8	25.2
Direct	8.2	7.2	6.8	6.9
Indirect	17.5	17.4	17.5	17.7
Wealth	1.1	0.6	0.6	0.7
Non-Tax Revenues	4.4	3.8	3.6	3.6
Factor Incomes	4.2	4.2	4.1	4.1
Social Funds	7.3	7.9	8.1	8.4
Total	42.6	41.1	40.7	41.3
Privatisation Revenues and Asset Sales	0.9	1.6	1.1	1.0
Total Revenues	43.6	42.7	41.8	42.3
Current Expenditures	18.0	18.1	18.1	18.1
Investments	3.5	3.9	3.9	4.1
Fixed Investment	3.4	3.8	3.9	4.1
Change in Stocks	0.0	0.0	0.0	0.0
Transfers	32.6	30.3	25.5	22.6
Current Transfers (net)	31.7	29.4	24.6	21.8
Capital Transfers	0.9	0.8	0.8	0.8
Stock Revaluation Fund	0.0	0.0	0.0	0.0
Non-interest Expenditure	36.3	35.6	35.4	35.1
Total Expenditures	54.1	52.2	47.5	44.8
Borrowing Requirement *	10.5	9.5	5.8	2.5
Borrowing Requirement Excluding Interest Payment*	-7.2	-7.1	-6.4	-7.2
Borrowing requirement Excluding Interest Payment and Privatisation*	-6.3	-5.5	-5.3	-6.1

\* (+) Refers to deficit and (-) refers to surplus.

It is estimated that general government expenditures as a share of GDP will continue to decline steadily from 54.1 in 2003 to 44.8 in 2006. Non-interest expenditures are expected to show a very slight decrease from 36 per cent of GDP in 2003 to 35 per cent of GDP in 2006. Therefore, the most important factor in the decline of general government expenditures is the significant amount of decrease expected in budget interest payments. On the other hand, the improvements in economic indicators and the reforms regarding the restructuring of the public sector have had an important role in the realization of the decrease in general government expenditures.

General government fixed capital formation foreseen as 3.4 per cent of GDP in 2003 is expected to rise to 4.1 per cent gradually in 2004-2006 period.

The general government borrowing requirement which was 13.1 per cent of GDP in 2002 is expected to fall to 10.5 per cent in 2003 and to decline rapidly as of 2004 to come down to 2.5 per cent in 2006. The most important factor in this decline is the significant decrease expected in consolidated budget interest payments. Also, the increases foreseen in privatisation revenue, the expected decrease in the deficits of social security institutions and the inclusion of the unemployment fund to the system will all have important roles in the reduction of borrowing requirements.

**Table: 3. 9. Public Gross Debt Stock Projections for 2003-2006**

	(Per cent of GDP)				
	Realization	Forecast			
	2002	2003	2004	2005	2006
Domestic Debt Stock	54.3	53.6	54.6	55.9	56.2
External Debt Stock*	48.2	38.7	36.5	31.8	27.0
Total Debt Stock*	102.5	92.3	91.1	87.6	83.2
Total Debt Stock (excluding IMF credits)	90.4	82.9	82.1	82.3	81.7
Decrease in IMF loans	-	2.7	0.4	3.7	3.8
Decrease in Total External Debt	-	10.2	1.2	3.5	4.4
Borrowing requirement excluding interest payments	-	-7.2	-7.1	-6.4	-7.2
Primary Surplus (Excluding privatisation)	-	-6.3	-5.5	-5.3	-6.1

\* Including CBRT.

It is estimated that the general government primary surplus, which is expected to be 7.2 per cent of GDP in 2003 will maintain the same level during the programme period.

An important recovery is anticipated in the ratio of the total gross public debt stock to GDP in a stable growth environment enhanced by the application of a tight fiscal policy and effective public debt management. This ratio, which reached 102.5 per cent in 2002, is expected to fall to 83.2 per cent in 2006.

Due to substantial external borrowing from international institutions in 2001 and 2002, the ratio of public external debt stock to GDP ratio has increased rapidly. It is expected that the external debt stock to GDP ratio will decline gradually and come down to 27 per cent by 2006 because of appreciation of the Turkish lira in real terms and the servicing of debt to international organizations during 2004-2006.

### 3.2.5. Regional and Sectoral Breakdown of Public Investments

Only a limited part of the public investments can be classified at the NUTS II level due to reasons such that a large share of public investments compose of transportation, energy and irrigation projects, which are related with multiple provinces, and a large number of projects have been consolidated so as to provide convenience in the implementation process

of investing institutions. For example, only 44 per cent of the 2003 public investment programme that amounts to 7.4 billion euro in 2003 prices can be classified at the NUTS II level, whereby the rest 56 per cent could only be assessed within the heading of “several provinces”.

When the 2003 total project cost that can be classified in NUTS II level are analysed, it is seen that the lowest project cost shares among 26 NUTS II regions belong to Zonguldak, Kastamonu and Tekirdağ NUTS II regions, and the highest shares in project cost belong to Şanlıurfa, Trabzon and İstanbul NUTS II regions, respectively. The lowest 2003 programmed investment shares belong to Tekirdağ, Mardin and Ağrı provinces while the highest shares belong to Trabzon, Hatay and Ankara provinces, respectively (Table 3.10).

The most important reason behind the regional differences in terms of the investment totals and the allocation distributions is due to the existence of large-scale national projects. For example, in 2003, 11.7 per cent of all the investment totals (project cost) that can be classified, and the 15.4 per cent of the yearly investment allocations that can be classified belong to Trabzon region. The reason is due to the large-scale hydroelectric power plant projects, which are within the boundaries of the Artvin province that is in the Trabzon region. Similarly, the Afşin-Elbistan Thermal Power Plant Project that is located within the boundaries of the Kahramanmaraş province, and the large-scale irrigation and power projects that are located in the Diyarbakır and Şanlıurfa provinces increases the shares of the NUTS II regions that include these provinces. As a result, the shares of the NUTS II regions that include such provinces may change depending on the completion times of such large-scale projects.

In preparation of the public investment programme, although regional priorities as well as the sectoral and project priorities are taken into consideration, no allocation decision has been taken on a regional basis. The tables in Annex 5 elaborate the indicative sectoral and the NUTS II regional allocations of the public investments for the period 2003-2006, as well as the indicative sectoral shares for each NUTS II region. According to these tables, the shares of many NUTS II regions are not being expected to change dramatically during the 2003-2006 period, notwithstanding the likelihood of several factors (such as the completion status of the projects that take place in these regions, the new projects that are likely to be started, the economic and social conditions in the regions, the production facilities and their sizes, the privatisation process) that can influence the magnitude of the shares of the regions. Within a medium-term expenditure perspective through which Turkey will adapt and implement a multi-year budgeting scheme, projections for the public investments as well as the indicators for the regional breakdowns will be based on a sounder basis in the very near future.

During the 2003-2006 period, Trabzon Region, with its 10.3 per cent share, will have the largest average share in terms of the indicative public investment allocations. Investments in the Trabzon Region are intensified in the power sector. In the same way, Hatay Region, also having the majority of investments in the power sector, comes the 2<sup>nd</sup> with its 9.6 per

cent average share; while the Ankara Region with its investments mostly in the other public services comes the 3<sup>rd</sup> with its 7.3 per cent average share and the Şanlıurfa Region with its investments mostly in the agriculture sector comes the 4<sup>th</sup> with its 6.3 per cent average share. İstanbul and Aydın regions immediately follow the above-mentioned provinces with their 5.9 per cent shares for each during the period 2003-2006. The shares of the other 20 regions are being expected to be between 1,0 per cent and 5.4 per cent and to change over the period. The sectoral breakdown of the investments of the 20 regions is also being expected to change over the 2003-2006 period (Annex 5).

In 2003, 52.4 per cent of the total public investment cost of 63.2 billion euro that can be classified on a regional basis belongs to the 12 regions that are covered in the pNDP. The sectoral breakdown of these projects summing to a total of 33.1 billion euro is as follows:

- 16.4 billion euro for the power sector
- 8.9 billion euro for the agriculture sector
- 3.1 billion euro for the transportation sector
- 2.1 billion euro for the other public services sector which consists of the drinking water system, sewer system and rural area development sub sectors,
- 2 billion euro (approx.) for the education and health sectors
- The remaining amount for the other sectors (Table 3.10, Annex5).

When the year 2003 investment totals are considered, it can be said that 42.2 per cent (1.37 billion euro) of the total yearly allocations (3.3 billion euro), that can be classified on a regional basis, belongs to the 12 NUTS II regions that are covered in the pNDP. Similar to the sectoral breakdown of the total project cost, the investment allocations for these regions in the 2003-2006 period are expected to be focused in the energy, agriculture, and transportation sectors. In terms of the 2003-2006 period average, the total share of the 12 NUTS II regions in the total public investment allocation that can be classified on a regional basis is being expected to be 40 per cent. The expected sectoral shares of these 12 NUTS II regions in the classified indicative sectoral public investment allocation are as follows:

- 69.6 per cent in agriculture sector
- 50.8 per cent in power sector
- 25.8 per cent in education sector
- 32.3 per cent in health sector
- 36.7 per cent in other public services sector

The sum of the share of the 12 NUTS II region in the agriculture, education, health and other public services sectors, whose outputs are locally more important than that of other sectors, is 18.5 per cent in 2003 and is expected to rise to 23.5 per cent in 2006. In terms of the 2003-2006 period average, the share of the 12 regions in these four sectors is expected to

be around 21.1 per cent (Annex 5). So, these 12 regions will be better off in terms of these four locally important sectors throughout the following years. Moreover, it is expected that the projects that will be funded through EU funds will help to reduce regional disparities between the regions.

**Table: 3. 10. Regional Breakdown of the Public Investments (2003-2006) (\*)**

REGION	2003		2003 ALLOCATION		2004 ALLOCATION		2005 ALLOCATION		2006 ALLOCATION	
	PROJECT COST	SHARE (%)	PROGRAM	SHARE (%)	ESTIMATION	SHARE (%)	ESTIMATION	SHARE (%)	ESTIMATION	SHARE (%)
İSTANBUL	4 443 133	7.03	187 906	5.75	160 245	6.77	159 137	4.82	174 971	6.38
TEKİRDAĞ	754 745	1.19	24 521	0.75	25 700	1.09	28 334	0.86	35 343	1.29
BALIKESİR	2 114 850	3.35	164 219	5.03	115 713	4.89	124 795	3.78	93 438	3.41
İZMİR	2 634 285	4.17	185 680	5.69	119 330	5.04	113 533	3.44	116 787	4.26
AYDIN	2 754 592	4.36	175 781	5.38	136 410	5.76	163 719	4.96	208 360	7.60
MANİSA	1 476 671	2.34	67 518	2.07	57 247	2.42	149 043	4.52	86 878	3.17
BURSA	2 507 248	3.97	125 616	3.85	115 435	4.87	153 095	4.64	132 403	4.83
KOCAELİ	1 480 095	2.34	159 183	4.87	106 705	4.51	153 650	4.66	160 946	5.87
ANKARA	3 127 865	4.95	272 566	8.35	196 442	8.30	201 709	6.11	179 324	6.54
KONYA	2 368 903	3.75	145 196	4.45	103 104	4.35	191 076	5.79	191 490	6.99
ANTALYA	1 543 123	2.44	98 031	3.00	87 097	3.68	93 300	2.83	92 350	3.37
ADANA	1 677 033	2.65	60 927	1.87	45 145	1.91	52 572	1.59	50 043	1.83
HATAY	4 146 529	6.56	279 517	8.56	236 282	9.98	564 478	17.11	75 571	2.76
KIRIKKALE	824 675	1.30	36 692	1.12	38 609	1.63	53 199	1.61	57 018	2.08
KAYSERİ	1 166 911	1.85	86 073	2.64	52 247	2.21	69 327	2.10	67 050	2.45
ZONGULDAK	595 305	0.94	49 905	1.53	56 436	2.38	69 387	2.10	63 098	2.30
KASTAMONU	708 731	1.12	22 366	0.68	19 625	0.83	31 728	0.96	40 167	1.47
SAMSUN	2 024 866	3.20	92 298	2.83	72 714	3.07	130 064	3.94	103 528	3.78
TRABZON	7 402 917	11.71	503 727	15.42	200 481	8.47	272 332	8.25	242 712	8.85
ERZURUM	1 316 222	2.08	41 270	1.26	46 143	1.95	50 206	1.52	45 873	1.67
AĞRI	855 201	1.35	35 011	1.07	22 288	0.94	35 091	1.06	42 574	1.55
MALATYA	2 911 194	4.60	88 883	2.72	64 070	2.71	72 863	2.21	80 326	2.93
VAN	2 049 039	3.24	69 285	2.12	71 050	3.00	108 906	3.30	87 469	3.19
GAZİANTEP	1 054 655	1.67	63 909	1.96	37 650	1.59	34 919	1.06	34 253	1.25
ŞANLIURFA	8 087 287	12.79	202 737	6.21	156 884	6.62	190 282	5.77	175 599	6.41
MARDİN	3 194 969	5.05	26 870	0.82	25 083	1.06	32 675	0.99	103 491	3.78
<b>12 NUTS-2 REGION</b>	<b>33 140 895</b>	<b>52.42</b>	<b>1 377 625</b>	<b>42.18</b>	<b>871 338</b>	<b>36.79</b>	<b>1 219 469</b>	<b>36.96</b>	<b>1 214 533</b>	<b>44.31</b>
<b>OTHER (SEVERAL) REGIONS</b>	<b>48 048 903</b>		<b>4 146 349</b>		<b>3 919 271</b>		<b>3 891 426</b>		<b>4 488 596</b>	
<b>TOTAL (EXCLUDING OTHERS)</b>	<b>63 221 046</b>	<b>100.00</b>	<b>3 265 688</b>	<b>100.00</b>	<b>2 368 135</b>	<b>100.00</b>	<b>3 299 417</b>	<b>100.00</b>	<b>2 741 063</b>	<b>100.00</b>
<b>TOTAL (INCLUDING OTHERS)</b>	<b>111 269 949</b>		<b>7 412 037</b>		<b>6 287 406</b>		<b>7 190 843</b>		<b>7 229 659</b>	

(\*) - Investments and their breakdown are indicative and investments of local administrations are not included.

- Shares of the regions denote the shares in the total and sectoral total investment excluding the investments that cannot be classified on a regional basis.

- For the year 2004, 1 euro=1,881,698 TL.

## **4. SECTORAL DEVELOPMENT AXES**

This chapter contains detailed information on the sectoral development axes, which are the basis of the pNDP Strategy and summarized in section 3.1. In determining the main objectives and strategies for each of the development axes, certain components of the relevant SWOT analysis were taken as the basis. These SWOT components are presented in bold characters. Priorities and measures under the axes are determined within the limits of the available funds and in the context of main objectives and strategies.

### **4.1. DEVELOPMENT AXIS 1: ENHANCING THE COMPETITIVENESS OF ENTERPRISES**

In Turkey, production and exports are concentrated in the fields of low technology, thus the share of the products of high technology is quite low.

In World Economic Forum's 2003-2004 Global Competitiveness Report, Turkey is 54<sup>th</sup> in the technology ranking, and 51<sup>st</sup> in the company operations and strategy ranking.

Inadequate capital accumulation, difficulties in providing macroeconomic stability, high sales taxes, high cost of capital and basic industrial and service inputs, difficulties in keeping up with technological developments, inefficiency in innovation and new technology creation are the factors adversely affecting the competitiveness of enterprises.

In this context, the development of SMEs is the basic strategic aim in supporting the competitiveness of the enterprises.

As compared to the support and services offered to SMEs in the EU, the quality, type and size of state aids to SMEs in Turkey are relatively low in terms of employment, value added and tax revenues generated by SMEs.

When the policies and programmes that are envisaged for SMEs are compared with the current practices of the EU and developed countries, it is observed that Turkey's SME support system does not have the capacity to meet the needs of enterprises, and lack of sufficient resources and institutional capacity constitute a significant obstacle to obtaining the results of the policies and programmes designed to develop and support SMEs in the short-term and medium-term.

Turkish industry mainly depends on the private sector activities. In manufacturing industry, more than 80 per cent of production and about 95 per cent of gross fixed investment are realized by the private sector.

Nevertheless, agricultural enterprises, usually in the form of family enterprises, are mostly small-scaled and lack competitiveness due to the weak marketing infrastructure and incomplete integration between agriculture and industry.

Technical assistance is needed to support programmes and develop projects in the fields such as industrial clusters, design, new technology, R&D, and e-commerce by diversifying and developing financial means for SMEs.

In the context of harmonization with the EU, “Turkish Industrial Policy Document” on 30 September 2003 and “SME Strategy and Action Plan” on 10 November 2003 were approved by the High Planning Council.

The SME Strategy and Action Plan and Turkish Industrial Policy Document have been prepared by Ministry of Industry and Trade, SPO, Undersecretariat of Treasury, Undersecretariat of Foreign Trade, State Institute of Statistics, Small and Medium Industry Development Organisation, Turkish Patent Institute, Turkish Union of Chambers of Commerce, Industry and Maritime Trade and Commodity Exchange (TOBB), Confederation of Tradesmen and Artisans of Turkey, which determine the basic strategies for the SMEs and industry and carry out related activities.

The SWOT analysis below is based on SME Strategy and Action Plan and Turkish Industrial Policy Document, which were prepared with a participatory approach. Besides, the results of the studies of the SME Working Group coordinated by TOBB in the context of the preparations for 2004 Turkish Economy Congress, has been benefited from.

### SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• <b>Diversity and abundance of the agricultural industry inputs and industrial raw materials</b></li> <li>• Abundance and relative cheapness of the highly educated work force</li> <li>• <b>Existence of a minimum institutional organization to support the SMEs</b></li> <li>• Diversity of the industrial sub-sectors,</li> <li>• Constitution of a minimum structuring for enhancement of the cooperation among the enterprises, by the applications of SIE, OIZ, Technology Development Zones and Industrial Zones</li> <li>• The improvements in the infrastructure</li> <li>• <b>Widespread telecommunications infrastructure</b></li> <li>• Size of domestic market</li> <li>• Relatively developed market economy</li> </ul>	<ul style="list-style-type: none"> <li>• High financing costs</li> <li>• High sales taxes</li> <li>• Unfair competition caused by the unregistered economy</li> <li>• High costs of the inputs provided by the public sector</li> <li>• Inability to benefit from the scale economies</li> <li>• <b>Insufficiency of the financing means of SMEs</b></li> <li>• Challenges of SMEs to access financing</li> <li>• <b>Insufficiency and instability of SME supports</b></li> <li>• <b>Scattered authority and responsibility regarding the provision of services towards SMEs</b></li> <li>• <b>Concentration in raw material and labour intensive sectors</b></li> <li>• <b>Widespread usage of old technologies</b></li> <li>• <b>Insufficiency in innovation and new technology creation</b></li> </ul>

<b>Strengths</b>	<b>Weaknesses</b>
	<ul style="list-style-type: none"> <li>• <b>Low usage of the information and communication technologies</b></li> <li>• Inadequacy in design and brand creation</li> <li>• <b>Insufficient awareness of environment</b></li> <li>• <b>Low quality and productivity</b></li> <li>• <b>Difficulty in meeting the EU standards</b></li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Economic integration with the EU</li> <li>• Proximity to the regional markets</li> <li>• <b>Opportunities created by the information technology</b></li> <li>• Realization of the structural reforms</li> </ul>	<ul style="list-style-type: none"> <li>• Macroeconomic instability risks</li> <li>• Natural disasters</li> <li>• Liberalization tendencies in the world markets in raw material and labour intensive sectors</li> <li>• Increase in international investments in China and Far East Countries</li> </ul>

### **Main Objectives and Strategies**

Main objective of this development axis is to enhance the competitiveness and efficiency of all enterprises, especially SMEs and spread the use of information and communication technologies. Basic goals in this context are:

- Ensuring the modernization of agricultural enterprises within the framework of agriculture-industry integration
- Intensifying the training, consultancy and R&D supports for the development of the technological infrastructures of the enterprises,
- Providing diversity in financing SMEs
- Enhancing financial and non-financial supports for SMEs
- Development of the transfer capacity in order to accelerate the technological flow in SMEs
- Increasing the facilities of fast data transmission and e-commerce for SMEs
- Increasing the usage of new technologies
- Increasing the capacity of developing new products
- Increasing environmental awareness
- Raising awareness of quality and efficiency

### **Priorities**

- The competitiveness of the SMEs will be enhanced.
- The competitiveness of the agricultural and industrial enterprises will be enhanced through improving technology and quality level and EU norms will be considered in environmental issues.

**Table: 4. 1. Financial Table For Development Axis 1 (2004-2006)**

(Million Euro)

Priorities	Total estimated cost	Total public contribution	Total EU contribution	Total national public contribution	Private sector contribution
<b>Priority 1:</b> The competitiveness of the SMEs will be enhanced.	80	70	55	15	10
<b>Priority 2:</b> The competitiveness of the agricultural and industrial enterprises will be enhanced through improving technology and quality level and EU norms will be considered in environmental issues.	55	30	30	-	25
<b>Total</b>	<b>135</b>	<b>100</b>	<b>85</b>	<b>15</b>	<b>35</b>

**Priority 1.** The competitiveness of the SMEs will be enhanced.

Increasing the productivity, shares in value added and international competitiveness of SMEs are essential.

**Measure 1.1.** Financing means of SMEs shall be developed and diversified.

In Turkey, financing instruments such as credit guarantees for SMEs, venture capital investment partnerships, real estate investment partnerships, SME finance companies, factoring and leasing companies for SMEs, SME Stock Exchange enabling SMEs to benefit from equity markets either could not be put into practice or have been realised to a very limited extend.

In this context, a sector evaluation study on financing of the SMEs will be conducted and a strategy will be developed in order to increase the needed institutional capacity and financing opportunities.

Funds that may constitute a source for SMEs and modern financing institutions working regularly with capital market and financial markets will be supported and activated.

**Measure 1.2.** Non-financial supports will be increased and the communication between SMEs and chambers and exchange markets will be improved.

SMEs will be informed to be directed to exportation, enterprises that function in the same field will be encouraged to organize toward exportation, the model of sectoral foreign trade companies will be developed taking into account the successful examples of other companies and additional support will be provided to enhance the effectiveness of the implementation.

Knowledge level of SMEs about modern financial means and organizations will be increased and accessibility to financial sources will be increased.

For the purpose of providing better service for SMEs, institutional capacities and communications and cooperative working abilities of all the servers, in particular public bodies and professional organisations, will be improved to increase effectiveness in services.

In the accession process to the EU, services and supports demanded by SMEs from public institutions, and chambers and stock exchanges, of which SMEs are members, need to be diversified. To this end, human resources, communications infrastructure and service environment of the public institutions and organizations, existing chambers and stock exchanges will be examined; current situation and successful examples in the developed countries will be identified and new service and support modules will be developed and put into practice.

Joint programmes will be developed for SMEs, which enable them to benefit from the information capacities of the universities and large-sized companies. Furthermore, main/sub-industry relations will be improved and projects aiming to raise the educational levels of the sub-industry personnel will be supported.

“Industrial Clusters”, which are advanced and common in EU countries, will be formed in OIZs and SIEs.

Consultancy services for SMEs will be standardized. Training activities will be arranged for private consultancy organizations, work towards accrediting these organizations will be carried out and their services will be constantly monitored.

In the context of harmonization with the EU technical legislation, acquisition of CE marking and promoting the widespread use of metrology, standardization, test and quality systems; training and consultancy will be provided to raise quality awareness and develop technological infrastructure, and work towards developing special quality and certification systems will be carried out

Training programmes for managers in order to establish the organization culture in SMEs will be arranged.

Sector-based training programmes will be arranged to ensure active participation of SME employees in the decision-making process within the enterprise.

**Measure 1.3.** The technology transfer and R&D capacity will be improved to accelerate the technological flow into SMEs.

Low technological level of SMEs constitutes a significant obstacle to their international competitiveness.

Development of transfer capacity and improvement of quality are aimed to accelerate the spread of technology. In this context, it is envisaged to concentrate supports in training, consultancy and R&D with a view to improving of the technological infrastructure of the companies.

Within the framework of SME Strategy and Action Plan and in order to solve the industrial problems of SMEs, know-how needs will be defined and supplied to the user, and adaptation services will be provided.

Furthermore, trade links between service sector SMEs and the client manufacturer SMEs will be strengthened, market-creating policies will be developed, and work towards setting up of intermediary organizations to strengthen these links will be carried out.

Cooperation between universities and industry will be supported, SMEs will be directed towards R&D activities and meeting of SMEs with universities in technoparks will be ensured.

In the context of cooperation between universities and industry, Technology Development Zones and Industrial Zones will be supported in order to set up innovative enterprises and accelerate R&D activities,

**Measure 1.4.** The infrastructure needed for SMEs for rapid data transmission and e-commerce will be developed.

The development of infrastructure and applications of information and communications technologies necessary for the SMEs to compete globally will be ensured. Moreover, capabilities of the enterprises with regard to rapid data transmission and e-commerce will be enhanced, so that they will be advantageous in the fields such as telecommunications, access to information, customer and supplier relations and joint business development with other enterprises.

In this context, with the projects to be implemented for providing wide-band frequency access in OIZ, SMEs in these zones will be able to realize transition to e-business environment by using information and communications technologies. Within this framework, SME-NET and similar e-commerce practices and efforts towards providing information will be promoted.

**Priority 2.** The competitiveness of the agricultural and industrial enterprises will be enhanced through improving technology and quality level and EU norms will be considered in environmental issues.

The agricultural and industrial enterprises will have a structure, which will utilize domestic resources as far as possible, produce in compliance with environmental norms, take into consideration consumer health and preferences, use skilled labour, adopt a strategic management approach, give importance to R&D, generate technology, create original designs and trademarks and thus take its place in international markets.

Increasing the quality and efficiency awareness of producers and creation of a national quality image are crucial for meeting the changing consumption demands and gaining easy access to international markets.

**Measure 2.1.** Modernization of the agricultural enterprises will be supported and the competitiveness of the enterprises will be enhanced.

Small-sized and fragmented structure of the agricultural lands, emergence of agricultural enterprises in the form of small-scale family enterprises and weak agriculture-industry integration are the main reasons for low productivity in agriculture sector and weak competitiveness of the agricultural enterprises. In this context, it is envisaged to improve the storage, marketing and other physical infrastructure of agricultural enterprises, including agricultural organizations, as well as to support the information infrastructure regarding marketing.

**Measure 2.2.** Use of new technologies in the industry will be enhanced.

Old technologies are widely used in Turkey in various sectors, especially in traditional industries. This has a negative impact on the competitiveness of the industry, which impedes access to foreign markets. Therefore, promoting new technologies in the industry and supporting their usage by enterprises are of great importance. In this context, seminars and fairs will be organized to promote new technologies.

**Measure 2.3.** Industrial R&D activities will be supported.

Technology generation and R&D capacity of the industry will be improved. In the manufacturing industry, R&D projects especially related with the information technologies, innovation and technology development will be supported. In this context, R&D activities through the university-public-private sector cooperation will be encouraged.

**Measure 2.4.** Quality and efficiency awareness will be enhanced and quality infrastructure of the enterprises will be improved.

The quality and efficiency awareness will be developed in the enterprises through the training programmes and publications in cooperation with the related sector institutions. Also, efforts towards complying with the standards, quality certification, total quality management and productivity improvement will contribute to reinforcing the institutional capacity on quality and overcoming infrastructure deficiencies of enterprises.

### **Expected Results**

In this context, upon the implementation of the measures concerned;

- The share of SMEs in total value added will increase,
- The employment creating capacity of SMEs will increase
- Overall technological level of SMEs will improve,
- R&D capacity of the enterprises will improve, new products and technologies will develop and use of new technologies will expand,
- Quality of products and services will improve,
- The environmental awareness of the enterprises will increase.

Thus, it is expected that competitiveness of the enterprises will be improved and progress towards harmonization with the EU will be achieved.

**Indicators**

Indicators of the development axis are presented in the table below.

**Table: 4. 2. Indicators**

<b>Indicator</b>	<b>2003</b>	<b>2006</b>	<b>Source</b>
Technology Ranking	54	<50	DEF(1)
Enterprise's Operations and Strategy Ranking	51	<50	DEF (1)
New Employment (2)	-	1000 people	Projects
Share of R&D Expenditures of Private Sector in Total Expenditures	30.5% (2000)	31%	SIS

(1) World Economic Forum (2003-2004).

(2) It should be considered that most of the funds will also be used in the fields other than employment.

**Related Bodies**

Ministry of Industry and Trade

Ministry of Agriculture and Rural Affairs (MARA)

SPO

Undersecretariat of Treasury

Undersecretariat of Foreign Trade

SIS

Turkish Banking Regulation and Supervision Agency

Capital Markets Board of Turkey

Scientific and Technical Research Council of Turkey (TUBITAK)

Small and Medium Industry Development Organisation (KOSGEB)

Development Bank of Turkey

EXIM Bank

T. Halk Bankası A.Ş.

Turkish Union of Chambers of Commerce, Industry, Maritime Trade and Commodity Exchanges (TOBB)

Confederation of Tradesmen and Artisans of Turkey (TESK)

Technology Development Foundation of Turkey (TTGV)

Credit Guarantee Fund Inc.

National Productivity Centre (MPM)

Turkish Society for Quality

## 4.2. DEVELOPMENT AXIS 2: DEVELOPING THE HUMAN RESOURCES AND INCREASING THE EMPLOYMENT

Young population is one of Turkey's most important assets with respect to competition. The rapid changes in today's world increase the need for manpower able to use and interpret information and produce new technologies.

With Human Resources Development Axis (HRDA), it is expected that Turkey's human resources could efficiently use the developing information and communications technologies, and their employment opportunities will be enhanced by improving their knowledge and skills.

To this end, two priorities related to the employment and education have been determined in the scope of HRDA and 7 measures have been defined on the basis of those priorities. In developing the measures, especially involvement of women, disabled and unskilled persons in education and work environment has been considered.

### SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Physical, cultural and human infrastructure</li> <li>• Young population</li> <li>• Increased enrolment ratio at all levels of education</li> <li>• Increased standards of working life</li> <li>• Increased efficiency of the NGOs</li> <li>• Increased importance given to education</li> <li>• Increased access to educational and training services</li> <li>• Decreased population growth rate</li> <li>• Increased access to health care services, and improved healthy life conditions</li> <li>• Increased population covered by social security</li> </ul>	<ul style="list-style-type: none"> <li>• Insufficient sources allocated to human resources and inefficient use of available sources</li> <li>• High unemployment rate</li> <li>• Weak relation between education and labour market</li> <li>• Unproductive labour force</li> <li>• Low quality of education</li> <li>• Insufficient access to science and technology</li> <li>• Low participation rate of female population in employment</li> <li>• Low entrepreneurship level</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• The process of EU membership</li> <li>• Impact of the developments in information and communications technologies on education and employment</li> <li>• Efforts towards re-organization and decentralization in public administration</li> <li>• Structural reforms realized in the economy</li> <li>• Education reform</li> </ul>	<ul style="list-style-type: none"> <li>• Brain drain</li> <li>• Low level of investments</li> <li>• Negative effects of the economic instability on employment</li> <li>• The size of unregistered economy</li> <li>• Inequality in income distribution</li> <li>• Heavy bureaucracy in public administration</li> <li>• Natural disasters</li> </ul>

Due to insufficiency of resources, ineffective use of existing resources and low quality of education, it is difficult to train the labour force needed by the labour market.

It is important to raise the level of norms and standards of education and labour force market in line with the developments in information and communications technologies and EU membership target.

### **Main Objectives and Strategies**

To support the enhancement of the quality and quantity of human resources in the fields of education and employment in line with the needs of a competitive economy and knowledge-based society is the main objective

- A more competitive market structure in the global economy will be attained by reaching EU standards in the fields of education and employment.
- With the increase in importance of education and access to it, the quality of education and unskilled labour force will be improved.
- Co-operation between the schools and enterprises will be encouraged in education.
- Training and employment of the disadvantaged groups will be supported.

### **Priorities**

In view of the broad scope of HRDA, limited sources and short implementation period, it became necessary to produce partial and short-term solutions in the priority areas. Priorities are:

- Active Labour Market Policies.
- Reinforcement of the Education System.

**Table: 4. 3. Financial Table For Development Axis 2 (2004-2006)**

(Million Euro)					
<b>Priorities</b>	<b>Total Estimated Cost</b>	<b>Total Public Contribution</b>	<b>Total EU Contribution</b>	<b>Total National Public Contribution</b>	<b>Private Sector Contribution</b>
<b>Priority 1: Active Labour Market Policies</b>	34	34	23.5	10.5	
<b>Priority 2: Reinforcement of the Education System</b>	36	36	25	11	
<b>Total</b>	<b>70</b>	<b>70</b>	<b>48.5</b>	<b>21.5</b>	

**Priority 1. Active Labour Market Policies.**

It is necessary to train the labour force needed by the economy, upgrade them in line with the requirements of the information age and to increase effectiveness in the labour market. In this context, it is aimed to develop employability of labour force, to encourage entrepreneurship, and to ensure equal opportunities in employment.

**Measure 1.1.** The employment of disadvantaged groups in labour market will be supported.

Measures will be taken to increase employment, especially for women, long-term unemployed, disabled and ex-convicts. New labour market policies aiming to prevent risk of being unemployed for persons with low level of skills and low wages will be implemented.

Services on vocational orientation, job and career counselling, vocational training, entrepreneurship training, vocational rehabilitation services will be provided to disadvantaged groups in order to assist them to establish their own businesses as entrepreneurs and increase their employability. It is important to promote entrepreneurship and to provide job-guaranteed training for these groups in order to ensure their equal access to labour market.

**Measure 1.2.** Employment of the unemployed young people will be promoted and measures will be taken for redundant workers.

Productivity and efficiency of unemployed young people and redundant workers will be increased in order to help them find a job. In this context, to ensure adaptation of these groups to changing market conditions, their skills will be improved through vocational development courses.

**Measure 1.3.** Adaptation capacities of employees and entrepreneurs to changing market conditions will be improved.

Lifelong learning opportunities will be provided and strategies for adaptation to work will be developed for the workers who became redundant as a result of change in labour demand or whose productivity decreased, in order to enhance their capacity to adapt to changing conditions. Active labour market programmes will be implemented to endow the labour force with new skills and qualifications. Furthermore, the entrepreneurs will be supported for creating new employment opportunities.

**Measure 1.4.** Measures will be taken to create new employment fields and additional sources of income for households in rural areas.

Development of agriculture-based industry and non-agricultural economic activities in rural areas is aimed. Besides, labour-intensive investments creating new employment opportunities will be given emphasis, and quality of human resources in relation to activities such as handicrafts, sports, nature and cultural tourism and fishery will be improved.

**Priority 2. Reinforcement of the Education System**

Through increasing the quality of the education of young population, the quality of the human resources will be enhanced. It is important to support formal and non-formal vocational education activities to improve the quality in education and to train the manpower suitable to the market needs.

**Measure 2.1.** Cooperation between labour market and education will be enhanced.

Emphasis will be given to formal and non-formal vocational and technical education, vocational and technical education programmes will be prepared on the basis of professional standards, a national qualifications assessment system will be established, and functional cooperation with labour market will be improved. It is essential to support task allocation and cooperation based on programme integrity between vocational higher schools and vocational-technical high schools, and to enhance cooperation between labour market and education.

**Measure 2.2.** The use of information and communications technologies in education will be increased.

With the utilization of facilities provided by information and communications technologies at all levels of education and with the improvement of distance-learning services, it is aimed to improve the quality of education and to provide the labour force needed by the labour market.

**Measure 2.3.** Lifelong learning opportunities for adults will be enhanced.

All sorts of non-formal education based on the lifelong learning approach will be developed, and training activities will be encouraged to endow especially the young people who do not enter to any higher education programmes with practical skills and profession in a short period of time.

**Expected Results**

Increase in the number of the job-guaranteed vocational courses and the number of people attending these courses.

Increase in the number of adults benefiting from non-formal education.

Increase in the employment level of vocational technical school graduates.

Increase in the enrolment rate of vocational education.

Increase in the quality and congruity of the vocational education system.

Increase in the number of the vocational education programmes.

Wider use of computers in education.

**Indicators**

The number of unskilled, female and disabled people trained in accordance with the needs of the labour market: 3,000.

The number of apprenticeship and vocational high school students to be trained: 3,000.

The number of schools where technology-based education methods will be supported: 250.

**Related Bodies**

Ministry of National Education

İŞKUR (Turkish Employment Agency)

Ministry of Internal Affairs

Ministry of Industry and Trade

SPO

SIS

Small and Medium Industry Development Organisation (KOSGEB)

National Productivity Centre (MPM)

T. Halk Bankası A.Ş.

NGOs

SHÇEK

Administration for Disabled People

Directorate General on the Status and the Problems of Women (KSSGM)

Local Administrations

Trade Unions

Professional Organizations

**4.3. DEVELOPMENT AXIS 3: IMPROVEMENT OF INFRASTRUCTURE SERVICES AND ENVIRONMENTAL PROTECTION**

In the Development Axis for Improvement of Infrastructure Services and Environmental Protection, the emphasis in project selection is more on feasibility studies and road and maritime safety since Turkey could not use the structural funds yet. The infrastructure projects, which require high level of funds are dealt with in order to introduce Turkey's long-term plans for 2006 and onwards, thus they are not included in 2004-2006 financial tables.

It is planned that a total of 116 million euro be allocated for the projects in line with the Development Axis. EU funds will contribute 86 million euro. In 2004, technical assistance and feasibility studies will be carried out and agencies in charge of the projects will be activated. Therefore, substantial part of the funds will be used in 2005 and 2006.

**SWOT Analysis**

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• <b>Strategic position in the axes of Asia-Europe and Europe-Middle East and sufficient level of motorways and State highway network,</b></li> <li>• Existence of firms with international experience in the construction of transportation infrastructures and skilled human resource in these firms,</li> <li>• Increasing freight transportation demand between EU member countries and Middle East and Asian countries,</li> <li>• Constitution of the international highway transportation fleet of modern and environment-friendly vehicles,</li> <li>• <b>Competitiveness of private sector transportation operators based on experience and low unit costs,</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Worn out highway superstructure due to high share of roads in freight and passenger transportation,</b></li> <li>• Lower density of highway and railway network than the EU average,</li> <li>• <b>Very old single-track railways in main corridors and lack of high speed railways between large cities,</b></li> <li>• <b>Inefficient transport systems created by different public operators, including municipalities, and emergence of unproductive transportation systems as a result of lack of communication between them,</b></li> <li>• <b>A highly bureaucratic structure in the implementation of transport investments and the lack of coordination between transportation agencies,</b></li> <li>• <b>Bureaucratic formalities and negative approach of public operators make no use of existing financing models to attract private sector funds to new investments,</b></li> <li>• Low amount of total resources allocated from the general budget to the investments,</li> <li>• Limited experience of Turkish banking sector for project financing,</li> <li>• Ever increasing investment demand in transportation,</li> <li>• Lack of a project selection and management mechanism considering external costs,</li> <li>• Environmental risks due to ineffective Port State Control in the Bosphorus and Çanakkale Straits and main ports</li> <li>• Inability to transfer utility fees charged to the users of the transportation infrastructure or the transportation taxes to the environmental protection investments,</li> <li>• Collection of incomparable and non-priority data in environment sector and insufficient data base with regard to environment.</li> <li>• <b>Indefinite institutional task division in environmental management, insufficiency of the technical personnel employed in environmental services and difficulties in operation and maintenance of completed infrastructure.</b></li> <li>• <b>Insufficiency in the waste water treatment systems (sewerage network + treatment plant) and in sanitary landfill investments, deficiency in awareness concerning the solid waste management</b></li> </ul>

Opportunities	Threats
<ul style="list-style-type: none"> <li>• Due to their strategic position Turkish ports have the potential to be hub ports in Mediterranean provided the necessary improvements are made. Also, Mersin port will gain importance when the Baku-Ceyhan-Tbilisi Pipeline project is completed,</li> <li>• Concluded international agreements about environment,</li> <li>• Provision of environment friendly technologies in manufacturing sector,</li> <li>• Harmonization of the environment legislation within the framework of membership to the EU,</li> <li>• Possibility to shift freight and passenger transport between Turkey and developing Turkish Republics and Middle East countries to the railways,</li> <li>• Turkey being the most advantageous country with respect to transportation, in restructuring Iraq.</li> </ul>	<ul style="list-style-type: none"> <li>• Failure to activate the structural funds and deferral of the long-term policies as a result of the extended EU membership process,</li> <li>• Increasing pressure of high rate of urbanization on natural resources,</li> <li>• Interruption of transport activities with the countries in the region due to possible regional crises</li> </ul>

Major areas of concern in environment management are insufficient institutionalisation (insufficient technical staff, unclear task distribution and lack of infrastructure for information system), insufficient infrastructure for hygienic and sufficient drinking water, treatment of wastewater and solid waste management.

As a result of concentration of commercial activities in metropolitan centres, the geographical distribution of population in Turkey is far from being uniform. Increased migration from rural to urban areas puts further pressure on limited transport services. Due to irregular urbanization patterns, increase in the capacity of existing arteries linking urban centres to emerging and enlarging peripheral agglomerations and to industrial hubs became harder, leading to extreme levels of traffic intensity and congestion. Since the externality effects of traffic congestion (wasted time and fuel, adverse effects of hazardous emissions on environment and on people, etc.) observed in big metropolitan areas of Turkey cannot be measured accurately due to lack of reliable data, the magnitude of wasted resources cannot be determined. Besides urban transport demand, intercity freight and passenger demand is also served by road transport because of poor service quality of railways.

### **Main Objectives and Strategies**

The most important problems stated in the White Paper<sup>3</sup> published by the European Commission in 2002 which determines long-term policies in transportation sector of the EU member states are; lack of balance among transportation modes in favour of highway transport, congestion in main road and rail corridors and negative environmental impact resulting from the high share of highways in transportation activities.

<sup>3</sup> European Transport Policy for 2010: Time to decide.

Turkey's main strategy, stated in the Eighth Five Year Development Plan covering the period of 2001-2005, is to provide transportation services in an economical and safe manner, in line with economic and social development, to ensure a balance among transportation modes as appropriate to the country's needs, to increase transport safety, to minimize environmental impacts and to make utmost use of information and communication technologies while following international and national legislation and rules.

The main objectives in environment sector are to reduce the pressure of economic and social development and human settlements on environment and preserve the natural resources by providing healthy living conditions and increasing the effectiveness of environmental management through disposal of domestic and industrial waste.

In this context the main objectives are:

- To take advantage of Turkey's strategic location, the national routes in the axes of Trans-Europe and Europe-Middle East and the ports with which these routes are connected should be determined, and the projects should be financed by foreign capital and public-private partnership.
- Public sector's role will be reduced as far as possible with respect to provision of transport services,
- Investments on systems where existing capacities are improved and information technologies are used should be selected instead of projects that will create additional demand; and system security should be enhanced.
- Highway dominant transportation, particularly freight transportation, will be transferred to railways and sea, so that balanced use of different modes eliminating bottlenecks will provide sustainable, continuous, safe and comfortable transportation. To this end, highway traffic safety will be improved, railways will be prepared for open market economy, the railways in the main routes will be improved as double-tracks, capacities of main ports will be increased and their railway-highway connections will be improved, maritime safety will be enhanced.
- In restructuring the transportation sector, administrative arrangements will also be given importance,
- Legislative arrangements will be made to attract foreign direct investment and reduce bureaucratic procedures in order to facilitate the establishment of Turkish and foreign logistics companies that operate in ports and have the capacity to operate also in railways and highways.
- Databases that will contain transportation and environmental parameters will be established to ensure more efficient urban transportation services by the municipalities.
- In environment sector, improvement of institutionalisation and productivity should be given priority.

**Priorities**

- Improvement of highway safety,
- Preparation of a technical study (TINA) to ensure the integration of the Trans-European and European-Middle East transportation networks with national networks and determination of the projects that will use the EU structural funds in near future,
- Formation of hub ports by improvement of port capacities and strengthening maritime safety to provide an efficient service within the EU transportation networks,
- Improving the quality and efficiency of urban transport services,
- Transferring rail stock repair and maintenance facilities of Turkish State Railways (TCDD) to private sector under the framework of Turkish Railway Sector Restructuring,
- Preservation of the water resources, increase in productivity of drinking water and sewerage services and of solid waste management

**Table: 4. 4. Financial Table For Development Axis 3 (2004-2006)**

(Million Euro)

Priorities	Total estimated cost	Total public contribution	Total EU contribution	Total national public contribution	Private sector contribution
<b>Priority 1:</b> Improvement of highway safety	74	74	54	20	
<b>Priority 2:</b> Preparation of a technical study (TINA) to ensure the integration of the Trans-European and European-Middle East transportation networks with national networks	-	-	-	-	
<b>Priority 3:</b> Formation of hub ports by improvement of port capacities and strengthening maritime safety to provide an efficient service within the EU transportation networks	5	5	4	1	
<b>Priority 4:</b> Improving the quality and efficiency of urban transport services	5	5	4	1	
<b>Priority 5:</b> Transferring rail stock repair and maintenance facilities of Turkish State Railways (TCDD) to private sector under the framework of Turkish Railway Sector Restructuring	5	5	4	1	
<b>Priority 6:</b> Preservation of the water resources and increase in productivity of drinking water and sewerage services and of solid waste management	27	27	20	7	
<b>Total</b>	<b>116</b>	<b>116</b>	<b>86</b>	<b>30</b>	

**Priority 1. Improvement of highway safety**

In a total of 442,960 traffic accidents occurred on the highways in 2001; 4,386 people died and 116,202 were injured. Statistical figures show that 5.3 million of the existing 8.6 million total motor vehicles are automobiles. It is estimated that total economic cost incurred due to traffic accidents on the highways amounts to nearly 9.2 billion dollars.

**Table: 4. 5. Highway Traffic and Accidents in the EU and Turkey**

Parameters	EU		Turkey	
	1990	2001	1990	2001
Daily average traffic on state highways (vehicle/day)	7.115	11.343	2.460	4.274
Number of vehicles per km	40	58	14	31
Number of deaths per 100 km	1,4	1	7	5

Source: EU Energy and Transportation Statistics (2002), Highway Traffic Statistics (2002).

Significant problems exist with respect to the life and property safety on the highways in Turkey, where transportation is based mainly on highways. Traffic safety on the highways remains insufficient due to certain reasons, such as realization of 95 per cent of the domestic passenger and 91 per cent of the freight transportation by highways, relatively high ratio of heavy vehicles (30-40 per cent), within the overall highway traffic, insufficient infrastructure in terms of geometrical and physical standards, inability to allocate sufficient resources for rehabilitation of the superstructures impaired in a short time due to excessive loading as well as failure to initiate investments relating to highway safety -including elimination of black spots, installation of horizontal and vertical markings, interchange arrangements and installation of necessary signals, construction of roads to divert transit traffic from urban areas and creation of stationary and mobile control systems for loading inspections.

**Measure 1.1. Traffic Safety Investments**

In the White Paper establishing the long-term policies of the EU member countries in transport sector, improvement of highway safety is a significant goal, and programs are developed in order to decrease the number of deaths caused by the accidents on highways by 2010. In this context, improvement of highway safety is deemed to be compatible with the EU transport policies.

It has been adopted that a project will be developed with a total estimated cost of 74 million euro, 54 million euro of which will be provided by the EU, for the measures intended to improve the traffic safety on highways. As a result of these measures, it is expected that the number of accidents and injuries will be reduced and number of deaths per 100 km state highways will be decreased by 10 per cent..

To be implemented with the EU contribution, this new project will be complementary to the World Bank project.

**Priority 2.** Determination of the main projects to be realised with the EU structural funds in the future through a technical study (TINA) to ensure the integration of Trans-European, Europe-Middle East and national road networks.

It is expected that this technical study to determine potential connections of Turkey's transportation network with Trans-Europe and Europe-Middle East transportation networks, which Turkey will be a part of with accession to EU, will be tendered by European Commission as of end of 2003 and completed in 2004.

Turkey's strategy for connection to Trans-Europe and Europe-Middle East networks and necessary investments will be determined by TINA study. Priority projects and financial planning to realize these transport investments and required administrative changes capacity will be identified by evaluating the results of the TINA study.

It is aimed to ensure fast, continuous and sustainable passenger and freight services by TINA study. Bottlenecks on important corridors will be eliminated and efficiency and productivity will be increased. Decreasing transport cost and timesaving will stimulate development in agriculture, tourism and industry.

This priority is also included in the National Programme and it should be unified with the Transportation Master Plan that is under preparation. It is planned that TINA study will be financed within the framework of the National Programme. Therefore, there is no fund allocated for TINA in National Development Plan.

**Priority 3.** Formation of hub ports by improvement of port capacities and strengthening maritime safety to provide an efficient service within the EU transportation networks

**Measure 3.1.** Improvement of Seaports

By improvement of seaports; the existing ports of Turkey having potential to be hub ports in European transport networks will be improved, the increasing demand for cargo traffic will be met by large-scale seaports, Turkey will be an important cargo center in the East Mediterranean, the operation rules of seaports will be simplified and the operations will be handled from a single center, the cargo handling periods will be shortened, faster and higher quality service will be provided, the connections of seaports with railways will be strengthened, container storing capability will be increased and distribution will be facilitated by construction of container land terminals. Under this measure, the projects to ensure the elimination of deficiencies of the existing ports with respect to infrastructure, equipment and technology, and an efficient structuring in the public ports will be supported.

In the ports operated by the General Directorate of TCDD, all port operations should be automated and an information network should be established to connect the ports to each

other and to the center. It is planned that the automation and particularly EDI (Electronic Data Interchange) system will be provided to TCDD ports, which ensures the connection between all authorities operating in the same port, and thus ensures the performance of the administrative operations and permissions within a very short time and which also enables a more efficient planning in the arrival port by obtaining the information relating to the ship and its load from the port of departure, thus facilitates the work of the customer.

For the TCDD ports to be operated according to the latest technology, the necessary equipment and systems have to be provided. Besides, the key personnel in the ports should be educated by programs, which also include the operation and management methods of successful ports.

### **Measure 3.2.** Strengthening Maritime Safety

Turkey is well under the standards of EU with respect to the flag state and port state controls. The main concern of Turkey regarding the maritime safety is to improve the flag state and port state controls. To that end, a project has been initiated under the EU Financial Cooperation and a Draft Action Plan on the improvement of the maritime safety has been prepared.

Currently, a project of 2.7 million euro is executed under the EU Financial Cooperation. Establishment of a central safety database, training of flag and port state control officers and procurement of various equipment and simulator are planned under the project. The current project covers a small part of the requisites for the maritime safety and constitutes a basis for the forthcoming studies. New projects need to be initiated in 2005.

With an improved maritime safety, negative record of Turkish flagged ships will be corrected, Turkish ships will not be ports of convenience anymore, the navigational safety will be increased in the Turkish seas, the environmental risks and sea pollution will be lessened, and more efficient and faster service will be provided to rescue life and property.

### **Priority 4.** Improving the quality and efficiency of urban transport services

To serve the purpose declared in Priority 4; principles and standards regarding the provision of integrated urban transport services have to be set and assessed through scientific procedures that require knowledge of measurable indicators; reliable urban transportation and traffic plans have to be developed that vary in scope and method of preparation according to the particular needs and characteristics of different urban areas, with the importance given to large metropolitan areas. Finally, regulations and guidelines should be put into effect that improves the mobility of economically and/or socially weaker groups of the society, especially the handicapped and the old.

With the relatively restricted amount of EU funds that will be made available for use for the implementation of the Development Axis during the 2004-2006 period, a single measure is included that constitutes the first step towards achieving the purpose of Priority 4.

**Measure 4.1.** Formation and/or integration of urban transport database systems

Measure 4.1 is a prerequisite for the assessment of problem areas related to urban transport and for the development of measurable indicators that will contribute to the healthy measurement of performance and provide guidance for the improvement of current practice and future development of urban transport policies, strategies and measures. Implementation of this measure will enable calculation of indicators comparable to those used in EU countries, standardization and/or integration of urban transport related statistics. It will also contribute to the accurate evaluation of urban transport projects and to development of different pricing schemes through an assessment of external costs for different geographical urban areas.

The measure will be implemented at first hand in large urban metropolitan areas. The initial phase will include a technical study for the design of the system and determination of data collection and integration methods. The exact amount of funds required for this measure will be determined during this period.

**Priority 5.** Transferring railstock repair and maintenance facilities of Turkish State Railways (TCDD) to private sector under the framework of Turkish Railway Sector Restructuring.

A project was started in 2003 under Turkey-EU Financial cooperation to restructure TCDD and Turkish railway sector. The consulting firm selected by European Commission has conducted a gap analysis to determine the differences between the legislation of Turkish and EU railway transport acquis and TCDD has prepared a 2003-2008 Action Plan for restructuring in the light of this gap analysis study. It has been agreed that a project of 4.7 million euro will be supported under the 2003 Turkey-EU Financial Cooperation Programme for the restructuring of the Turkish railway sector and reorganization of TCDD.

One of the main objectives of the restructuring program is to utilize private sector resources as much as possible and to open TCDD to private sector. In this context, it is planned that TCDD rail stock maintenance and repair facilities should be transferred to private sector.

**Measure 5.1.** Opening of railstock maintenance and repair facilities to private sector

Three subsidiaries of TCDD (facilities where manufacturing and overhauls are performed) have been given the status of SEE (State Economic Enterprise) since 1986. Although these subsidiaries seem to act independently, they are dependent on TCDD with respect to purchasing orders. These subsidiaries are almost idle because of overemployment, lack of an export-oriented organization structure and inability to make independent decisions. Addition to those subsidiaries, TCDD has also 99 depots and ateliers spread over the entire network. The locations of these depots and ateliers are generally inappropriate in terms of traffic, and their technical capabilities are limited. Besides, they remain idle since they serve

only for the needs of TCDD. All manufacturing and repair facilities of TCDD, starting from the ateliers, are going to be offered to private sector.

Opening of 99 depots and workshops by leasing or work-based contracts to local industries will ensure employment of local people after applying relevant training programmes and contribute to regional development. Moreover, this offering will help TCDD to receive more flexible and better quality maintenance and repair services with reduced costs.

Technical support for training of local people and equipment purchase for depots and workshops are needed for the implementation of the project.

**Priority 6.** Preservation of the water resources, increase in productivity of drinking water and sewerage services and of solid waste management

As a result of rapid urbanization, the need for urban infrastructure services also increase rapidly. At the municipalities, the importance is not attached to necessary planning for the infrastructure facilities such as drinking water, sewerage and treatment systems and qualified staff is not employed for the operation of such facilities. In order to provide with hygienic and sufficient drinking water all over the country and managing of waste water without polluting the environment, administrations will be formed in municipalities that are capable of managing the demand, creating sources for investments, establishing systems economically and technically manageable and that conform to the quality standards designated country wide with regard to the services provided. Since it would be ineffective to initiate costly drinking water, sewerage and solid waste investments without improving the institutional infrastructure, emphasis should be given to projects concerning institutionalisation and enhancement of efficiency, in view of the limited sources. For this purpose, plans and projects should be developed in both national and local scale.

As regards solid waste management, it is necessary to inform households to reduce the amount of waste and to have it segregated before collection. By controlled segregation of glass, metal, plastic and paper materials at the source, an income will be created in the economy and the amount of waste to be disposed in landfills will be decreased.

During the process of planning, realization of investment and its operation, the institutional capacity has to be improved in administrations in order to give these services sufficiently and effectively. On the other hand, together with the local administrations, central administrations carry out important tasks in the realm of developing policy in water management, standard determination, investment and co-ordination. Regarding these tasks, the institutional capacity of the central administrations should also be increased. For that purpose, the below mentioned measures will be practiced within the scope of the priorities.

**Measure 6.1.** For the preservation of the water sources, rendering water supply and sewerage services efficiently, necessary planning and monitoring infrastructure will be supported and the institutional capacity of central and local authorities responsible for these activities will be strengthened.

**Measure 6.2.** To increase effectiveness of solid waste management services, informing the households with a view to decreasing the amount of waste and to have it segregated before collection, and increasing the institutional capacity of local authorities will be supported.

### **Expected Results and Indicators**

#### **Transportation**

- The annual number of accidents and injuries will decrease.
- The number of deaths per 100 km highway will reduce by 10 per cent.
- By completing TINA study, corridors ensuring non-stop connection between Trans-Europe and Europe-Middle East to Turkey and ports serving these corridors will be determined.
- By the procurement of the necessary equipment and education of the key personnel, the ports will be operated more effectively and more ships will be served.
- The detention rate of Turkish flagged ships will be reduced from 24 percent in 2001 to 10 percent in 2006.
- The rate of Port State Control in Turkey will be raised from 7.5 percent in 2001 to 15 percent in 2006.
- Statistical databases for urban transport will be created and existing ones will be integrated.
- Affiliates of TCDD will be offered to local or foreign private capital.
- The number of depots and workshops, being 99 at present, will be consolidated to 22 and these 22 facilities will be transferred to private sector on the basis of leasing, transfer of operational rights or another method.

#### **Environment**

- Work towards the preparation of the projects and programmes relating to resources to be used in environmental infrastructure investments will be carried out.
- The number of the educated staff will be increased and improvement of institutional infrastructure will be started in order to provide efficiency in operation of environmental infrastructure investments.
- Reviewing and assessment reports will be prepared.
- Decision support systems regarding water services will be improved.

- The change in the amount of solid waste per capita and the amount recycled per capita in Turkey will be monitored.
- Households will be informed about segregation at the very source.

**Related Bodies:**

Transportation:

SPO

General Directorate of Highways

National Police Administration

Ministry of Transportation

Undersecretariat of Maritime Affairs

General Directorate of TCDD

SIS

Environment:

SPO

Municipalities

Water and Sewerage Administrations

General Directorate of State Hydraulic Works

Ministry of Environment and Forestry

General Directorate of Bank of Provinces

## **5. REGIONAL DEVELOPMENT**

### **5.1. REGIONAL DEVELOPMENT STRATEGY AT NATIONAL LEVEL**

Although Turkish economy has achieved a notable progress in respect of structural transformation and integration with the international markets, interregional development disparities persist. Long-term economic growth performance in Turkey could not yield the expected positive effect in reducing the interregional development disparities. In Turkey, there is imbalance between the regions with respect to population structure, technical and social infrastructure, entrepreneurship, human sources, education level, acquiring health services, environment quality, employment, the status of the woman, as well as income level. Despite the policies developed and means employed to eliminate interregional development disparities, the desired objectives could not be attained and interregional disparities have continued to exist.

The globalisation process, which accelerated in 1990s affected the local and regional dynamics and led to changes in the concept of “region”. The changing meanings of the concept of region and its increasing importance have started to be discussed recently. Apart from these, environment problems growing at local, national and global levels increased the importance of a participatory and balanced development understanding. Within this scope, the concept of “sustainability” has become another important dimension in defining regional strategies.

In defining a regional development strategy at national level for Turkey, the results of meetings and joint studies with local administrators, non-governmental organizations and universities in the regions and the results of the workshops held on 3-4 July 2003 are used. 200 people, including the governors and mayors of 81 provinces and their deputies, representatives of universities, governmental and non-governmental organizations participated in the above-mentioned workshops. It is worthwhile to evaluate main factors, which became visible during workshops held at central and local levels and are used in determination of regional development strategy at national level.

Structural problems and risks, which are shared by most of the participants during the workshops are in parallel with the problems put forward in Section 1.3.1 of the pNDP. These can be summarized as;

- Limited employment opportunities and inadequate human resources (high unemployment rate, low income level, insufficient entrepreneurship, imbalanced distribution of skilled labour force among regions),
- Over-concentration of industrial and economic activities in metropolitan areas and technological, organizational, financial and marketing problems of industrial sector in less developed regions,
- Inadequacy of physical and social infrastructure in urban and rural areas of less developed regions,

- Scattered and disorganized settlement characterized by geographical structures and climatic conditions,
- Low agricultural productivity and scarcity in product and economic activity variety especially in less developed regions,
- Weakness of central and regional administrative mechanisms to support and implement regional and local development activities and lack of coordination and collaboration among them,
- International political instabilities and terrorism,
- General economic imbalances,
- Natural disasters.

On the other hand, general potential and positive external factors that can mobilize nation-wide regional dynamics are stated below:

- Existence of good climatic conditions, product diversity and favourable areas for agriculture and animal husbandry,
- Existence of agricultural industry background in the regions,
- Existence of Organised Industrial Zones and Small Industrial Estates that will meet the infrastructure requirements of the industries and establish the basis for forming industrial clusters,
- Innovative vision and motivation emerged in the society due to EU candidacy and progressive relations with the EU,
- Turkey's geographically focal position with many neighbouring countries,
- Existence of basic education and research infrastructures (i.e. universities),
- Growing importance of local administrations and governance in Turkey,
- Abundance of historical, cultural and tourism assets varying according to region.

Considering the positive and negative points put forward during workshops, which were briefly explained above, main objective and strategy of regional development which has been determined at national level, will be presented below.

### **Main Objective and Strategy of Regional Development at National Level**

There are significant economic and social development disparities between Turkey and EU member states and among 26 NUTS II Regions of Turkey. As mentioned in Section 1.3.1 of the pNDP, the GDP index per capita being accepted as 100 for Turkey, the index value is 168 for Kocaeli Region, and 24 for Van Region. There are significant differences also

in terms of many other economic and social indicators of the selected NUTS II regions and country averages.

In this framework, with a view to activating internal potential of regions, on the basis of a human-oriented development approach so as to activate local development initiatives will be supported, institutional capacities will be developed, funds will be provided for infrastructure investments and rural development will be promoted. Thus, the main objective is to reduce economic and social disparities between regions by increasing the employment level and competitiveness of less developed regions.

Priority fields of medium-term regional development strategy at national level are;

- Strengthening human resources and, particularly, increasing self-employment potential,
- Supporting existing SMEs and SMEs to be established and increasing their competitiveness by increasing their cooperation-partnership potential in the form of network style organisations,
- Supporting physical and social infrastructure, which are important for the new investments and the quality of urban life,
- Ensuring diversified economic activities in rural areas,
- Strengthening institutional structure by new local governance models, which will increase local participation, improve common enterprise areas and regulate collective intervention of local actors to local economic development.

These priority fields are examined in detail below.

### **Creating Employment and Strengthening Human Resources of Regions**

The need for changing the employment structure in favour of non-agricultural sectors, creating the labour force needed by the economy, increasing the quality of labour force in line with the requirements of the information age and increasing the effectiveness and productivity in the labour market is felt more strongly in the less developed regions.

It is aimed to increase the support for individual entrepreneurs in the fields of education, project, financing, organization, marketing and technology. It is also aimed to increase employment and contribute to the competitiveness of the regions, especially by increasing the quality of human resources at local level and implementing education and consultancy services programmes.

Education support will be provided particularly to improve the education level of population in rural areas and to ensure the involvement of the population in less developed regions in non-agricultural income generating activities.

Necessary consultancy and financial support will be provided for the establishment of new small-sized enterprises and for the survival of existing ones.

Measures aiming to ensure equal treatment between women and men in respect of employment, vocational training, working conditions and wages will be put into effect.

### **Supporting SMEs and Increasing Their Competitiveness**

Measures aiming to modernize the production methods of SMEs will be taken. In the framework of the needs of SMEs in less developed regions, competitiveness of SMEs will be enhanced through investment and operating support provided by Undersecretariat of Treasury and operating and technology support provided by KOSGEB.

The main difference between SME strategy to be implemented within the scope of regional development and the national SME strategy is improvement of the inadequate entrepreneurship, advancement of the technical capacity regarding production, management and marketing and enhancement of collective competitiveness potential by strengthening network connections between SMEs in less developed regions, and thus, improvement of their competitiveness in relation to SMEs in relatively more developed regions. SMEs in less developed regions need more investment, enterprise and technology support than SMEs in relatively more developed regions. Actions to be taken in less developed regions with a view to supporting SMEs and increasing their competitiveness will complement the actions within the scope of national SMEs strategy. In this context, KOSGEB and Service Unions together with Regional Development Agencies to be established will support localization and speed up the cooperation with local industry and sectors.

In order to increase the competitiveness of the enterprises established in these regions compared with the ones in the other regions, safe, continuous, economical, environment friendly and of high quality energy supply sources will be created. This will provide effective distribution of indispensable services like health, food, education, heating and lighting to the regions, besides, ensuring the reliability and diversity in energy which is one of the most important inputs used in the production process by SMEs in less developed regions.

Information and communication technologies infrastructure will be improved and expanded. Within this framework, improving and expanding telecommunications infrastructure and bringing new communication services like Internet to the less developed regions will initiate the e-commerce at intra regional, national and international levels for SMEs and will create new economic activities.

### **Supporting Small-Scale Infrastructure Investments**

Concerning this priority, it is aimed to promote the building of collective facilities and infrastructure, which contribute to the raising of living standards and are necessary to improve the enterprises by supporting small-scale infrastructure investments in less developed regions.

Supports for small-scale infrastructure investment will contribute to the development of socio-economic conditions in less developed regions, alongside the activities in the fields of SMEs, institutional capacity building and rural development.

For this purpose, infrastructure investments, which are designed to improve the living standards in less developed regions and will facilitate the other investments, will be supported. Activities carried out in this area cover the improvement of existing industrial facilities and their immediate environs, renewal of the interior design of existing buildings, provision of electricity, water, natural gas and sewerage services; betterment of trade fair areas by constructing new roads and improving the existing ones; construction of new waste water refineries and sewage treatment works or improvement of the existing ones; construction of new roads linking the areas where the production facilities are concentrated or improvement of the existing ones; renewal and reconstruction of small-sized public infrastructure related to tourism and public buildings like museums and cultural centres with a view to increasing tourism, and restoration of historical and cultural assets. These activities will meet the local needs in conformity with the national priorities.

### **Rural Development**

With a view to ensuring rural development, to increase employment and support income generating activities in rural areas, to strengthen capacity towards efficient utilization of the agricultural lands, to increase the living standards of rural population by means of modern agricultural techniques, to create employment in non-agricultural sectors such as tourism, textile, textile industry and handcrafts, and to expand income generating activities in non-agricultural sectors in disadvantageous areas are of importance. In addition to these, it is aimed to contribute to the reduction of interregional and intra-regional disparities by stabilizing the migration from rural areas to urban areas.

Within this framework, under the regional development axis, priority will be given to the diversification of the income resources of farmers by complementary and alternative agricultural activities; improvement of meadows and control of the pasturing in meadows; encouragement of SMEs in terms of creating new jobs, improving the current ones, benefiting from micro loan facilities and market developing; preparation of rural development projects aiming to improve agricultural techniques and mobilise the development potential towards income generating alternative agricultural activities like organic farming, aqua culture, green housing, and forestry products. Furthermore, in rural areas, organising capacity will be increased and the level of education will be raised through vocational training, extension and consultancy services.

### **Strengthening of Governance Mechanisms and Improvement of Institutional Capacity**

Regional development strategy's success depends mainly on coordinated action of central and local units. In the process of economic and regional development, increasing importance of local dynamics require a planning approach based on compromise, collective reason and cooperation.

In this framework, especially in the planning phase of recently prepared regional development plans (see Annex 4) and regional development programmes whose financing agreements are signed with the EU (Section 1.3.3), examples of participatory approach were implemented. The said plans include a significant capacity building component, which ensures more local participation and responsibility in regional planning and in the implementation phase.

This planning approach will also be adopted in the implementation phase of regional development strategies. With this approach, it is aimed to ensure efficiency in the implementation phase of regional plans, mobilise the financial resources of non-governmental organisations besides public and private sectors in line with the plan strategy and ensure participation in the development process.

In this context, legislative work regarding institutional arrangements is continued. Work on draft Public Administration Basic Law containing, *inter alia*, delegation of powers to local administrations, draft laws related to local administrations and draft Law on the Establishment of Regional Development Agencies are being carried on.

On the other hand, it is aimed to improve the local organisations such as “service unions”, “development foundations” and “city councils”, whose numbers have increased in recent years. In these structures, successful past experiences of entities like cooperatives, municipality unions, chambers and foundations will be taken into account.

With a view to using EU funds efficiently, effective institutional structures will be established at local level and capacity building will be supported. It is important to establish an efficient administrative capacity with respect to programming, project preparation, implementation, monitoring and evaluation through training at central and local levels. Importance will be given to training and capacity building of actors, which could contribute to the development of regions. Capacities of local authorities, NGOs, service unions and project implementation units will be improved in line with the EU norms. Especially young population and female labour force will be supported and their knowledge and skills will be improved. Cooperation between universities, education-research institutions and other groups of the society will be supported.

### **Priorities In State Aids at Regional Level**

A new administrative structuring is envisaged for the efficient management, implementation and monitoring of the state aids at national level. With this structure, more efficient implementation of the state aids for the elimination of regional development disparities is aimed, taking into account the local and regional aspects of development and NUTS classification.

Through these improved administrative mechanisms and tools, diversification of regional and local development oriented direct and indirect state aids and a more functional utilisation of these aids in terms of sectoral and spatial aspects will be ensured.

## 5.2. DEVELOPMENT AXIS 4: INCREASING THE ECONOMIC POWER OF REGIONS, REDUCING THE INTERREGIONAL DEVELOPMENT DISPARITIES, AND ACCELERATING RURAL DEVELOPMENT

One of the main priorities indicated in the “Coordination of Regional Policy and Structural Instruments” section of NPAA is to develop a national economic and social coherence policy aiming to reduce regional disparities through preparation of the pNDP.

12 NUTS II regions examined in this section are summarized within the scope of a single SWOT study on the basis of their common characteristics. SWOT analysis resulting from the meetings and studies with local administrators, non-governmental organizations and universities in the regions is summarized below. The sub-components of SWOT analysis forming a basis for the main objectives and strategies are presented in bold characters.

### SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• <b>Existence of extensive, dry and irrigated agricultural lands,</b></li> <li>• <b>Existence of irrigation facilities,</b></li> <li>• <b>Existence of organic agriculture potential,</b></li> <li>• Cheap labour cost,</li> <li>• <b>Abundance of culture and tourism assets and their high potential for tourism,</b></li> <li>• Existing university and research facilities,</li> <li>• <b>Existing Organized Industrial Zones and Small Industrial Estates,</b></li> <li>• <b>Rich potential of agriculture and animal husbandry.</b></li> </ul>	<ul style="list-style-type: none"> <li>• Rapid migration,</li> <li>• <b>High rate of unemployment,</b></li> <li>• Low income level,</li> <li>• Inadequate capital,</li> <li>• <b>Inadequate qualified employees,</b></li> <li>• <b>Inadequate SME supports,</b></li> <li>• <b>Inadequate investment for improving human resources,</b></li> <li>• Inadequate culture of entrepreneurship and business management,</li> <li>• Inadequate highway and railway infrastructure,</li> <li>• <b>Scattered rural settlement and inadequate rural infrastructure,</b></li> <li>• <b>Inefficient utilisation of land and inefficient agricultural management,</b></li> <li>• <b>Inadequate promotion of regions’ natural and cultural assets,</b></li> <li>• Low level of urbanization,</li> <li>• Insufficient environment consciousness and inadequate tackling of environmental problems,</li> <li>• Decrease in young population in rural areas,</li> <li>• Small and scattered agricultural enterprise structure.</li> </ul>

Opportunities	Threats
<ul style="list-style-type: none"> <li>• Improving relations with neighbouring and Turkish speaking countries,</li> <li>• <b>Increasing global demand for natural products and organic agricultural products,</b></li> <li>• <b>Emphasis given to locality and local initiatives in the process of accession to the EU,</b></li> <li>• <b>Increasing tourism and diversification of demand at global level.</b></li> </ul>	<ul style="list-style-type: none"> <li>• Deterioration in macroeconomic stability,</li> <li>• Concentration of centres of attraction outside the region,</li> <li>• Mountainous topographical structure and inconvenient climate conditions,</li> <li>• International political uncertainty and instabilities in the vicinity of Turkey.</li> </ul>

Institutional mechanisms towards preparing and implementing, in line with the EU criteria, central and local based regional development projects and programmes, which are financed from the pre-accession funds, are being established. Thus, the implementation stage of the pNDP will be a learning process with respect to project preparation, submission, implementation and reporting according to the EU criteria at central and local level.

In the preparation of sectoral and regional development axes, an integrated approach was pursued and programmes were designed to complement each other. In line with this approach, the coordination will be made with highest consideration so as to avoid duplications in the implementation of measures contained in “Sectoral Development Axes (SDA)” and Regional Development Axis (RDA), with the aim of ensuring the effective utilisation of resources allocated by pNDP and the maximisation of the benefits provided for the final beneficiaries of the projects. Existence of sectoral and regional departments in SPO, which is responsible for the coordination of pNDP, will provide the necessary coherence.

### **Main Objectives and Strategies**

The main objective of the Regional Development Axis is to increase relative competitiveness of the regions and at the same time to decrease the unemployment, which is a common problem for the whole country but especially widespread in the less developed regions. Thereby, the aim is to decrease the interregional development disparities. In this context, it is important to create a suitable environment for investments.

SMEs have vital importance in regional development. In view of this, an SME Strategy and Action Plan have been prepared in line with the “European Charter for Small Enterprises and Multi-annual Programme for Enterprises and Entrepreneurship”. In this context, the projects and programmes on SMEs, which will be carried out at national level are included in “Enhancing the Competitiveness of Enterprises” development axis. Small-scale SME support programmes, on the other hand, will be implemented under the Regional Development Axis for the creation of additional employment and more efficient functioning of the SMEs by expanding their economic activities.

Under the scope of Regional Development Axis, priority will be given to the preparation and implementation of the projects and programmes, which will modernize the production methods and create additional employment for SMEs in these regions. Cooperation between OIZs and SIEs, whose infrastructure has been completed and which are supported by R&D activities will be improved.

The programmes and projects, which enable regions to specialise in the priority sectors that will increase competitiveness, will be implemented following the assessment of their respective potential in line with the national preferences and policies aiming harmonisation with the EU.

The implementation of small-scale regional projects aiming to increase income in less developed regions and rural areas will be expanded under the coordination of institutional structures to be developed at regional level with the participation of non-governmental organizations, local administrations and public bodies. Diversification of income sources of the farmers through complementary and alternative agricultural activities will be given importance. Strategic planning studies carried out by regions and provinces with their own resources will be supported and the coherence between these studies and national development strategies will be ensured.

### **Priorities**

Within the scope of the Regional Development Axis, the following are defined as priorities.

- Supporting and strengthening of SMEs,
- Supporting small-scale infrastructure construction,
- Supporting local initiatives,
- Building and strengthening institutional capacity.

Fund allocation for the priorities listed above is made according to 12 NUTS II regions chosen within the scope of the Regional Development Axis. However, the distribution of the funds on the basis of NUTS II among the priorities may vary according to the specific priorities and requirements of the regions.

**Table: 5. 1. Financial Table for Development Axis 4 (2004-2006)****(Million Euro)**

<b>Priorities</b>	<b>Total Estimated Cost</b>	<b>Total Public Contribution</b>	<b>Total EU Contribution</b>	<b>Total National Public Contribution</b>	<b>Private sector Contribution</b>
<b>Priority 1:</b> Supporting and strengthening of SMEs	103	102	76	26	1
<b>Priority 2:</b> Supporting small-scale infrastructure construction	62.6	62	46	16	0.6
<b>Priority 3:</b> Supporting local initiatives	41.4	41	30	11	0.4
<b>Priority 4:</b> Building and strengthening institutional capacity *	-	-	-	-	-
<b>Total</b>	<b>207</b>	<b>205</b>	<b>152</b>	<b>53</b>	<b>2</b>

(\*) The priority of this area is emphasised considering the necessity of building and strengthening of institutional capacity for the existing and future administrative mechanisms. However, no budget item is allocated for this priority in pNDP, since the budget related to this subject is to be determined in the context of institution building.

### **Priority 1. Supporting and strengthening of SMEs.**

Business environment will be improved for SMEs and SME support systems will be developed so as to include consultancy, training, education and financial services. Assistance to SMEs will be programmed as a suitable combination of services and financial support.

The main objective of this priority is preparation and implementation of SME support programme. In this context, projects aiming to meet the development needs of small and micro enterprises in agriculture, manufacturing industry and tourism sectors will be prepared and implemented. Within this framework:

1. Modernization and adaptation to innovations of the enterprises in the targeted regions,
2. Strengthening and development of the entrepreneurship culture and support mechanisms,
3. Consultancy services support in the fields of management and technology will be ensured.

As regards this priority, four measures will be put into effect.

**Measure 1.1.** Financing will be provided through credit institutions and grants, and support will be given for the preparation of working plans and operational programmes within the limits of available financial sources and for the negotiation of grant conditions.

**Measure 1.2.** Access to markets, promotion of exports, access to market data and databanks, participation in fairs and exhibitions and preparation of marketing plans will be supported.

**Measure 1.3.** Modern technology investments that will improve the production capacity, quality and productivity, and marketability of the product and services will be supported.

**Measure 1.4.** Institutional support, including training will be provided in order to promote entrepreneurship.

**Priority 2.** Supporting small-scale infrastructure construction.

In the pre-accession period, the PHARE, ISPA, and SAPARD funds, which are open to the other candidate countries, cannot be used for the large-scale investments. Supporting small-scale infrastructure investments is defined as one of the priority areas under the Regional Development Axis.

In this context, it is aimed to improve the living standards in the regions, to increase the quality of infrastructure facilities open to the public and to support the infrastructure construction to improve the enterprises, by means of small-scale projects to be implemented by the provincial administrations, local administrations and non-governmental organizations (NGOs) in the targeted regions.

Four measures will be implemented under this priority.

**Measure 2.1.** Trade fair areas and the roads to these areas will be improved.

**Measure 2.2.** To link the areas, where the production facilities have concentrated, to existing transportation network, new highways will be constructed and/or the current ones will be improved.

**Measure 2.3.** Current wastewater refineries and sewage infrastructure will be improved and/or reconstructed.

**Measure 2.4.** Small-scale public/private buildings of tourist attraction will be improved.

**Priority 3.** Supporting local initiatives

Small-scale projects carried out by non-profitable NGOs and local administrations in the targeted regions will be supported. Under this priority, small-scale projects creating employment and sources of livelihood supported. The activities in this field will include the improvement of production and institutional capacity to use the agricultural lands more efficiently, diversification of the income sources of farmers with complementary and alternative agricultural activities, promotion of tourism and advertising activities, improvement of the vocational training system and carrying out of research activities.

Five measures will be implemented regarding this priority:

**Measure 3.1.** Local initiatives will be supported by establishing new businesses or improving the current ones and providing SME consultancy and training services. Training and guidance services will be provided to the entrepreneurs with a view to avoiding the risk of failure during the establishment phase of the business.

**Measure 3.2.** Rural development projects including activities for improving agricultural techniques and generating income will be supported.

**Measure 3.3.** Sustainable tourism and income generating activities for the regional population will be supported.

**Measure 3.4.** Organisation capacity and education level will be improved in rural areas.

**Measure 3.5.** Non-agricultural income generating activities such as tourism, textile, and weaving and handicrafts will be supported in rural areas.

#### **Priority 4. Building and strengthening institutional capacity**

In order to implement the Regional Development Axis and priorities defined under it, reinforcement of institutional capacity building for the existing and future administrative units is needed.

Three measures relating to this priority will be implemented.

**Measure 4.1.** In line with the EU standards, technical and financial support will be provided in order to improve institutional mechanisms at regional level towards the preparation, monitoring and evaluation of regional development programmes and projects.

**Measure 4.2.** A training and technical support project, which is to play an important role in the establishment and improvement of local institutional capacity will be prepared and implemented at central and regional level.

**Measure 4.3.** In order to ensure local participation in programming and management of the projects and the programmes, informative and educational activities will be carried out in the regions.

#### **Expected Results**

- In the scope of Regional Development Axis; the positive contribution of small-scale infrastructure projects, local development initiatives and support for SMEs to the economic and social development process in the region,
- The enhancement of the competitiveness of the SMEs by supporting them with services like consultancy, training, management, finance and better access to information, and strengthening their human resources and management,

- The encouragement of local development efforts that meet the locally determined needs, and provision of collective services; reinforcement of cooperation among the public authorities, NGOs and universities,
- Diversification and increase of the sources of income of the rural population,
- The contribution of projects and programmes to the raising of living standards in the region by meeting the priority needs regarding infrastructure and thus, providing the services, which are important for the local population and enterprises,
- Practical experience for the local institutions in preparation and implementation of small-scale grant programmes within the framework of EU's regional development approach under Regional Development Axis.
- Improvement of organisation capacity and education level in rural areas.

### **Indicators on Monitoring and Evaluation**

#### ***Indicators related to the first priority:***

- The number of SMEs receiving financial support,
- The ratio of those having continued to operate at least for 18 months among the new SMEs receiving financial support,
- The new jobs created by the SMEs receiving financial support (women and men),
- The number of the SMEs benefiting from the consultancy and training services,
- The number of the SMEs participating in the Cross Border Cooperation projects.

#### ***Indicators related to the second priority:***

- The roads newly constructed or improved in the trade fair areas,
- The roads newly constructed or improved in the areas where the production facilities are concentrated,
- The newly constructed or improved waste water treatment and sewage disposal works,
- The number of buildings restored for tourist purposes.

#### ***Indicators related to the third priority:***

- The number of the projects implemented within the scope of local initiatives,
- The number of individual entrepreneurs benefiting from the small projects within the scope of the local initiatives (women and men),

- The number of the farmers supported through local initiatives (women and men),
- The newly created employment through local initiatives (women and men),
- The number of the projects being implemented in the fields of tourism and promotion within the scope of local initiatives.

***Indicators related to the fourth priority:***

- The number of the projects prepared and carried out in line with EU norms in the scope of the EU-Turkey Financial Cooperation,
- The number of project management personnel trained at central and local levels within the framework of institutional capacity building and strengthening,
- The number of the training courses and seminars organised at local level and the number of participants.

**Related Bodies:**

SPO

Local Administrations

Small and Medium Industry Development Organisation (KOSGEB)

Semi-public Professional Organisations

NGOs

Universities

## **6. COHERENCE OF THE PRELIMINARY NATIONAL DEVELOPMENT PLAN WITH EUROPEAN COMMUNITY POLICIES**

### **COMMON AGRICULTURAL POLICY**

Scope and objectives of the Common Agricultural Policy (CAP), which is one of the common policies of the Community with the highest budget, are laid down by the Articles 32-38 of the EC Treaty. In this context, the aims of the CAP are;

- to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;
- to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
- to stabilise markets;
- to assure the availability of supplies;
- to ensure that supplies reach consumers at reasonable prices.

Single market, Community preference and financial solidarity are the three main principles of the CAP, which is financed through European Agricultural Guidance and Guarantee Fund. CAP has been reformed several times according to the developments since its beginnings. Lastly, substantial amendments brought by the Agenda 2000 and the Council Decision of 26 June 2003 as a mid-term review of it; thus, more market-oriented price policy, respect for consumer expectations, meeting food safety and quality requirements and good farming practices, improving the animal health and welfare standards, protection of environment, and rural development became the new priorities of the CAP. The main objectives of the rural development, which constitutes the second pillar of the CAP since the Agenda 2000, are strengthening the agricultural and forestry sector, improving the competitiveness of rural areas, and preserving the environment and rural heritage. Agricultural investments, support for less-favoured areas, afforestation, marketing and processing of agricultural products, agro-environmental measures, development of human resources and early retirement are the key activities supported by the rural development policy whose main features have been specified by the Council Regulation (EC) No 1257/1999.

There is a consistency between agricultural policies of Turkey and the EC, in terms of objectives and principles. The Eighth Five-Year Development Plan, which is applied for the period of 2001-2005, set out the objective of the agricultural policy as the establishment of an organized, highly competitive and sustainable agriculture sector, which considers the dimensions of economic, social, environmental and international development as a whole, and balanced and adequate nutrition of the growing population as an essential objective, within the framework of the principle regarding food safety. Furthermore, according to the Plan, the fundamentals of the agricultural policies will be determined within the framework of the

WTO Agreements, developments in the Common Agricultural Policy of the EU and other international commitments.

In accordance with the Economic Programme initiated in 2000, an Agricultural Reform Implementation Project has started in 2001 by the support of the World Bank. With this Project, it is aimed to abolish all agricultural price and input subsidies and to introduce Direct Income Support (DIS) system for minimizing or eliminating damages in the structure of markets and production. Establishing farmer registration system, replacing supplied products such as hazelnut and tobacco with alternative products and reforming the Agricultural Sales Cooperatives and Unions are also targeted by the Project.

In the context of alignment of legislation with the *acquis* in the field of agriculture, the NPAA identified six priority areas under the titles of alignment to the horizontal issues, veterinary and phytosanitary legislation and building of related institutional capacity, development of national rural development and forestry strategies, improvement of food safety and control standards, and establishment of necessary legislative and institutional structures and implementation mechanisms for the common market organizations and effective monitoring of the agricultural markets.

In the pNDP, issues regarding agriculture and rural development have taken place within the scope of Enhancing the Competitiveness of Enterprises and Regional Development Axes.

In determining the actions towards agriculture and rural development, which are set out as priority or measure in the pNDP, relevant EU policies have been considered. The key actions specified in the pNDP, such as encouragement of producer organizations, training, marketing and diversification of economic activities in rural areas, improvement of rural infrastructure and protection of natural resources and rural heritage are to a large extent, coherent with the objective and means of EU rural development policy. With the implementation of the Programme, it is expected that steps would be taken towards meeting the EU standards in the structure of agricultural sector and rural areas.

### **EQUAL TREATMENT BETWEEN MEN AND WOMEN**

This subject is dealt with in the pNDP under the Developing the Human Resources and Increasing the Employment Axis. Measures foreseen in the framework of the Employment priority are in line with the gender equality policies of the European Community.

Turkey is aware of the fact that gender equality is a matter of human rights, social justice and democratic representation and to ensure equal treatment between men and women is very important in respect of enhancing the level of economic development and establishing the social peace among individuals. In this context, active role to be played by women in every sphere of life is one of the main tools in attaining these objectives.

Article 50 of the Constitution of the Turkish Republic stipulates that the work must be compatible with gender, and women must be protected specially with regard to working conditions.

New Labour Law No. 4857, which entered into force in 2003 contains arrangements in line with the relevant EC directives in the field of equal treatment between men and women. In this respect, the Law envisages that:

- Discrimination on the basis of gender is prohibited as regards employment relationship: employer cannot make direct or indirect different treatment on grounds of gender and pregnancy in relation to the making of employment contract, defining of its terms and conditions, its implementation and its termination, unless justified with biological reasons or reasons relating to the nature of the work; employer cannot pay a lower wage for the same work and this cannot be justified on the ground that the employee benefits from gender-based protective measures.
- Pregnancy or maternity does not constitute a valid reason for the termination of the employment contract;
- The periods, during which women employees are on leave before or after the maternity must be considered as worked periods in calculating the annual paid leave and the breastfeeding periods during work must be taken into account as daily working periods.

Another important step has been taken in the field of gender equality with the entry into force of new Turkish Civil Code No. 4721 in 2002. With this Code, provisions governing marriage which are incompatible with gender equality has been abolished.

Turkey has participated in the Community Programme on Gender Equality in February 2003. In Turkey, gender equality concerns not only the alignment with the Community legislation, implementation and supervision of the aligned legislation, but also informing of all the stakeholders, in particular NGOs which are active in this field. In this context, the Community Programme on Gender Equality implemented by the Ministry of Labour and Social Security has a special importance. In the framework of the Programme, since March 2003, seminars are held every month with the participation of all the stakeholders.

Gender equality will be monitored through the indicators set out in the sectoral and regional development axes of the pNDP.

### **EMPLOYMENT SUPPORT POLICY**

This subject is dealt with in the pNDP under the Developing the Human Resources and Increasing the Employment Axis. Measures foreseen in the framework of the Employment priority are in line with the employment policies of the European Community, shaped by the Luxembourg and Lisbon European Councils and the provisions laid down under the "Employment" title of the EC Treaty.

Article 49 of the Constitution of the Turkish Republic stipulates that the State is to take necessary measures in order to raise the living standard of the employees, to protect the employees, to support the employment and to create an environment serving to prevent unemployment. Article 166 of the Constitution envisages that the development plans are to contain measures improving the employment.

Turkish Employment Agency (İŞKUR), which is to play an active role in Turkey's participation in the European Employment Strategy has been established in 2003, with the entry into force of the Law No. 4904.

Within the framework of "Development of a National Employment Plan consistent with the European Employment Strategy" priority foreseen in the Turkey's NPAA, Turkey has participated in the Community Programme on Incentive Measures in the field of Employment in February 2003.

Employment Report, which forms the initial step towards participating in the European Employment Strategy has been prepared by the İŞKUR and is being discussed with the stakeholders with a view to finalising it.

### **COMPETITION POLICY**

With a view to achieving the free competition as one of the main principles of the EU internal market, a common competition policy, which based on particular basic rules, is applied in the member states. Competition policy of the Community aims to ensure and develop an efficient competition in the common market.

The competition rules of the EU consists of elimination of agreements between firms and abuses by firms that hold a dominant position on the market which restrict competition and control of the mergers, and state aid given to the enterprises.

The Law on the Protection of Competition has been put into effect in 1994. The Competition Board has become operational as of 5 November 1997. The Law regulates the three basic subjects of the competition law;

- Agreements, decisions and practices which prevent, distort or restrict competition between the enterprises which operate in or affect the goods and services markets in the territory of Republic of Turkey,
- The abuse of dominant position by those enterprises which are dominant in the market,
- All kinds of operations and practices, which are considered to be a merger or an acquisition by which competition in the market is significantly impeded.

In view of the foregoing, Turkish competition law contains arrangements similar to those of the EU. Adoption of necessary secondary legislation is being continued. Within the scope of alignment with the *acquis*, Turkish competition law contributes to the effective

implementation of the Customs Union. In line with the Association Council Decision No 1/95 establishing the Customs Union between the EC and Turkey, the rules on competition and state aid in Turkey will be based on those of the Community, and the Association Council will define the tasks and procedural rules of the competition bodies.

A national monitoring and supervisory unit is to be established in order to ensure the effective control of the state aids. The task of this unit is to evaluate the state aid practices in the light of the criteria arisen from the EU acquis. The NPAA of Turkey envisages that a new State Aid Monitoring and Supervisory Unit will be established within the SPO and secondary legislation in line with the EU acquis and other necessary measures will be adopted within a six-month period following the establishment of this Unit. The preparations of the draft framework law to set up the Unit and make it operational are in the final phase. The draft contains institutional provisions, implementation procedures and relevant definitions, and establishes a Board, which is composed of representatives of different institutions to ensure the operational independency and a General Directorate within the SPO to carry out the secretariat services of the Board.

## **ENVIRONMENT**

Under Article 174 of the EC Treaty, the basic objectives of the environment policy are defined as preserving, protecting and improving the quality of the environment, protecting human health, prudent and rational utilisation of natural resources, promoting measures at international level to deal with regional or worldwide environmental problems. Complementarity principle, high level protection principle, precautionary principle, prevention principle, prevention at the source principle, and polluter pays principle are defined as the principles of the Community.

The objectives of Environment Law No. 2872 are to protect and improve the environment which is a common property of all citizens; to use and protect the rural and urban land and natural resources in the most appropriate manner; to prevent water, soil and air pollution; to organise arrangements and measures, which aim to improve and secure the life quality of the current and future generations through protecting the existence of plants and animals and also natural and the historical heritage of the country, in accordance with certain legal and technical principles and in line with the economic and social development objectives.

In addition, Environment Law clarifies the concepts of “protection of environment”, “ecological balance” and “environmental pollution” and adopts principles such as meeting of the expenditures made for the prevention, restriction and combating pollution by the polluter and the determination and implementation of measures in coherence for the protection of environment and prevention of pollution.

Furthermore, on the basis of Environment Law, secondary legislation coherent with the EU acquis was adopted.

Legal infrastructure required for the participation in European Environment Agency and European Information and Observation Network was completed.

Taking into account the environment policy of the EU; protection of water resources, increasing the efficiency of drinking water and sewerage systems, development of solid waste management infrastructure and strengthening institutional capacity of environment administration are defined as the basic priorities. Thus, it is aimed to support the legislative harmonization process in the field of environment by improving the institutional infrastructure and increasing efficiency.

## 7. FINANCIAL FRAMEWORK

**Table: 7. 1. Overall Financial Table of the pNDP (2004-2006)**

(Million Euro)

Development Axes and Priorities	Estimated total cost	Total public contribution	Total EU contribution	Total national public contribution	Private sector contribution
<b>Development Axis 1:</b> Enhancing the competitiveness of enterprises	<b>135</b>	<b>100</b>	<b>85</b>	<b>15</b>	<b>35</b>
<b>Priority 1:</b> The competitiveness of the SMEs will be enhanced.	80	70	55	15	10
<b>Priority 2:</b> The competitiveness of the agricultural and industrial enterprises will be enhanced through improving technology and quality level and EU norms will be considered in environmental issues.	55	30	30	-	25
<b>Development Axis 2:</b> Developing the human resources and increasing the employment	<b>70</b>	<b>70</b>	<b>48.5</b>	<b>21.5</b>	
<b>Priority 1:</b> Active labour market policies	34	34	23.5	10.5	
<b>Priority 2:</b> Reinforcement of the education system	36	36	25	11	
<b>Development Axis 3:</b> Improvement of infrastructure services and environmental protection	<b>116</b>	<b>116</b>	<b>86</b>	<b>30</b>	
<b>Priority 1:</b> Improvement of highway safety	74	74	54	20	
<b>Priority 2:</b> Preparation of a technical study (TINA) to ensure the integration of the Trans-European transportation networks with national networks	-	-	-	-	
<b>Priority 3:</b> Formation of hub ports by improvement of port capacities and strengthening maritime safety to provide an efficient service within the EU transportation networks	5	5	4	1	

**Table: 7.1. Overall Financial Table of the pNDP (2004-2006) (continued)****(Million Euro)**

<b>Development Axes and Priorities</b>	<b>Estimated total cost</b>	<b>Total public contribution</b>	<b>Total EU contribution</b>	<b>Total national public contribution</b>	<b>Private sector contribution</b>
<b>Priority 4:</b> Improving the quality and efficiency of urban transport services	5	5	4	1	
<b>Priority 5:</b> Transferring railstock repair and maintenance facilities of Turkish State Railways (TCDD) to private sector under the framework of Turkish Railway Sector Restructuring	5	5	4	1	
<b>Priority 6:</b> Preservation of the water resources and increase in productivity of drinking water and sewerage services and of solid waste management	27	27	20	7	
<b>Development axis 4:</b> Increasing the economic power of regions, reducing the interregional development disparities, and accelerating rural development	<b>207</b>	<b>205</b>	<b>152</b>	<b>53</b>	<b>2</b>
<b>Priority 1:</b> Supporting and strengthening of SMEs	103	102	76	26	1
<b>Priority 2:</b> Supporting small-scale infrastructure construction	62.6	62	46	16	0.6
<b>Priority 3:</b> Supporting local initiatives	41.4	41	30	11	0.4
<b>Priority 4:</b> Building and strengthening institutional capacity	-	-	-	-	-
<b>Total</b>	<b>528</b>	<b>491</b>	<b>371.5</b>	<b>119.5</b>	<b>37</b>

Since 2002, the financial assistance provided to Turkey by the EU has been under a single framework. In this context, financial assistance has been provided for Turkey under the “Pre-accession Financial Assistance to Turkey”. Within the scope of the Pre-accession

Financial Assistance, it is envisaged that, a total of 1,050 million euro will be allocated to Turkey for the period of 2004-2006.

Programming, implementation and monitoring of the financial assistance provided to Turkey are carried out in the framework of PHARE Programming Guide (2004). In this Guide, it is envisaged that 35 per cent of the financial assistance to be provided will be utilized in the field of economic and social cohesion. Both the insufficiency of the total funds allocated to Turkey for 2004-2006 and the limitation of the sources to be used through the pNDP in the field of economic and social cohesion with 35 per cent have played a constraining role in devising the pNDP.

Within this scope, financial framework of the pNDP has been determined as a total budget of 528 million euro. 371.5 million euro of the total budget is EU contribution, while the rest is comprised of public and private national contributions in line with the co-financing principle applied to the utilisation of the EU funds.

Annex 6 contains information about Turkey's need for additional sources and the capacity to use these sources for ISPA and SAPARD type projects.

## 8. IMPLEMENTATION

Implementation and monitoring arrangements for the pNDP will be in accordance with the regulations<sup>4</sup> governing pre-accession financial assistance to Turkey. In addition, in the PHARE Programming Guide (2004), it is stated that guidance will also be applied to pre-accession assistance to Turkey, in so far as is consistent with the above-mentioned Regulations.

However, with a view to supporting the gradual introduction of the Structural Funds' "acquis" in Turkey, the implementation arrangements for the pNDP aim to follow Structural Funds principles wherever these can work in compliance with the regulations governing pre-accession assistance to Turkey. This approach is consistent with the PHARE Programming Guide 2004, which explicitly supports "*Coherence with Structural Fund rules (Regulations) and guidance, where they do not conflict with PHARE.*"<sup>5</sup> Indeed, Turkey's pNDP is considered as a first step leading over full National Development Plans as required for the Structural Funds after accession<sup>6</sup>.

It is important to emphasise the introduction of first Structural Funds approaches within the pNDP. Indeed, the pNDP does not limit itself to comply with the existing regulatory framework for pre-accession financial assistance, but goes beyond the existing requirements in order to demonstrate Turkey's preparedness for further decentralisation (EDIS) and commitment to enhance economic and social cohesion in line with the principles underlying the Structural Funds. This should be supported with the technical assistance aiming to prepare Turkish institutions at the central and regional level to implement economic and social cohesion in accordance with Structural Funds approaches. TA projects will be prepared and included in the Multi Annual Programming (MAP) to support capacity building in relation to pNDP.

Following the decision on the candidate status of Turkey in Helsinki in 1999, the EU is allocating funds to Turkey within the regulatory framework of "pre-accession financial assistance for Turkey"<sup>7</sup>. This framework also finances the programmes and projects included in the pNDP, which are thus subject to the rules and principles of the Decentralised Implementation System in Turkey (DIS-Turkey) as already applied to other programmes and projects supported under pre-accession financial assistance for Turkey. The final objective of the decentralisation process is the establishment in Turkey of an "Extended Decentralisation Implementation System – EDIS" (without 'ex-ante' controls operated by the European Commission – to be introduced in Turkey as of 2005).

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<sup>4</sup> Council Regulation (EC) No 2500/2001 of 17<sup>h</sup> of December 2001 and Council Regulation (EC) No 390/2001 of 26 February 2001.

<sup>5</sup> See Annex 2, PHARE Programming Guide 2004, p.24.

<sup>6</sup> See PHARE Programming Guide 2004, p.4.

<sup>7</sup> Pre-accession financial assistance for Turkey is provided on the basis of Council Regulation (EC) No 2500/2001 of 17 December 2001. The corresponding EC budget line is B7-050.

Circular No. 2001/41 of the Prime Ministry issued on 18 July 2001, established the main components of the DIS in Turkey, i.e. the National Aid Co-ordinator (NAC), the National Authorising Officer (NAO), the National Fund (NF), the Central Financing and Contracting Unit (CFCU), the Financial Co-operation Committee (FCC) and the Joint Monitoring Committee (JMC). Programming has carried out in compliance with the DIS in Turkey since 2002 – following the completion of the self-assessment phase, European Commission accreditation was received in October 2003.

In this context, it should be noted that the pNDP is a first step towards supporting economic and social cohesion in a Structural Funds approaches framework with a strong emphasis on capacity building to enable implementation in a decentralised way with responsibilities to be shared between different institutions at central and regional level.

### **8.1. MANAGEMENT**

SPO is designated as the Managing Authority of the pNDP and Undersecretary of the SPO will act as the pNDP Manager. The pNDP Manager may delegate managing tasks to one of the Deputy Undersecretaries of the SPO.

Implementation tasks may be delegated to Intermediate Bodies, i.e. sectoral or regional institutions. Service Unions and RDAs will function as intermediate bodies in the field of regional development axis. However, because of the nature of the current pNDP, which does not include operational programmes, it is hard to make a clear definition of intermediate bodies for sectoral development axes.

Presently, SPO is responsible for co-ordinating, monitoring and reporting of projects and programs and financed both by national budget and EU funds, in the field of regional development. It is foreseen that in the medium-term, implementation of programmes and projects in this field will be delegated to the RDAs at regional level.

The law concerning RDAs has been under preparation. Until the establishment of the RDAs, Service Unions will take part in implementation of regional programs supported by EU. Service Unions are regional organizations at NUTS II level which are set up with the participation of governors from provinces, mayors of provinces and districts, headmen of villages and representatives of units providing service for the rural areas and SPO.

As regards the implementation of sectoral projects, relevant public and private institutions and organizations will be responsible.

Specific responsibilities of the pNDP Manager include:

- To ensure overall management of the pNDP according to the DIS and supervision over implementing authorities;
- To ensure compatibility of the projects with the pNDP;

- To ensure coordination between the different programmes and projects with a view to avoiding overlaps and duplications of funding;
- To ensure the preparation of management reports and prepare regular reports on the progress of the pNDP;
- To establish the pNDP Monitoring Committee and provide the required secretariat services for the committee's operation;
- To ensure the operation of overall monitoring system at the different levels and the timely production of monitoring reports for the pNDP Monitoring Committee;
- To provide guidance on project preparation and implementation to all concerned implementing authorities and intermediate bodies;
- To ensure that all activities under the pNDP are implemented in accordance with the relevant EU policies on competition, public procurement, protection and enhancement of the environment and equal opportunities for men and women;
- To ensure the involvement of all concerned national and regional stakeholders in the programming process;
- To ensure complementarity/co-ordination between the pNDP and other national plans and programmes;
- To ensure liaison and compliance with reporting requirements to the NAO, the NAC, the FCC and the European Commission;
- To maintain a regular dialogue with the EC Representation in Ankara and relevant services in the Commission in order to ensure a reciprocal flow of information on progress with economic and social cohesion in Turkey and best practice in programming, implementation, monitoring and evaluation;
- To ensure the establishment and well functioning of a data collection and exchange system,
- To coordinate and ensure the preparation and implementation of the technical assistance projects in the field of ESC to be included in the MAP.
- To update the pNDP when necessary.

## **8.2. MONITORING**

### **Institutional Set-up**

A specific Monitoring Committee – the pNDP Monitoring Committee - will be established to monitor the pNDP. The establishment of a specific Monitoring Committee ensures that overall progress of the pNDP is monitored - allowing the establishment of an overall assessment of progress in the area of economic and social cohesion, which goes beyond the monitoring of progress of individual programmes and projects as ensured by the existing Sectoral Monitoring Sub-Committees. It is important to stress the point that

monitoring and evaluation arrangements for the pNDP do not duplicate or contradict existing arrangements under pre-accession financial assistance. Monitoring and evaluation arrangements for the pNDP are designed to introduce Structural Funds approaches in Turkey and strong capacity building will ensure that the concerned central and regional institutions develop the required expertise.

The pNDP Monitoring Committee is chaired by the pNDP Manager. Members with voting rights include the representatives of the following institutions: One representative from each of the related Sectoral Monitoring Sub-Committees, the National Aid Co-ordinator, the National Authorising Officer, the Central Finance and Contract Unit, the SPO, all concerned Implementing Authorities and Intermediate Bodies. Representatives of the European Commission will participate in the pNDP Monitoring Committee meetings as observers. The pNDP Manager will ensure the consideration of regional, environmental and equal opportunity aspects (“horizontal priorities”) by nominating a limited number of additional monitoring committee members representing the interests of the concerned regions, the environment and equal opportunities<sup>8</sup>.

### **Procedures and tasks**

The pNDP Monitoring Committee will meet at least twice a year – secretariat services for the pNDP Monitoring Committee will be provided by the SPO. The monitoring procedures to be followed by the pNDP Monitoring Committee will comply with the current DIS system, i.e. Monitoring Reports will be made available to the Joint Monitoring Committee (JMC).

Key responsibilities of the pNDP Monitoring Committee include the following:

- To perform a regular review of the pNDP’s progress on the basis of monitoring reports and implementation / progress reports;
- To prepare two monitoring reports per year - following European Commission’s monitoring and evaluation principles as set out in the relevant Working Papers of the European Commission<sup>9</sup>;
- To liaise with the JMC and submit any required information to the JMC;
- To recommend any required changes to the pNDP on the basis of the two annual monitoring reports of pNDP progress;
- To provide guidance to the independent evaluators carrying out the mid-term and ex-post evaluation.

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<sup>8</sup> It is envisaged that the interests of the regions will be represented by members of the concerned Service Unions and managers of RDA’s after their establishment; the consideration of equal opportunity aspects will be ensured by a representative of the Directorate General on the Status and the Problems of Women (under the Prime Ministry).

<sup>9</sup> See European Commission DG REGIO – The new programming period 2000-2006. Methodological working papers. Working Paper 3: Indicators for Monitoring and Evaluation – an indicative methodology.

## **Monitoring Indicators and Reporting**

The pNDP's financial framework compares very modestly with the NDPs in the other candidate countries. Therefore the pNDP's overall impact on Turkey's macro-economic situation will be difficult to measure. Notwithstanding, the SPO has recently developed a series of indicators at NUTS II and NUTS III level, which will be used in the context of the pNDP<sup>10</sup> - aiming to show changes in the overall macro-economic situation, especially in NUTS II regions where the pNDP is operating.

Considering the limited financial resources, the emphasis should be on indicators which measure progress in capacity building for implementing economic and social cohesion in line with Structural Funds approaches.

The pNDP's performance against its objectives can be assessed when relating the latter to quantitative targets expressed in terms of indicators. Establishing quantitative objectives for a programme implies an assessment of the pNDP's expected impact. Both the setting up of quantitative objectives and the assessment of the impact of programmes are foreseen according to the Structural Funds Regulation (Council Regulation (EC) No 1260/1999).

The most important impact indicators (or core indicators<sup>11</sup>) relating to the overall objective of the present pNDP and to the objectives of the four development axes are presented in the table below.

The selection of impact indicators is based on pragmatic considerations i.e. only such data is used which is readily available at NUTS II level in Turkey. This data is published annually in "*Various Indicators Related to the Nomenclature of Territorial Units for Statistics (NUTS)*"<sup>12</sup>. It is envisaged to include further indicator data as soon as this is available at NUTS II level<sup>13</sup>

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<sup>10</sup> See "Various indicators related to the Nomenclature of Territorial Units for Statistics (NUTS)", SPO, May 2003.

<sup>11</sup> The definition of core indicators follows the European Commission DG REGIO Working Paper 3 "Indicators for Monitoring and Evaluation – An indicative methodology".

<sup>12</sup> SPO – General Directorate of Regional Development and Structural Adjustment, April 2003.

<sup>13</sup> Turkey's State Institute of Statistics is currently receiving EC support to upgrade capacities in order to collect data at NUTS II level (EC Project "Upgrading the Statistical System of Turkey").

**Table: 8. 1. Indicators of pNDP**

PNDP Overall Objective	Impact Indicators	Development Axes	Indicators
<p><b>Strengthening economic and social cohesion</b></p>	<p><b>GDP per capita in NUTS II regions supported under the pNDP</b></p>	<p><b>Enhancing the competitiveness of enterprises</b></p>	<ul style="list-style-type: none"> <li>• Technology ranking</li> <li>• Enterprise’s operations and strategy ranking</li> <li>• New employment</li> <li>• Share of R&amp;D expenditures of private sector in total expenditures</li> </ul>
		<p><b>Developing the human resources and increasing the employment</b></p>	<ul style="list-style-type: none"> <li>• The number of trained unqualified, female and disabled people benefiting from job-guaranteed vocational training courses</li> <li>• The number of apprenticeship and vocational high school students provided practical training</li> <li>• The number of schools supporting technology based education methods</li> <li>• The number of vocational training programmes</li> </ul>
		<p><b>Improvement of infrastructure services and environmental protection</b></p>	<ul style="list-style-type: none"> <li>• The change in amount of solid waste produced per capita and the recycled waste</li> <li>• The number of municipalities trained for increasing effectiveness of operation of environmental investments (10)</li> <li>• The number of deaths per 100 km highway will reduce by 10 per cent and the annual number of accidents and injuries will decrease</li> <li>• Corridors connecting Turkey to Trans-Europe and Europe-Middle East to provide non-stop transportation and ports serving these corridors will be determined by the completion of TINA study</li> <li>• The statistical databases for urban transport will be created and existing ones will be integrated</li> <li>• By meeting the equipment needs and training the key personnel, the ports will function more effectively and more ships will be served</li> </ul>
		<p><b>Increasing the economic powers of regions, reducing the interregional development disparities, and accelerating rural development</b></p>	<ul style="list-style-type: none"> <li>• Financial structure and the number of projects being prepared and implemented in line with EU norms under the scope of Turkey-EU Financial Cooperation</li> <li>• The number of locally held education programmes, seminars and the participants</li> <li>• Agricultural production per rural population</li> <li>• Share in GDP, GDP per capita (in terms of sub-sectors)</li> <li>• Increase in employment in terms of agriculture, industry and services sectors</li> <li>• Share in national employment in terms of agriculture, industry and services sectors</li> </ul>

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### **8.3. EVALUATION**

Presently all pre-accession program and projects funded by the EU have been evaluated by an independent Interim Evaluation Team contracted within the interim evaluation program. In line with the current system programs and projects to be developed in the context of the pNDP will also be evaluated by the Interim Evaluation Team in close dialog and collaboration with the Managing Authority

### **8.4. FINANCIAL MANAGEMENT AND CONTROL**

The indicative sum of funds allocated for pNDP is 528 million euro of which 371.5 million euro will come from the EU grants under the pre-accession assistance to Turkey in the 2004-2006 period. In the same period, Turkey's public contribution to co-finance EU will be 156.5 million euro, of which 119.5 million euro from public budget and additional 37 million euro from private funds.

The detailed breakdown of financial resources, necessary in carrying out the priorities established by the pNDP, is presented in the table in chapter seven.

#### **Management of the EU Funds**

On the basis of the Memorandum of Understanding on the Establishment of the National Fund, signed between the Government of Turkey and the European Commission on 14 February 2002. The National Authorising Officer (NAO) in charge of management of the National Fund, which is a central entity within the Undersecretariat of Treasury, through which the Community funds are channelled towards Turkey, will have overall responsibility for financial management of EU funds within the framework of pre-accession financial assistance. In Accordance with the Prime Ministry Circular 2001/41, the Minister of State in charge of Economic Affairs was appointed as the NAO. The NAO ensures that the EU rules, regulations and procedures pertaining to procurement, reporting and financial management are respected, and that a proper reporting and project information system is functioning. The NAO will have the full overall accountability for the EU funds of a programme until the closure of the programme.

The NAO is responsible for the following tasks:

- To request and manage the funds from the European Commission;
- To appoint Programme Authorising Officers (PAOs) in the Central Finance and Contracts Unit, after consulting the National Aid Co-ordinator (NAC);
- To conclude the Financing Agreements which he/she will sign with the CFCU selected and endorsed by the Commission and the relevant Turkish authorities;

- 
- To ensure the flow of national and other co-financing resources as set out in Financing Memoranda for EU programmes;
  - To ensure that the reporting system (Perseus) for EU funds is regularly updated and reporting procedures properly respected by the CFCU;
  - To transfer funds to the CFCU, according to the mechanism which will be set out in the Financing Agreement;
  - To participate with the European Commission and the NAC in the JMC;
  - To recover non-used funds from the CFCU at the end of the programme.

The CFCU has the sole responsibility over the overall budgeting, tendering, contracting, payments, accounting and financial reporting aspects of the procurement of services, supplies, works and grants in the context of the EU funded programmes in Turkey. The CFCU ensures that the EU rules, regulations and procedures pertaining to the procurement of services, supplies, works and grants are adhered to, and that a proper reporting system is functioning.

#### **National Co-financing from the National Budget**

The national co-financing that will be provided from the national budget for the projects to be supported under the pNDP will be provided by the Republic of Turkey, in conformity with the Financing Memorandum which will be concluded between the Republic of Turkey and the EU. In addition to the resources that will be provided by the national budget, the institutions that benefit from the programme or the project can provide additional co-financing from other resources.

#### **Financial Control of the EU Funds**

On the basis of the Memorandum of Understanding on the Establishment of a Central Finance and Contracts Unit and Memorandum of Understanding on the Establishment of the National Fund, signed between the Government of Turkey and the European Commission on 14 February 2002, appropriate external audit in accordance with internationally accepted auditing standards shall be carried out by the National Court of Auditors (SAYIŞTAY) with respect to the implementation of the Financing Agreements signed with CFCU. Each year an audit plan and a summary of the findings of the audits carried out shall be sent to the European Commission. Audit reports shall be at the disposal of the European Commission.

The accounts and operations of all relevant implementation structures directly related to the EU programmes and projects and the related co-financing will/may also be checked at regular intervals by Treasury controllers which is also responsible for internal audit of the National fund and/or an outside auditor contracted by the Commission without prejudice to the responsibilities of the Commission and the European Court of Auditors.

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## **8.5. TECHNICAL ASSISTANCE**

In the context of the pNDP, strengthening the institutional capacity on implementation, monitoring and evaluation at central and regional level, in line with the EU policies and rules, is one of the important goals for the period 2004-2006.

The ability to use EU financial assistance and to increase the absorption capacity by all related parties highly depends on the establishment and/or development of the necessary institutional capacity of these parties. Within this framework, promotion of pNDP and raising the awareness of the related parties on technical issues are also quite important.

Taking into consideration that EU pre-accession financial assistance is aiming at preparing Turkey for membership and the roles of the related institutions after accession, the gradual development of the necessary capacity required for the implementation of the structural funds is very important for the preparation to membership and for the negotiations.

In this regard, the development of the capacity of the SPO, which will function as pNDP, Managing Authority is of primary importance.

The objectives of the Technical Assistance are the effective and efficient implementation and promotion of the pNDP, assessment of the existing administrative capacity and development of a long-term strategy, and training of project implementers and generators on project preparation and appraisal in line with the EU rules in ESC, raising awareness of potential project implementers in accessing EU funds.

Besides, there are some shortcomings in the pNDP such as the definition and quantification of the monitoring indicators. Technical Assistance will also address these shortcomings.

In line with mentioned issues, Technical Assistance will be included in the Multi Annual Programming.

# ANNEX



## **ANNEX-1: THE PNDP'S PREPARATION PROCESS AND PARTICIPATION**

Turkey has a planning experience dating back to the industrial plans in the 1930s. During the period after the 1960s, a comprehensive planning approach has been adopted and with long-term strategies and five-year development plans, efforts have been under way to accelerate economic, social and cultural development.

In the Turkish planning practices participatory planning is an indispensable approach. At the initial stages of preparation of the plans, Ad hoc Committees are formed, for various sectors and areas, consisting of representatives from the public and private sector, NGOs and universities. For example: during the preparation process for the Eighth Five-Year Development Plan covering the 2001-2005 period, 98 Ad hoc Committees were formed with approximately 6000 participants. The Ad hoc Committees are composed of experts in their fields and the studies conducted by them as well as the reports prepared guide plan preparations.

At the request of the EU, the preparation activities for the pNDP started in January 2003 with SPO as the coordinator. In line with the participatory planning approach, efforts were made during the different stages of the preparation process of the pNDP to obtain the contribution of relevant public institutions and NGOs at the national and regional level.

In preparation of the pNDP, a large number of national documents prepared through a similar participatory approach were extensively used. The main documents are: the Eighth Five-Year Development Plan and Ad hoc Committees Reports, 2003 PEP, SME Strategy and Action Plan, Turkish Industrial Policy Document, and the NPAA.

A meeting was held in February in Ankara with the representatives of the European Commission to discuss the general framework of the pNDP. Work on the pNDP continued on the basis of the framework drawn in the European Commission's letter in March.

In May and June, SPO personnel assigned to work on the preparation of the pNDP were trained for its preparation by foreign experts in the context of a technical assistance project financed by the EU.

During July 3-4, workshops were organized for devising the Regional Development Strategy at National Level. There was large participation of 200 participants including governors from 81 provinces, mayors and deputy mayors and representatives from universities, public institutions and NGOs. In addition to the results of the workshops, findings of the meetings held and studies conducted with local authorities, NGOs and universities in the regions were benefited from in setting the Regional Development Strategy at National Level.

Upon completion of the draft version of the pNDP in August, a meeting was held to brief the public institutions on 5 September 2003 at the SPO. The representatives of more than 50 public institutions were informed about the preparation and the draft version of the pNDP.

In September and October, meetings were held in Brussels with the representatives of the European Commission regarding the revised draft versions of the pNDP.

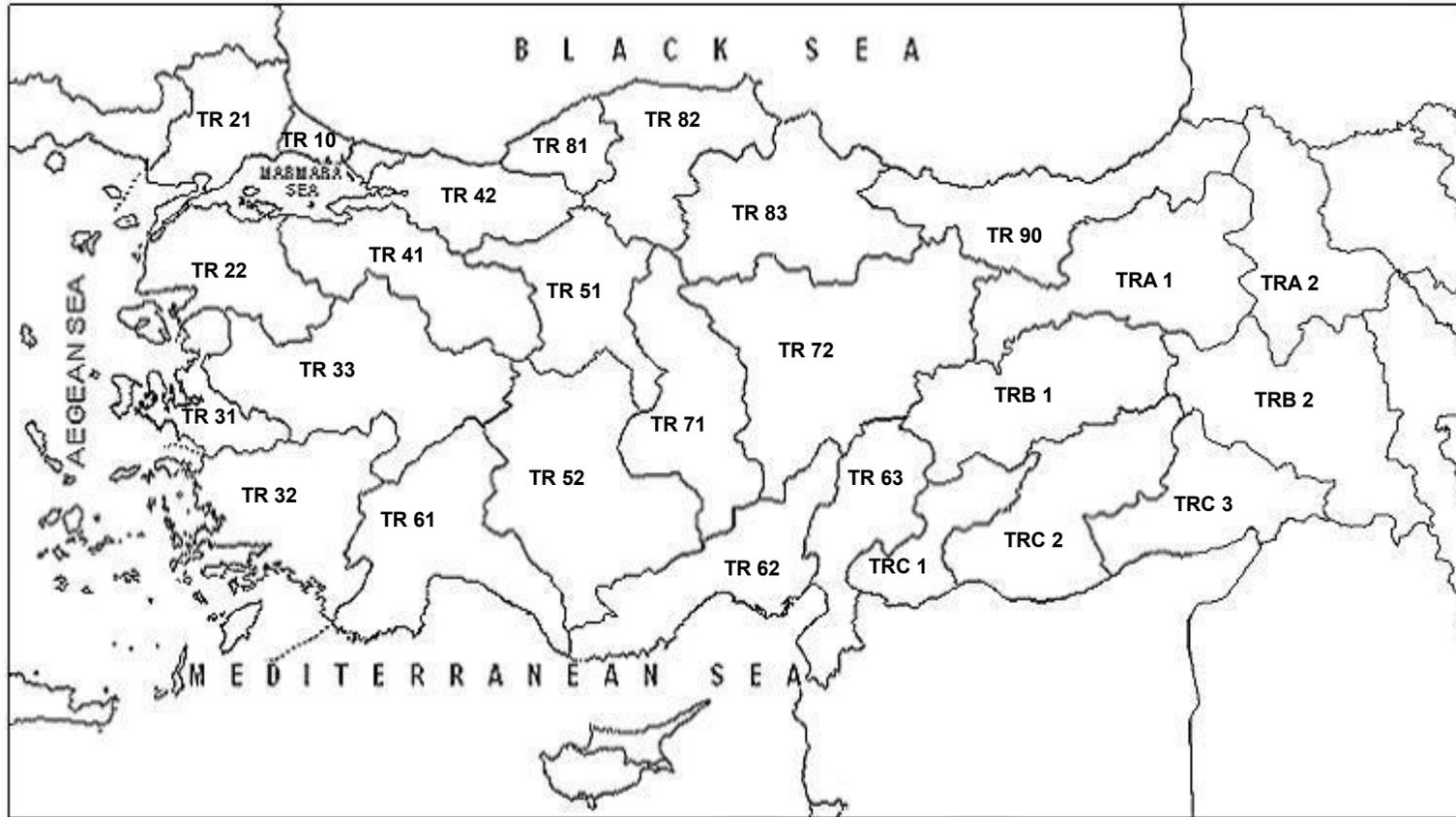
The 4th Revision of the Draft completed at the end of October was sent to more than 50 public institutions for review, and a large majority sent in their views. The views were taken into consideration as much as possible in revising the Draft further.

The conclusions of the workshop, in November in Ankara, conducted within the framework of the preliminary studies for the 2004 Turkish Economic Congress by the Small and Medium-Sized working committee group under the coordination of the TOBB were also used in developing the axis on “Enhancing the Competitiveness of Enterprises.”

At the meeting held with the representatives of the European Commission, in November in Ankara, the draft of the pNDP was reviewed. Subsequently, the necessary revisions were made to the pNDP on the basis of the views expressed in this and other meetings.

Throughout the preparation period of the pNDP, all departments of the SPO were involved in the preparation of the chapters related to their areas of expertise, and five draft versions were produced.

**ANNEX-2: TERRITORIAL UNITS FOR STATISTICS (LEVEL II)**



**ANNEX-3: CODES FOR THE CLASSIFICATION OF TERRITORIAL UNITS FOR STATISTICS**

CODE	Level 1 (Region)	Level 2 (Sub-Region)	Level 3 (Province)
TR (TURKEY)			
TR1	İstanbul		
TR10		İstanbul	
TR100			İstanbul
TR2	Western Marmara		
TR21		Tekirdağ	
TR211			Tekirdağ
TR212			Edirne
TR213			Kırklareli
TR22		Balıkesir	
TR221			Balıkesir
TR222			Çanakkale
TR3	Aegean		
TR31		İzmir	
TR310			İzmir
TR32		Aydın	
TR321			Aydın
TR322			Denizli
TR323			Muğla
TR33		Manisa	
TR331			Manisa
TR332			Afyon
TR333			Kütahya
TR334			Uşak
TR4	Eastern Marmara		
TR41		Bursa	
TR411			Bursa
TR412			Eskişehir
TR413			Bilecik
TR42		Kocaeli	
TR421			Kocaeli
TR422			Sakarya
TR423			Düzce
TR424			Bolu
TR425			Yalova
TR5	Western Anatolia		
TR51		Ankara	
TR510			Ankara
TR52		Konya	
TR521			Konya
TR522			Karaman

**ANNEX-3: CODES FOR THE CLASSIFICATION OF TERRITORIAL UNITS FOR STATISTICS  
(Continued)**

<b>KOD</b>	<b>Level 1 (Region)</b>	<b>Level 2 (Sub-Region)</b>	<b>Level 3 (Province)</b>
TR6	Mediterranean		
TR61		Antalya	
TR611			Antalya
TR612			Isparta
TR613			Burdur
TR62		Adana	
TR621			Adana
TR622			İçel
TR63		Hatay	
TR631			Hatay
TR632			Kahramanmaraş
TR633			Osmaniye
TR7	Middle Anatolia		
TR71		Kırıkkale	
TR711			Kırıkkale
TR712			Aksaray
TR713			Niğde
TR714			Nevşehir
TR715			Kırşehir
TR72		Kayseri	
TR721			Kayseri
TR722			Sivas
TR723			Yozgat
TR8	Western Black Sea		
TR81		Zonguldak	
TR811			Zonguldak
			Karabük
			Bartın
TR82		Kastamonu	
TR821			Kastamonu
TR822			Çankırı
TR823			Sinop
TR83		Samsun	
TR831			Samsun
TR832			Tokat
TR833			Çorum
TR834			Amasya
TR9	Eastern Black Sea		
TR90		Trabzon	
TR901			Trabzon
TR902			Ordu
TR903			Giresun

**ANNEX-3: CODES FOR THE CLASSIFICATION OF TERRITORIAL UNITS FOR STATISTICS  
(Continued)**

<b>KOD</b>	<b>Level 1 (Region)</b>	<b>Level 2 (Sub-Region)</b>	<b>Level 3 (Province)</b>
TR904			Rize
TR905			Artvin
TR906			Gümüşhane
TRA	North Eastern Anatolia		
TRA1		Erzurum	
TRA11			Erzurum
TRA12			Erzincan
TRA13			Bayburt
TRA2		Ağrı	
TRA21			Ağrı
TRA22			Kars
TRA23			İğdir
TRA24			Ardahan
TRB	Middleeastern Anatolia		
TRB1		Malatya	
TRB11			Malatya
TRB12			Elazığ
TRB13			Bingöl
TRB14			Tunceli
TRB2		Van	
			Van
TRB22			Muş
TRB23			Bitlis
TRB24			Hakkari
TRC	Southeastern Anatolia		
TRC1		Gaziantep	
TRC11			Gaziantep
TRC12			Adıyaman
TRC13			Kilis
TRC2		Şanlıurfa	
TRC21			Şanlıurfa
TRC22			Diyarbakır
TRC3		Mardin	
TRC31			Mardin
TRC32			Batman
TRC33			Şırnak
TRC34			Siirt

## **ANNEX-4: CURRENT REGIONAL DEVELOPMENT PLANS AND RURAL DEVELOPMENT PROJECTS**

In addition to the projects mentioned in the relevant sections, current regional development projects prepared under the coordination of the SPO are as follows:

### **Zonguldak-Bartın-Karabük Regional Development Project (ZBK)**

With this project, it is aimed to analyse economic and social results of rehabilitation of Turkish Coal Authority (TTK) and privatisation of Karabük and Ereğli Iron and Steel Works (mining and industry companies in the region), in order to determine new investment alternatives for the private sector, to prepare a development plan to be implemented in the medium and long-term, and identify new investments that can be made in the region.

### **Eastern Anatolia Project Master Plan (DAP)**

Eastern Anatolia Project (DAP) Master Plan studies initiated in 1998 by the SPO in order to accelerate the development of Eastern Anatolia Region are completed in 2000.

The Project includes 14 provinces (Ağrı, Ardahan, Bingöl, Bitlis, Elazığ, Erzincan, Erzurum, Hakkari, Iğdır, Kars, Malatya Muş, Tunceli, Van) located in Eastern Anatolia Region, and Gümüşhane and Bayburt, which have the same characteristics with the region.

With Eastern Anatolia Project, it is aimed to ensure the region's sustainable development, which constitutes an economic, social and cultural unity, especially by mobilizing the internal dynamics of the region.

In this context, it is aimed to make the necessary planning to increase employment and income per capita in the region, to ensure the diversification of the economic structure in potential areas, to decrease income disparities within the region, to increase the level and quality of the urban infrastructure, education and health services, to increase the welfare and life quality in urban and rural areas, and to protect land and water resources.

### **Eastern Black Sea Regional Development Plan (DOKAP)**

Eastern Black Sea Regional Development Plan (DOKAP) is prepared as a grant by Japan International Cooperation Agency (JICA) under the coordination of the SPO for Eastern Black Sea Region comprising Artvin, Bayburt, Giresun, Gümüşhane, Ordu, Rize and Trabzon provinces.

With DOKAP, taking 2020 the target year, it is determined as a main objective to prepare a medium and long-term integrated regional development master plan, and to define priority sectors and possible investment projects towards this plan.

Detailed studies regarding priority programmes and project proposals contained in DOKAP Master Plan are being carried out. In this context, "Small-scale Development Study on the Improvement of Tourism in Eastern Black Sea Region" was started within the scope of technical cooperation with Japan.

### **Rural Development Projects**

The objective of ongoing rural development projects in Turkey is to enhance welfare by diversification of economic activities and increasing income in less developed areas. Besides the project management, duration of the projects and their focusing on certain fields have also an important role in the success of the projects.

The implementation of the rural development projects is initiated by the SPO in late 1970s under the loan support from the World Bank. Rural development projects include the following fields of activity: improvement of agriculture and stockbreeding, irrigation, irrigated land improvement, village road construction, forest road construction, provision of drinking water and afforestation.

Examples of the rural development projects completed or being implemented, however, whose success had been limited due to the financing and organisation problems, are as follows:

- *Çorum-Çankırı Rural Development Project*
- *Erzurum Rural Development Project*
- *Bingöl-Muş Rural Development Project*
- *Yozgat Rural Development Project*
- *Ordu-Giresun Rural Development Project,*

## ANNEX-5: REGIONAL AND SECTORAL BREAKDOWN OF PUBLIC INVESTMENTS (2003-2006) (\*)

NUTS-2/ SECTOR	2003		2003 ALLOCATION		2004 ALLOCATION		2005 ALLOCATION		2006 ALLOCATION	
	PROJECT COST	% SHARE	PROGRAM	% SHARE	ESTIMATION	% SHARE	ESTIMATION	% SHARE	ESTIMATION	% SHARE
In 2004 Prices, Thousand Euro										
<b>İSTANBUL</b>										
AGRICULTURE	5 797	0.04	238	0.08	27	0.01	106	0.03	106	0.03
MINING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
MANUFACTURING	77 167	3.36	13 372	5.63	4 650	3.36	3 720	6.37	3 720	8.71
ENERGY	83	0.00	83	0.01	11	0.00	0	0.00	0	0.00
TRANSP.&TELECOM.	3 035 484	29.28	68 088	16.07	62 967	20.37	28 163	9.15	26 038	8.18
TOURISM	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
HOUSING	559	0.81	297	3.72	58	0.79	0	0.00	0	0.00
EDUCATION	515 267	14.85	49 325	11.39	47 500	13.13	57 313	11.77	86 506	15.77
HEALTH	569 104	15.73	28 848	8.52	22 466	7.94	37 313	8.21	38 078	9.19
OTHER SERVICES	239 672	4.17	27 655	5.74	22 566	6.22	32 522	6.73	20 522	5.19
<b>TOTAL</b>	<b>4 443 133</b>	<b>7.03</b>	<b>187 906</b>	<b>5.75</b>	<b>160 245</b>	<b>6.77</b>	<b>159 137</b>	<b>4.82</b>	<b>174 971</b>	<b>6.38</b>
<b>TEKİRDAĞ</b>										
AGRICULTURE	454 300	3.22	4 974	1.67	4 551	1.69	5 208	1.65	17 142	4.77
MINING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
MANUFACTURING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
ENERGY	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
TRANSP.&TELECOM.	125 097	1.21	2 149	0.51	3 189	1.03	4 783	1.55	6 377	2.00
TOURISM	3 137	1.70	875	6.36	1 860	18.82	0	0.00	0	0.00
HOUSING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
EDUCATION	54 319	1.57	7 700	1.78	6 408	1.77	6 489	1.33	5 524	1.01
HEALTH	64 285	1.78	4 588	1.36	4 441	1.57	6 758	1.49	2 618	0.63
OTHER SERVICES	53 606	0.93	4 235	0.88	5 252	1.45	5 096	1.05	3 682	0.93
<b>TOTAL</b>	<b>754 745</b>	<b>1.19</b>	<b>24 521</b>	<b>0.75</b>	<b>25 700</b>	<b>1.09</b>	<b>28 334</b>	<b>0.86</b>	<b>35 343</b>	<b>1.29</b>
<b>BALIKESİR</b>										
AGRICULTURE	840 154	5.96	18 235	6.14	17 228	6.41	16 996	5.37	21 086	5.87
MINING	48 803	27.82	7 315	21.51	11 134	29.08	23 383	22.65	0	0.00
MANUFACTURING	98 755	4.30	14 648	6.16	4 749	3.44	1 162	1.99	1 162	2.72
ENERGY	654 744	2.82	82 660	8.28	48 361	8.21	45 172	4.20	34 543	5.44
TRANSP.&TELECOM.	154 711	1.49	7 523	1.78	8 947	2.89	4 889	1.59	5 421	1.70
TOURISM	19 651	10.65	2 260	16.42	957	9.68	1 860	18.17	2 126	17.43
HOUSING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
EDUCATION	116 250	3.35	18 536	4.28	12 280	3.40	16 261	3.34	17 362	3.17
HEALTH	36 281	1.00	4 941	1.46	3 705	1.31	7 504	1.65	5 580	1.35
OTHER SERVICES	145 502	2.53	8 102	1.68	8 353	2.30	7 567	1.56	6 158	1.56
<b>TOTAL</b>	<b>2 114 850</b>	<b>3.35</b>	<b>164 219</b>	<b>5.03</b>	<b>115 713</b>	<b>4.89</b>	<b>124 795</b>	<b>3.78</b>	<b>93 438</b>	<b>3.41</b>
<b>İZMİR</b>										
AGRICULTURE	419 198	2.98	1 316	0.44	804	0.30	804	0.25	804	0.22
MINING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
MANUFACTURING	511 916	22.31	82 065	34.54	49 636	35.91	0	0.00	0	0.00
ENERGY	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
TRANSP.&TELECOM.	1 171 311	11.30	42 734	10.09	21 534	6.97	19 929	6.48	27 900	8.77
TOURISM	4 580	2.48	1 189	8.64	0	0.00	0	0.00	0	0.00
HOUSING	1 499	2.17	250	3.12	436	5.87	999	37.01	266	14.08
EDUCATION	149 127	4.30	21 523	4.97	21 787	6.02	38 792	7.97	40 665	7.41
HEALTH	129 249	3.57	16 985	5.02	16 758	5.92	25 647	5.64	23 246	5.61
OTHER SERVICES	247 404	4.30	19 619	4.07	8 376	2.31	27 361	5.66	23 906	6.05
<b>TOTAL</b>	<b>2 634 285</b>	<b>4.17</b>	<b>185 680</b>	<b>5.69</b>	<b>119 330</b>	<b>5.04</b>	<b>113 533</b>	<b>3.44</b>	<b>116 787</b>	<b>4.26</b>
<b>AYDIN</b>										
AGRICULTURE	866 369	6.15	24 136	8.12	14 656	5.45	14 659	4.63	38 546	10.72
MINING	833	0.47	833	2.45	497	1.30	0	0.00	0	0.00
MANUFACTURING	23 581	1.03	8 325	3.50	0	0.00	0	0.00	0	0.00
ENERGY	1 163 495	5.01	77 503	7.77	67 599	11.48	69 087	6.42	85 030	13.40
TRANSP.&TELECOM.	100 664	0.97	3 694	0.87	2 142	0.69	7 493	2.44	13 339	4.19
TOURISM	45 032	24.41	1 848	13.43	1 834	18.56	2 516	24.58	3 189	26.14
HOUSING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
EDUCATION	168 403	4.85	24 595	5.68	21 570	5.96	30 978	6.36	35 256	6.43
HEALTH	158 067	4.37	11 828	3.49	15 252	5.39	26 464	5.82	23 367	5.64
OTHER SERVICES	228 148	3.97	23 019	4.78	12 861	3.54	12 522	2.59	9 633	2.44
<b>TOTAL</b>	<b>2 754 592</b>	<b>4.36</b>	<b>175 781</b>	<b>5.38</b>	<b>136 410</b>	<b>5.76</b>	<b>163 719</b>	<b>4.96</b>	<b>208 360</b>	<b>7.60</b>

(\*) - Investments and their breakdown are indicative and investments of local administrations are not included.

- Shares of the regions denote the shares in total and sectoral total investment excluding the investments that cannot be classified on a regional basis.

- For the year 2004, 1 euro=1,881,698 TL.

## ANNEX-5: REGIONAL AND SECTORAL BREAKDOWN OF PUBLIC INVESTMENTS (2003-2006) (\*) (Cont.)

NUTS-2 / SECTOR	In 2004 Prices, Thousand Euro									
	2003		2003 ALLOCATION		2004 ALLOCATION		2005 ALLOCATION		2006 ALLOCATION	
	PROJECT COST	% SHARE	PROGRAM	% SHARE	ESTIMATION	% SHARE	ESTIMATION	% SHARE	ESTIMATION	% SHARE
<b>MANİSA</b>										
AGRICULTURE	206 883	1.47	299	0.10	1 595	0.59	2 126	0.67	4 582	1.27
MINING	58 614	33.42	1 395	4.10	2 418	6.32	56 332	54.57	0	0.00
MANUFACTURING	323 046	14.08	19 621	8.26	8 561	6.19	1 350	2.31	287	0.67
ENERGY	191 783	0.83	607	0.06	5 315	0.90	4 596	0.43	1	0.00
TRANSP.&TELECOM.	349 847	3.37	8 028	1.90	10 192	3.30	18 175	5.91	21 895	6.88
TOURISM	2 379	1.29	238	1.73	531	5.38	664	6.49	797	6.54
HOUSING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
EDUCATION	106 514	3.07	18 000	4.16	13 197	3.65	19 299	3.96	20 483	3.73
HEALTH	124 152	3.43	10 585	3.13	8 108	2.87	26 519	5.83	28 942	6.99
OTHER SERVICES	113 454	1.97	8 745	1.81	7 330	2.02	19 981	4.13	9 892	2.50
<b>TOTAL</b>	<b>1 476 671</b>	<b>2.34</b>	<b>67 518</b>	<b>2.07</b>	<b>57 247</b>	<b>2.42</b>	<b>149 043</b>	<b>4.52</b>	<b>86 878</b>	<b>3.17</b>
<b>BURSA</b>										
AGRICULTURE	487 348	3.46	1 258	0.42	1 283	0.48	2 534	0.80	6 278	1.75
MINING	13 975	7.97	7 077	20.81	5 318	13.89	9 088	8.80	0	0.00
MANUFACTURING	19 891	0.87	3 093	1.30	8 430	6.10	17 165	29.40	3 879	9.08
ENERGY	944 802	4.07	11 895	1.19	11 161	1.90	23 384	2.17	30 824	4.86
TRANSP.&TELECOM.	477 083	4.60	52 993	12.51	44 970	14.55	43 578	14.16	45 172	14.20
TOURISM	19 025	10.31	1 896	13.78	638	6.45	1 180	11.52	1 727	14.16
HOUSING	841	1.22	470	5.87	1	0.01	53	1.97	53	2.82
EDUCATION	178 342	5.14	15 579	3.60	12 642	3.50	18 361	3.77	18 345	3.34
HEALTH	108 664	3.00	13 315	3.93	16 721	5.91	13 862	3.05	8 026	1.94
OTHER SERVICES	257 276	4.47	18 041	3.74	14 271	3.93	23 889	4.94	18 098	4.58
<b>TOTAL</b>	<b>2 507 248</b>	<b>3.97</b>	<b>125 616</b>	<b>3.85</b>	<b>115 435</b>	<b>4.87</b>	<b>153 095</b>	<b>4.64</b>	<b>132 403</b>	<b>4.83</b>
<b>KOCAELİ</b>										
AGRICULTURE	8 768	0.06	208	0.07	410	0.15	425	0.13	452	0.13
MINING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
MANUFACTURING	378 940	16.51	35 908	15.11	32 678	23.64	4 411	7.56	4 411	10.32
ENERGY	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
TRANSP.&TELECOM.	150 009	1.45	5 058	1.19	3 542	1.15	5 953	1.93	7 281	2.29
TOURISM	16 461	8.92	1 293	9.40	2 442	24.72	2 524	24.66	2 923	23.97
HOUSING	2 997	4.35	934	11.67	664	8.95	266	9.84	266	14.08
EDUCATION	326 494	9.41	48 093	11.11	30 293	8.38	43 567	8.95	52 116	9.50
HEALTH	259 243	7.16	26 678	7.88	14 375	5.08	60 330	13.27	65 223	15.74
OTHER SERVICES	337 183	5.86	41 011	8.51	22 300	6.14	36 175	7.48	28 275	7.16
<b>TOTAL</b>	<b>1 480 095</b>	<b>2.34</b>	<b>159 183</b>	<b>4.87</b>	<b>106 705</b>	<b>4.51</b>	<b>153 650</b>	<b>4.66</b>	<b>160 946</b>	<b>5.87</b>
<b>ANKARA</b>										
AGRICULTURE	59 553	0.42	6 333	2.13	6 186	2.30	2 280	0.72	2 312	0.64
MINING	31 860	18.16	1 921	5.65	1 731	4.52	558	0.54	478	3.33
MANUFACTURING	196 715	8.57	20 049	8.44	22 995	16.64	12 723	21.79	9 885	23.14
ENERGY	775 417	3.34	13 060	1.31	12 427	2.11	1 491	0.14	1 486	0.23
TRANSP.&TELECOM.	121 076	1.17	7 490	1.77	4 926	1.59	4 985	1.62	6 048	1.90
TOURISM	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
HOUSING	1 683	2.44	708	8.85	632	8.52	266	9.84	292	15.49
EDUCATION	456 993	13.17	50 357	11.63	43 498	12.03	43 048	8.84	36 862	6.72
HEALTH	429 001	11.86	54 855	16.21	42 701	15.09	58 971	12.97	55 829	13.48
OTHER SERVICES	1 055 567	18.36	117 793	24.44	61 346	16.90	77 388	16.00	66 132	16.74
<b>TOTAL</b>	<b>3 127 865</b>	<b>4.95</b>	<b>272 566</b>	<b>8.35</b>	<b>196 442</b>	<b>8.30</b>	<b>201 709</b>	<b>6.11</b>	<b>179 324</b>	<b>6.54</b>
<b>KONYA</b>										
AGRICULTURE	633 925	4.50	27 290	9.18	15 792	5.88	16 854	5.33	15 260	4.25
MINING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
MANUFACTURING	381 864	16.64	17 004	7.16	3 135	2.27	15 996	27.40	14 933	34.95
ENERGY	845 997	3.65	64 225	6.44	53 675	9.12	95 658	8.89	106 287	16.75
TRANSP.&TELECOM.	175 412	1.69	7 063	1.67	4 252	1.38	8 049	2.62	6 537	2.05
TOURISM	208	0.11	45	0.32	40	0.40	0	0.00	0	0.00
HOUSING	535	0.78	172	2.16	0	0.00	0	0.00	0	0.00
EDUCATION	67 189	1.94	8 147	1.88	5 177	1.43	5 588	1.15	5 681	1.04
HEALTH	138 163	3.82	15 230	4.50	10 633	3.76	17 331	3.81	18 678	4.51
OTHER SERVICES	125 608	2.18	6 020	1.25	10 400	2.87	31 599	6.53	24 115	6.10
<b>TOTAL</b>	<b>2 368 903</b>	<b>3.75</b>	<b>145 196</b>	<b>4.45</b>	<b>103 104</b>	<b>4.35</b>	<b>191 076</b>	<b>5.79</b>	<b>191 490</b>	<b>6.99</b>

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- For the year 2004, 1 euro=1,881,698 TL.

## ANNEX-5: REGIONAL AND SECTORAL BREAKDOWN OF PUBLIC INVESTMENTS (2003-2006) (\*) (Cont.)

NUTS-2 / SECTOR	In 2004 Prices, Thousand Euro									
	2003		2003 ALLOCATION		2004 ALLOCATION		2005 ALLOCATION		2006 ALLOCATION	
	PROJECT COST	% SHARE	PROGRAM	% SHARE	ESTIMATION	% SHARE	ESTIMATION	% SHARE	ESTIMATION	% SHARE
<b>ANTALYA</b>										
AGRICULTURE	478 686	3.40	4 194	1.41	7 834	2.91	8 126	2.57	20 274	5.64
MINING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
MANUFACTURING	4 237	0.18	179	0.08	0	0.00	0	0.00	0	0.00
ENERGY	216 015	0.93	10 704	1.07	9 566	1.62	15 943	1.48	21 257	3.35
TRANSP.&TELECOM.	327 599	3.16	41 670	9.84	32 691	10.57	24 932	8.10	13 340	4.19
TOURISM	21 538	11.67	1 742	12.66	319	3.23	585	5.71	638	5.23
HOUSING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
EDUCATION	150 257	4.33	15 293	3.53	17 317	4.79	19 730	4.05	19 775	3.61
HEALTH	182 447	5.04	10 688	3.16	10 788	3.81	15 124	3.33	8 914	2.15
OTHER SERVICES	162 343	2.82	13 560	2.81	8 582	2.36	8 860	1.83	8 152	2.06
<b>TOTAL</b>	<b>1 543 123</b>	<b>2.44</b>	<b>98 031</b>	<b>3.00</b>	<b>87 097</b>	<b>3.68</b>	<b>93 300</b>	<b>2.83</b>	<b>92 350</b>	<b>3.37</b>
<b>ADANA</b>										
AGRICULTURE	197 220	1.40	4 699	1.58	4 199	1.56	5 927	1.87	8 717	2.43
MINING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
MANUFACTURING	34 257	1.49	9 812	4.13	0	0.00	0	0.00	0	0.00
ENERGY	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
TRANSP.&TELECOM.	1 015 790	9.80	6 763	1.60	6 293	2.04	4 162	1.35	585	0.18
TOURISM	21 800	11.82	2 027	14.73	957	9.68	159	1.56	0	0.00
HOUSING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
EDUCATION	95 349	2.75	13 208	3.05	9 608	2.66	12 870	2.64	19 591	3.57
HEALTH	103 446	2.86	14 863	4.39	12 365	4.37	13 158	2.89	9 104	2.20
OTHER SERVICES	209 171	3.64	9 555	1.98	11 722	3.23	16 295	3.37	12 046	3.05
<b>TOTAL</b>	<b>1 677 033</b>	<b>2.65</b>	<b>60 927</b>	<b>1.87</b>	<b>45 145</b>	<b>1.91</b>	<b>52 572</b>	<b>1.59</b>	<b>50 043</b>	<b>1.83</b>
<b>HATAY</b>										
AGRICULTURE	837 134	5.94	11 509	3.87	11 510	4.28	10 908	3.45	5 102	1.42
MINING	10 149	5.79	4 995	14.69	7 972	20.82	6 165	5.97	6 165	42.96
MANUFACTURING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
ENERGY	2 720 310	11.72	217 312	21.78	166 871	28.34	499 914	46.47	15 944	2.51
TRANSP.&TELECOM.	60 148	0.58	2 468	0.58	663	0.21	957	0.31	1 222	0.38
TOURISM	7 614	4.13	120	0.87	101	1.02	266	2.60	425	3.49
HOUSING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
EDUCATION	106 248	3.06	18 559	4.29	12 116	3.35	19 083	3.92	24 457	4.46
HEALTH	135 918	3.76	7 061	2.09	9 039	3.19	14 215	3.13	9 550	2.31
OTHER SERVICES	269 007	4.68	17 493	3.63	28 012	7.72	12 972	2.68	12 706	3.22
<b>TOTAL</b>	<b>4 146 529</b>	<b>6.56</b>	<b>279 517</b>	<b>8.56</b>	<b>236 282</b>	<b>9.98</b>	<b>564 478</b>	<b>17.11</b>	<b>75 571</b>	<b>2.76</b>
<b>KIRIKKALE</b>										
AGRICULTURE	156 081	1.11	7 021	2.36	5 747	2.14	8 436	2.67	9 131	2.54
MINING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
MANUFACTURING	191 403	8.34	2 290	0.96	1 727	1.25	367	0.63	2 957	6.92
ENERGY	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
TRANSP.&TELECOM.	120 791	1.17	2 082	0.49	5 388	1.74	8 414	2.73	11 823	3.72
TOURISM	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
HOUSING	1 551	2.25	434	5.43	287	3.87	0	0.00	0	0.00
EDUCATION	133 974	3.86	14 416	3.33	13 065	3.61	25 584	5.26	26 350	4.80
HEALTH	70 085	1.94	2 796	0.83	2 551	0.90	3 906	0.86	2 556	0.62
OTHER SERVICES	150 790	2.62	7 654	1.59	9 843	2.71	6 493	1.34	4 200	1.06
<b>TOTAL</b>	<b>824 675</b>	<b>1.30</b>	<b>36 692</b>	<b>1.12</b>	<b>38 609</b>	<b>1.63</b>	<b>53 199</b>	<b>1.61</b>	<b>57 018</b>	<b>2.08</b>
<b>KAYSERİ</b>										
AGRICULTURE	618 499	4.39	9 482	3.19	10 577	3.94	13 547	4.28	14 324	3.98
MINING	616	0.35	6	0.02	0	0.00	0	0.00	0	0.00
MANUFACTURING	5 753	0.25	2 141	0.90	1 488	1.08	1 488	2.55	1 488	3.48
ENERGY	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
TRANSP.&TELECOM.	229 492	2.21	34 997	8.26	13 040	4.22	14 084	4.58	11 426	3.59
TOURISM	2 477	1.34	89	0.65	74	0.75	133	1.30	213	1.74
HOUSING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
EDUCATION	66 881	1.93	10 641	2.46	9 577	2.65	11 060	2.27	10 996	2.00
HEALTH	36 708	1.01	8 466	2.50	6 581	2.33	6 485	1.43	6 516	1.57
OTHER SERVICES	206 483	3.59	20 252	4.20	10 910	3.01	22 532	4.66	22 086	5.59
<b>TOTAL</b>	<b>1 166 911</b>	<b>1.85</b>	<b>86 073</b>	<b>2.64</b>	<b>52 247</b>	<b>2.21</b>	<b>69 327</b>	<b>2.10</b>	<b>67 050</b>	<b>2.45</b>

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- For the year 2004, 1 euro=1,881,698 TL.

## ANNEX-5: REGIONAL AND SECTORAL BREAKDOWN OF PUBLIC INVESTMENTS (2003-2006) (\*) (Cont.)

In 2004 Prices, Thousand Euro

NUTS-2/ SECTOR	2003		2003 ALLOCATION		2004 ALLOCATION		2005 ALLOCATION		2006 ALLOCATION	
	PROJECT COST	% SHARE	PROGRAM	% SHARE	ESTIMATION	% SHARE	ESTIMATION	% SHARE	ESTIMATION	% SHARE
<b>ZONGULDAK</b>										
AGRICULTURE	140 827	1.00	1 816	0.61	2 048	0.76	2 303	0.73	1 678	0.47
MINING	9 303	5.30	9 217	27.11	7 706	20.13	7 706	7.46	7 706	53.70
MANUFACTURING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
ENERGY	158 098	0.68	14 272	1.43	16 793	2.85	23 741	2.21	20 195	3.18
TRANSP.&TELECOM.	52 872	0.51	3 717	0.88	3 258	1.05	5 367	1.74	5 367	1.69
TOURISM	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
HOUSING	3 809	5.52	315	3.94	1 647	22.19	0	0.00	0	0.00
EDUCATION	39 606	1.14	6 487	1.50	6 751	1.87	8 148	1.67	5 834	1.06
HEALTH	55 257	1.53	5 573	1.65	6 918	2.44	8 948	1.97	9 300	2.24
OTHER SERVICES	135 534	2.36	8 507	1.76	11 315	3.12	13 174	2.72	13 019	3.30
<b>TOTAL</b>	<b>595 305</b>	<b>0.94</b>	<b>49 905</b>	<b>1.53</b>	<b>56 436</b>	<b>2.38</b>	<b>69 387</b>	<b>2.10</b>	<b>63 098</b>	<b>2.30</b>
<b>KASTAMONU</b>										
AGRICULTURE	306 057	2.17	6 127	2.06	4 492	1.67	7 970	2.52	13 109	3.65
MINING	297	0.17	297	0.87	266	0.69	0	0.00	0	0.00
MANUFACTURING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
ENERGY	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
TRANSP.&TELECOM.	283 932	2.74	6 087	1.44	4 490	1.45	7 026	2.28	7 613	2.39
TOURISM	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
HOUSING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
EDUCATION	43 201	1.24	3 512	0.81	4 248	1.17	6 663	1.37	10 013	1.83
HEALTH	37 256	1.03	3 374	1.00	3 955	1.40	6 084	1.34	5 793	1.40
OTHER SERVICES	37 987	0.66	2 969	0.62	2 174	0.60	3 985	0.82	3 639	0.92
<b>TOTAL</b>	<b>708 731</b>	<b>1.12</b>	<b>22 366</b>	<b>0.68</b>	<b>19 625</b>	<b>0.83</b>	<b>31 728</b>	<b>0.96</b>	<b>40 167</b>	<b>1.47</b>
<b>SAMSUN</b>										
AGRICULTURE	714 871	5.07	6 633	2.23	5 805	2.16	10 021	3.17	11 683	3.25
MINING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
MANUFACTURING	11 983	0.52	1 873	0.79	80	0.06	0	0.00	0	0.00
ENERGY	572 547	2.47	25 571	2.56	22 852	3.88	65 955	6.13	42 515	6.70
TRANSP.&TELECOM.	331 453	3.20	15 888	3.75	9 781	3.16	14 349	4.66	18 601	5.85
TOURISM	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
HOUSING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
EDUCATION	123 242	3.55	18 126	4.19	9 935	2.75	12 783	2.63	13 481	2.46
HEALTH	86 308	2.39	9 066	2.68	11 344	4.01	13 358	2.94	8 960	2.16
OTHER SERVICES	184 464	3.21	15 140	3.14	12 917	3.56	13 598	2.81	8 289	2.10
<b>TOTAL</b>	<b>2 024 866</b>	<b>3.20</b>	<b>92 298</b>	<b>2.83</b>	<b>72 714</b>	<b>3.07</b>	<b>130 064</b>	<b>3.94</b>	<b>103 528</b>	<b>3.78</b>
<b>TRABZON</b>										
AGRICULTURE	201 289	1.43	4 698	1.58	18 308	6.81	10 310	3.26	10 367	2.88
MINING	529	0.30	529	1.56	872	2.28	0	0.00	0	0.00
MANUFACTURING	59	0.00	1	0.00	0	0.00	0	0.00	0	0.00
ENERGY	5 121 004	22.07	378 215	37.90	91 022	15.46	155 180	14.42	123 825	19.52
TRANSP.&TELECOM.	1 467 263	14.15	64 377	15.20	45 793	14.81	56 651	18.41	64 091	20.14
TOURISM	19 868	10.77	127	0.92	128	1.29	266	2.60	53	0.44
HOUSING	1 350	1.96	571	7.14	0	0.00	0	0.00	0	0.00
EDUCATION	98 164	2.83	13 945	3.22	12 374	3.42	15 479	3.18	17 908	3.27
HEALTH	81 616	2.26	22 019	6.51	13 792	4.87	20 601	4.53	13 276	3.20
OTHER SERVICES	411 774	7.16	19 246	3.99	18 193	5.01	13 847	2.86	13 190	3.34
<b>TOTAL</b>	<b>7 402 917</b>	<b>11.71</b>	<b>503 727</b>	<b>15.42</b>	<b>200 481</b>	<b>8.47</b>	<b>272 332</b>	<b>8.25</b>	<b>242 712</b>	<b>8.85</b>
<b>ERZURUM</b>										
AGRICULTURE	677 185	4.81	9 904	3.33	15 026	5.59	12 369	3.91	11 638	3.24
MINING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
MANUFACTURING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
ENERGY	252 638	1.09	1	0.00	1	0.00	1	0.00	1	0.00
TRANSP.&TELECOM.	111 037	1.07	4 757	1.12	6 329	2.05	7 600	2.47	5 474	1.72
TOURISM	539	0.29	1	0.01	1	0.01	85	0.83	106	0.87
HOUSING	4 757	6.90	476	5.95	133	1.79	80	2.95	53	2.82
EDUCATION	65 758	1.89	8 911	2.06	7 029	1.94	8 822	1.81	8 310	1.51
HEALTH	57 968	1.60	6 724	1.99	6 962	2.46	7 840	1.72	7 494	1.81
OTHER SERVICES	146 341	2.55	10 497	2.18	10 663	2.94	13 409	2.77	12 799	3.24
<b>TOTAL</b>	<b>1 316 222</b>	<b>2.08</b>	<b>41 270</b>	<b>1.26</b>	<b>46 143</b>	<b>1.95</b>	<b>50 206</b>	<b>1.52</b>	<b>45 873</b>	<b>1.67</b>

(\*) - Investments and their breakdown are indicative and investments of local administrations are not included.

- Shares of the regions denote the shares in total and sectoral total investment excluding the investments that cannot be classified on a regional basis.

- For the year 2004, 1 euro=1,881,698 TL.

## ANNEX-5: REGIONAL AND SECTORAL BREAKDOWN OF PUBLIC INVESTMENTS (2003-2006) (\*) (Cont.)

NUTS-2 / SECTOR	In 2004 Prices, Thousand Euro									
	2003		2003 ALLOCATION		2004 ALLOCATION		2005 ALLOCATION		2006 ALLOCATION	
	PROJECT COST	% SHARE	PROGRAM	% SHARE	ESTIMATION	% SHARE	ESTIMATION	% SHARE	ESTIMATION	% SHARE
<b>AĞRI</b>										
AGRICULTURE	635 566	4.51	5 019	1.69	4 344	1.62	7 948	2.51	20 248	5.63
MINING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
MANUFACTURING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
ENERGY	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
TRANSP.&TELECOM.	52 892	0.51	10 309	2.43	531	0.17	531	0.17	531	0.17
TOURISM	149	0.08	1	0.00	0	0.00	0	0.00	0	0.00
HOUSING	1 050	1.52	172	2.16	372	5.01	133	4.92	80	4.23
EDUCATION	74 795	2.16	8 941	2.06	8 436	2.33	10 456	2.15	11 332	2.07
HEALTH	34 323	0.95	3 727	1.10	4 208	1.49	9 217	2.03	6 776	1.64
OTHER SERVICES	56 426	0.98	6 842	1.42	4 397	1.21	6 807	1.41	3 607	0.91
<b>TOTAL</b>	<b>855 201</b>	<b>1.35</b>	<b>35 011</b>	<b>1.07</b>	<b>22 288</b>	<b>0.94</b>	<b>35 091</b>	<b>1.06</b>	<b>42 574</b>	<b>1.55</b>
<b>MALATYA</b>										
AGRICULTURE	734 754	5.21	4 379	1.47	4 301	1.60	4 812	1.52	8 532	2.37
MINING	416	0.24	416	1.22	372	0.97	0	0.00	0	0.00
MANUFACTURING	770	0.03	726	0.31	75	0.05	0	0.00	0	0.00
ENERGY	1 618 547	6.98	45 195	4.53	36 297	6.17	38 530	3.58	43 578	6.87
TRANSP.&TELECOM.	25 014	0.24	517	0.12	88	0.03	106	0.03	106	0.03
TOURISM	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
HOUSING	8 768	12.71	595	7.43	319	4.29	106	3.94	106	5.63
EDUCATION	82 637	2.38	8 058	1.86	6 887	1.90	12 547	2.58	12 481	2.28
HEALTH	316 822	8.76	18 775	5.55	10 390	3.67	12 010	2.64	12 136	2.93
OTHER SERVICES	123 464	2.15	10 221	2.12	5 341	1.47	4 752	0.98	3 386	0.86
<b>TOTAL</b>	<b>2 911 194</b>	<b>4.60</b>	<b>88 883</b>	<b>2.72</b>	<b>64 070</b>	<b>2.71</b>	<b>72 863</b>	<b>2.21</b>	<b>80 326</b>	<b>2.93</b>
<b>VAN</b>										
AGRICULTURE	358 718	2.55	12 214	4.11	9 783	3.64	40 645	12.85	21 258	5.91
MINING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
MANUFACTURING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
ENERGY	1 269 013	5.47	24 501	2.46	23 489	3.99	23 915	2.22	26 572	4.19
TRANSP.&TELECOM.	61 759	0.60	4 490	1.06	4 836	1.56	2 856	0.93	2 657	0.84
TOURISM	39	0.02	10	0.07	0	0.00	0	0.00	0	0.00
HOUSING	16 114	23.36	1 183	14.80	884	11.91	266	9.84	266	14.08
EDUCATION	61 717	1.78	7 250	1.67	8 370	2.31	10 698	2.20	11 425	2.08
HEALTH	119 943	3.31	5 539	1.64	7 940	2.81	17 019	3.74	14 437	3.49
OTHER SERVICES	161 737	2.81	14 097	2.92	15 748	4.34	13 507	2.79	10 853	2.75
<b>TOTAL</b>	<b>2 049 039</b>	<b>3.24</b>	<b>69 285</b>	<b>2.12</b>	<b>71 050</b>	<b>3.00</b>	<b>108 906</b>	<b>3.30</b>	<b>87 469</b>	<b>3.19</b>
<b>GAZIANTEP</b>										
AGRICULTURE	473 274	3.36	2 261	0.76	2 021	0.75	2 021	0.64	2 021	0.56
MINING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
MANUFACTURING	32 635	1.42	5 947	2.50	0	0.00	0	0.00	0	0.00
ENERGY	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
TRANSP.&TELECOM.	147 137	1.42	13 826	3.26	3 720	1.20	1 063	0.35	1 063	0.33
TOURISM	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
HOUSING	2 729	3.96	601	7.51	585	7.87	266	9.84	133	7.04
EDUCATION	28 260	0.81	5 116	1.18	3 129	0.87	5 274	1.08	5 288	0.96
HEALTH	70 025	1.94	15 686	4.63	8 661	3.06	9 149	2.01	10 788	2.60
OTHER SERVICES	300 594	5.23	20 472	4.25	19 534	5.38	17 146	3.55	14 961	3.79
<b>TOTAL</b>	<b>1 054 655</b>	<b>1.67</b>	<b>63 909</b>	<b>1.96</b>	<b>37 650</b>	<b>1.59</b>	<b>34 919</b>	<b>1.06</b>	<b>34 253</b>	<b>1.25</b>
<b>ŞANLIURFA</b>										
AGRICULTURE	3 571 264	25.35	122 130	41.10	98 715	36.73	107 401	33.95	93 201	25.93
MINING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
MANUFACTURING	1 311	0.06	217	0.09	0	0.00	0	0.00	0	0.00
ENERGY	3 776 879	16.28	26 802	2.69	15 221	2.59	5 314	0.49	2 657	0.42
TRANSP.&TELECOM.	118 327	1.14	4 906	1.16	5 339	1.73	13 339	4.34	8 025	2.52
TOURISM	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
HOUSING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
EDUCATION	127 974	3.69	14 245	3.29	14 201	3.93	20 299	4.17	25 199	4.59
HEALTH	186 489	5.15	12 931	3.82	8 668	3.06	10 469	2.30	13 111	3.16
OTHER SERVICES	305 044	5.31	21 505	4.46	14 739	4.06	33 460	6.92	33 407	8.46
<b>TOTAL</b>	<b>8 087 287</b>	<b>12.79</b>	<b>202 737</b>	<b>6.21</b>	<b>156 884</b>	<b>6.62</b>	<b>190 282</b>	<b>5.77</b>	<b>175 599</b>	<b>6.41</b>

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- For the year 2004, 1 euro=1,881,698 TL.

## ANNEX-5: REGIONAL AND SECTORAL BREAKDOWN OF PUBLIC INVESTMENTS (2003-2006) (\*) (Cont.)

NUTS-2/ SECTOR	2003		2003 ALLOCATION		2004 ALLOCATION		2005 ALLOCATION		2006 ALLOCATION	
	PROJECT COST	% SHARE	PROGRAM	% SHARE	ESTIMATION	% SHARE	ESTIMATION	% SHARE	ESTIMATION	% SHARE
In 2004 Prices, Thousand Euro										
<b>MARDİN</b>										
AGRICULTURE	6 508	0.05	773	0.26	1 541	0.57	1 594	0.50	1 594	0.44
MINING	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
MANUFACTURING	357	0.02	357	0.15	0	0.00	0	0.00	0	0.00
ENERGY	2 922 171	12.59	5 379	0.54	8 078	1.37	7 972	0.74	79 716	12.56
TRANSP.&TELECOM.	99 693	0.96	1 958	0.46	267	0.09	267	0.09	267	0.08
TOURISM	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
HOUSING	20 736	30.06	821	10.26	1 406	18.93	266	9.84	372	19.72
EDUCATION	33 148	0.96	4 493	1.04	4 272	1.18	7 618	1.56	7 246	1.32
HEALTH	27 437	0.76	3 324	0.98	3 677	1.30	6 312	1.39	5 965	1.44
OTHER SERVICES	84 919	1.48	9 767	2.03	5 842	1.61	8 645	1.79	8 331	2.11
<b>TOTAL</b>	<b>3 194 969</b>	<b>5.05</b>	<b>26 870</b>	<b>0.82</b>	<b>25 083</b>	<b>1.06</b>	<b>32 675</b>	<b>0.99</b>	<b>103 491</b>	<b>3.78</b>
<b>12 NUTS 2 REGION</b>										
AGRICULTURE	8 931 911	63.39	210 910	70.98	190 705	70.95	235 492	74.44	223 235	62.11
MINING	1 859	1.06	1 249	3.67	1 509	3.94	0	0.00	0	0.00
MANUFACTURING	434 733	18.95	28 264	11.89	4 779	3.46	17 484	29.95	16 421	38.44
ENERGY	16 378 796	70.59	569 888	57.10	250 635	42.57	392 525	36.49	425 151	67.01
TRANSP.&TELECOM.	3 103 412	29.94	169 175	39.93	98 467	31.85	125 921	40.92	126 391	39.72
TOURISM	23 279	12.62	272	1.98	242	2.45	484	4.72	372	3.05
HOUSING	56 040	81.24	4 591	57.40	3 698	49.81	1 116	41.34	1 010	53.52
EDUCATION	872 966	25.16	111 386	25.72	93 635	25.89	127 286	26.15	139 359	25.41
HEALTH	1 193 058	32.97	124 863	36.89	96 811	34.21	135 874	29.89	123 931	29.92
OTHER SERVICES	2 144 840	37.30	157 027	32.58	130 857	36.05	183 288	37.90	158 664	40.16
<b>TOTAL</b>	<b>33 140 895</b>	<b>52.42</b>	<b>1 377 625</b>	<b>42.18</b>	<b>871 338</b>	<b>36.79</b>	<b>1 219 469</b>	<b>36.96</b>	<b>1 214 533</b>	<b>44.31</b>
<b>OTHER THAN 26 REGION</b>										
AGRICULTURE	7 899 894		381 691		308 700		296 801		378 441	
MINING	208 059		124 955		164 737		137 863		111 235	
MANUFACTURING	526 049		114 005		64 055		79 327		26 980	
ENERGY	4 389 798		581 324		491 391		477 547		583 757	
TRANSP.&TELECOM.	26 328 724		1 316 080		1 341 226		1 294 325		1 559 798	
TOURISM	474 592		33 516		35 764		51 228		61 471	
HOUSING	7 701		3 300		2 939		2 657		3 986	
EDUCATION	2 061 758		769 167		664 835		671 119		719 648	
HEALTH	406 746		160 323		229 586		247 683		288 006	
OTHER SERVICES	5 745 580		661 988		616 038		632 876		755 274	
<b>TOTAL</b>	<b>48 048 903</b>		<b>4 146 349</b>		<b>3 919 271</b>		<b>3 891 426</b>		<b>4 488 596</b>	
<b>TOTAL (EXCLUDING OTHERS)</b>										
AGRICULTURE	14 090 230	100.00	297 146	100.00	268 782	100.00	316 330	100.00	359 443	100.00
MINING	175 395	100.00	34 002	100.00	38 285	100.00	103 231	100.00	14 349	100.00
MANUFACTURING	2 294 643	100.00	237 627	100.00	138 205	100.00	58 382	100.00	42 723	100.00
ENERGY	23 203 543	100.00	997 986	100.00	588 737	100.00	1 075 853	100.00	634 431	100.00
TRANSP.&TELECOM.	10 365 894	100.00	423 629	100.00	309 170	100.00	307 702	100.00	318 199	100.00
TOURISM	184 496	100.00	13 761	100.00	9 882	100.00	10 238	100.00	12 196	100.00
HOUSING	68 979	100.00	7 998	100.00	7 424	100.00	2 700	100.00	1 887	100.00
EDUCATION	3 470 110	100.00	433 056	100.00	361 666	100.00	486 809	100.00	548 484	100.00
HEALTH	3 618 259	100.00	338 466	100.00	282 999	100.00	454 592	100.00	414 265	100.00
OTHER SERVICES	5 749 497	100.00	482 018	100.00	362 985	100.00	483 581	100.00	395 085	100.00
<b>TOTAL</b>	<b>63 221 046</b>	<b>100.00</b>	<b>3 265 688</b>	<b>100.00</b>	<b>2 368 135</b>	<b>100.00</b>	<b>3 299 417</b>	<b>100.00</b>	<b>2 741 063</b>	<b>100.00</b>
<b>TOTAL (INCLUDING OTHERS)</b>										
AGRICULTURE	21 990 124		678 837		577 483		613 131		737 884	
MINING	383 454		158 957		203 021		241 094		125 584	
MANUFACTURING	2 820 692		351 632		202 260		137 709		69 704	
ENERGY	27 593 341		1 579 310		1 080 128		1 553 400		1 218 188	
TRANSP.&TELECOM.	36 694 619		1 739 709		1 650 396		1 602 027		1 877 997	
TOURISM	659 087		47 277		45 645		61 466		73 668	
HOUSING	76 680		11 299		10 363		5 357		5 872	
EDUCATION	5 531 869		1 202 222		1 026 501		1 157 928		1 268 132	
HEALTH	4 025 005		498 789		512 585		702 275		702 271	
OTHER SERVICES	11 495 078		1 144 006		979 024		1 116 457		1 150 359	
<b>TOTAL</b>	<b>111 269 949</b>		<b>7 412 037</b>		<b>6 287 406</b>		<b>7 190 843</b>		<b>7 229 659</b>	

(\*) - Investments and their breakdown are indicative and investments of local administrations are not included.

- Shares of the regions denote the shares in total and sectoral total investment excluding the investments that cannot be classified on a regional basis.

- For the year 2004, 1 euro=1,881,698 TL.

## **ANNEX-6: A NOTE ON THE FINANCING OF ISPA AND SAPARD TYPE PROJECTS**

Of the financial assistance earmarked for Turkey by the EU for the 2004-2006 period, approximately 1/3 was allocated to the economic and social cohesion activities within the framework of the pNDP. However, in order to provide financing for ISPA and SAPARD type projects, it is expected that the share allocated to economic and social cohesion during the next term will increase.

At present, an allocation of a total of 116 million euro of which 86 million euro will be from the EU sources is planned under the development axis of Improvement of Infrastructure Services and Protection of the Environment during the 2004-2006 period. This means that financing costly infrastructure construction and renewal projects, especially, modernization of the routes of highways and railroads and large-scale port investments will be postponed to after the year 2006. However, completion of feasibility studies and application projects and improvement of the institutional capacity of the public organizations responsible for bidding and control will be financed to the extent possible within the framework of that development axis.

Within the framework of improvement of the main routes between border gates, the transit route to be taken by vehicles coming from Europe to the Kapıkule border gate to reach the Habur (Iraq) and Gürbulak (Iran) border gates is a total transit road of 4200 km. These routes are inadequate in some sections in terms of geometric standards and for most of the sections in terms of the superstructure.

The main objective for railroad transport is to establish an infrastructure to provide high-speed and quality transportation between the major cities by renewing the existing railroads and thus, minimising the construction of new railroads. General Directorate of Railroads, Ports and Airports Construction (DLH) is realising application projects for the renewal of Ankara-Polatlı-Afyon-Uşak-İzmir and Ankara-Sivas railways. By the end of 2005, the application projects for renewal of these railways will be completed and the construction stage will begin.

Financial resources of over 20 billion euro are required to bring the environmental infrastructure services throughout the country up to the EU standards. By taking into account the external benefits, both at national and international level, of the costly investments required for urban environmental infrastructure facilities, funds provided through EU financial cooperation shall be increased and priority shall be given to sewage and waste water treatment and solid waste disposal investments.

The main objective of Turkey's structural agricultural policies in the accession process to the EU is the improvement of the rural life quality through a sustainable agricultural sector, which is efficient, organised and highly competitive.

The main challenges of Turkey in the context of structural adjustment are: the lack of organisational capacity in the rural areas, the small-sized and fragmented agricultural areas, the dependence on rain for agricultural production, the majority of the agricultural enterprises

being family run and on a small-scale, inadequacies in the training services for the young producers and, in particular, women, lack of publications and other services and inadequacies in the information systems. Furthermore, the main pillars of rural development such as protecting the natural flora, sustainability of variety and richness of natural resources, biological variety, and ensuring development rather sensitive to the protection of traditional and local heritage appear as the preconditions for post-accession harmonization of agriculture in Turkey with the CAP, which focuses on sustainable rural development.

In addition to the priorities of the pNDP, it is of importance that financial assistance should be provided for the above-mentioned objectives. However, Turkey currently benefits from EU financial assistance in line with the PHARE Programming Guidelines and it is not possible to finance ISPA and SAPARD type of activities within this system. Along with this, the 2003 Regular Report on Turkey's Progress Towards Accession states that "as part of financial cooperation, ISPA and SAPARD type of activities may be financed in Turkey as in other candidate countries." In this respect, it is necessary both to increase the amount of financial assistance given to Turkey and in the framework of this assistance to provide the opportunity to finance ISPA and SAPARD type of activities.