

T.R. PRIME MINISTRY • STATE PLANING ORGANIZATION

NINTH 2007 DEVELOPMENT 2013 PLAN

- COMPETITIVENESS
- EMPLOYMENT
- HUMAN DEVELOPMENT
- REGIONAL DEVELOPMENT
- EFFECTIVENESS IN PUBLIC SERVICES



NINTH DEVELOPMENT PLAN

2007 – 2013



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**DECISION OF
TURKISH GRAND NATIONAL ASSEMBLY**

**Decision on the approval of
Ninth Development Plan (2007-2013)**

Decision No: 877

Decision Date: 28.06.2006

Ninth Development Plan (2007-2013) was approved in the 121st plenary session of Turkish Grand National Assembly in 28.06.2006 in accordance with the provision of the Law No: 3067 dated 30.10.1984.

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1- Introduction

1. The Ninth Development Plan that covers the 2007-2013 period corresponds to an era where change is multi-dimensional and rapid, competition is intense, and uncertainties develop. In this era where globalization is pervasive in all areas and opportunities and risks for individuals, institutions, and nations increase, this Plan is the fundamental policy document that sets forth the transformations Turkey will realize in economic, social, and cultural areas in an integrated approach. Within this context, the Ninth Development Plan was prepared with the vision of *"Turkey, a country of information society, growing in stability, sharing more equitably, globally competitive and fully completed her coherence with the European Union"* as well as within the framework of the Long Term Strategy (2001-2023).

2. Within the framework of the changing economic and social conditions in the world and in Turkey, development plans have become a much more important instrument than they were in the past and due to these conditions, redesigning of those plans has become inevitable. In this context, with the Ninth Development Plan a transition from a planning concept based on formulating each area in detail to a strategic approach,

which increases predictability, puts forth the institutional and structural regulations that would allow for a more efficient functioning of the market, prioritizes problems, and focuses on basic goals and priorities while considering macro balances within the framework of the determined development vision, is being realized as a result of the redefinition of the role of the state in the economy. With this new understanding, an effective monitoring and evaluation mechanism was included in the Plan in order to ensure efficiency and transparency in the implementation as well as set up a basis for accountability within the process of realizing the envisaged strategic goals and priorities.

3. The Ninth Development Plan forms the basis for the necessary documents in EU accession process like the Pre-Accession Economic Program and the Strategic Coherence Framework as well as other national and regional plans and programs, primarily the Medium Term Program and sectoral and institutional strategy documents. By ensuring coherence among these documents, which have different functions, the Plan will play an important role in directing all planning activities. Thus, it will help in establishing a common understanding and objective unity among institutions as well

Development Axes:

- ▶ *Increasing Competitiveness,*
 - ▶ *Increasing Employment,*
 - ▶ *Strengthening Human Development and Social Solidarity,*
 - ▶ *Ensuring Regional Development,*
 - ▶ *Increasing Quality and Effectiveness in Public Services.*

as constitute a basis for the highest level of utilization of the country's potential by realizing legal and institutional transformations and strengthening the plan-program-budget connection.

4. The Plan will serve to provide a long-term perspective and unity in objectives, not only for the public sector, but also for the society. Within this framework, it will contribute to the communication and the cooperation towards common objectives among the public sector, the private sector and non-governmental organizations (NGOs). Thus, in an environment where the entire potential of the society is mobilized with the adoption of the Plan by all segments of the society, economic and social development will be accelerated and within the framework of an inclusive development process quality of life of the society will be enhanced.

5. To sustain economic growth and social development in a stable structure during the Ninth Development Plan period and to realize the vision of the Plan, the following strategic objectives have been determined as development axes:

- ▶ Increasing Competitiveness,
- ▶ Increasing Employment,
- ▶ Strengthening Human Development and Social Solidarity,
- ▶ Ensuring Regional Development,

- ▶ Increasing Quality and Effectiveness in Public Services.

6. Sectoral and thematic policies and priorities have been considered under these axes and were made interrelated in a way to serve the same strategic objective.

7. In line with this understanding, the Ninth Development Plan was designed as the basic strategy document that would contribute to the EU accession process. Therefore, the Plan period was determined for seven years to cover the period of 2007-2013 considering the EU fiscal calendar. Following the completion of the 8th Five Year Development Plan at the end of 2005, submission of the new Plan to the Turkish Grand National Assembly was postponed for one year on 28 April 2005, with the Law No. 5339 and it was decided that the Ninth Development Plan would be effective in 2007.

8. The Ninth Development Plan was prepared with the contribution of all public institutions and organizations under the coordination of the State Planning Organization by taking the strategy adopted by the Council of Ministers as a reference. High importance was given to participation during the preparation of the Plan. To this end, within the scope of the Prime Ministry Circular dated 5 July 2005, 57 Ad-hoc Committees covering a wide range of areas were established and 2252 persons from the public and the private sectors as well as universities participated in these committees. Along with institutional knowledge and experience, Ad-hoc Committee reports and the results of the consultation meetings held with distinguished experts in their own fields and high-level public executives were also utilized in the preparation of the Plan Strategy and the Plan.

2- Vision of the Plan and Basic Principles

2.1. Vision

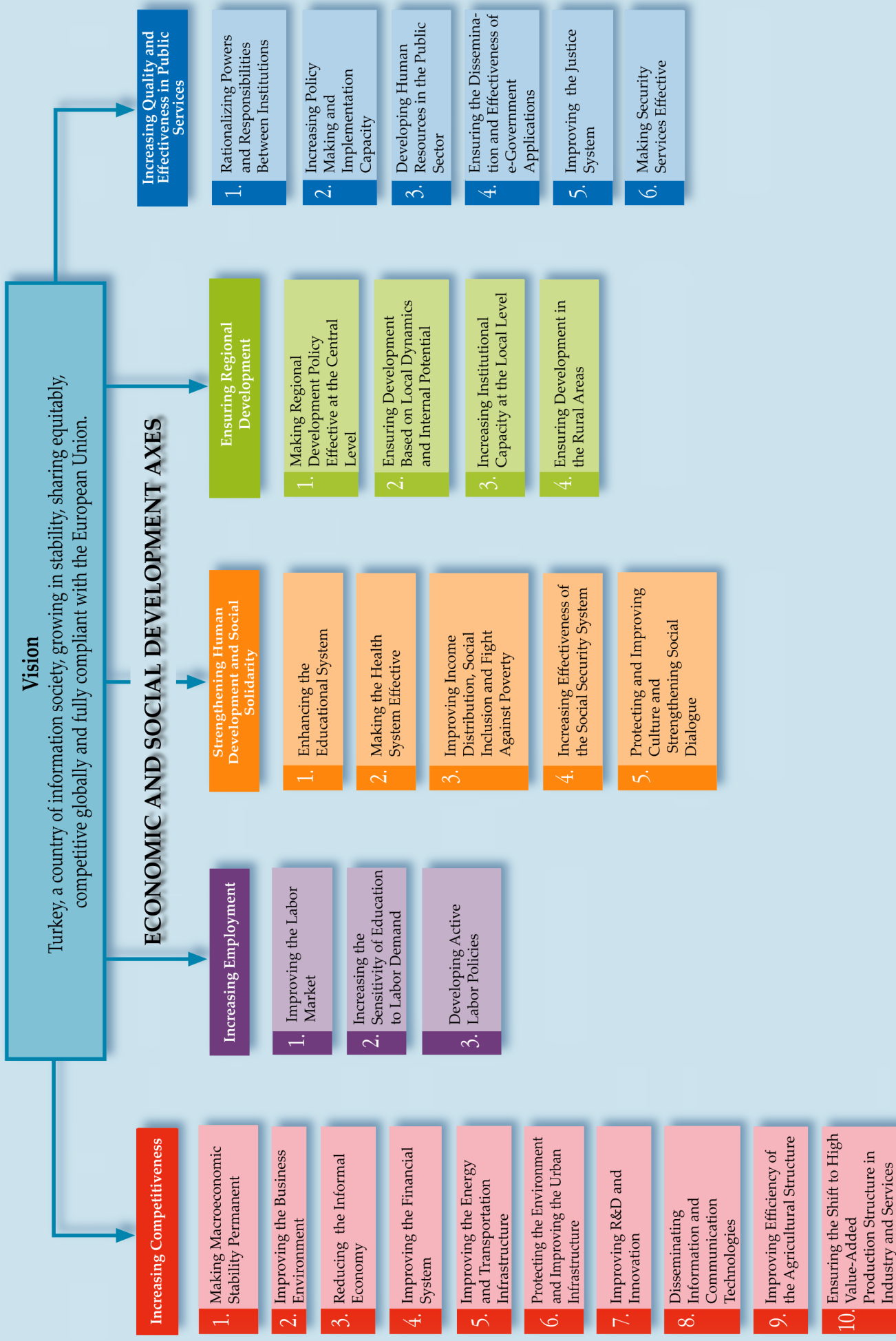
9. The vision of the Ninth Development Plan, which was prepared in line with the international developments and basic trends regarding the 2007-2013 period and considered the past developments in the Turkish economy as well as the existing economic and social developments, was determined as *“Turkey, a country of information society, growing in stability, sharing more equitably, globally competitive and fully completed her coherence with the European Union”*.

2.2. Basic Principles

10. In achieving this vision, the following principles will be taken as bases:

- An integrated approach is the basis in economic, social and cultural areas.
- Societal contribution and ownership are to be ensured by strengthening social dialogue and participation.
- A human-focused development and management approach is the basis.
- In the development process, a competitive market, effective public administration and democratic civil society will function as the institutions complementing each other.
- Transparency, accountability, participation, efficiency and citizen satisfaction will be the main criteria in providing public services.
- The government will withdraw from production of commercial goods and services and strengthen its policymaking, regulating and supervising functions.
- In policy formulation, prioritization will be carried out by taking resource constraints into account.
- The subsidiarity principle will be followed.
- The social cohesion and structure will be strengthened in the framework of common heritage and shared values.
- Natural resources, cultural assets and the environment will be protected considering the future generations, as well.

THE STRATEGY OF THE NINTH DEVELOPMENT PLAN (2007-2013)



3- *International Developments and Basic Trends*

11. The Ninth Development Plan, which covers the period of 2007–2013, will correspond to an era, where globalization is pervasive in all areas and opportunities and risks for individuals, institutions, and nations increase.

12. Today, democratization, rule of law, respect for human rights, freedom of thought, expression and action are considered as common values in the world. New norms and standards are being introduced in areas such as international trade, competition, intellectual rights and the environment, and the effectiveness of international organizations in these areas is gradually increasing. Regional integration movements are developing along with globalization within the economic sphere.

13. With the contribution of rapidly developing and spreading information and communication technologies, globalization has been influencing the economic and social development of all countries to a considerable extent. Within this process, a major transformation is taking place in both the organization structures and in the methods of doing business. While traditional factors such as cheap labor and

raw material abundance, which affected the structure of production and the direction of international capital in the past, are becoming relatively less important, having an efficiently functioning market mechanism, institutional structure, a developed technological and commercial infrastructure, and the ability to follow the changing and developing preferences of the market closely have increased in importance. Countries, which place emphasis on specialization in international markets and can develop their production technologies and innovation capacities are gradually becoming more capable of shifting to a structure, which is more knowledge intensive and creates higher value-added.

14. The increasing speed of technological development deeply affects the living styles and relations of people. Beyond acquiring a global perspective, having achieved the ability to rapid access to information has almost eliminated geography to become a limiting factor. Development of knowledge intensive industries and enhancement of opportunities to benefit from the labor force located in

other geographical areas are increasing the importance of skilled labor, especially in developing countries, on a global basis. Within this context, enhancing opportunities for training a qualified work force has become the main topic, which is emphasized by the entire world.

15. During the past decade international capital, which has displayed a movement beyond the expected level, has been directed towards developing countries. The financial crises, which emerged in this process from time to time has shown the importance of both a sound macroeconomic framework and structural reforms that strengthen economic and financial structures for sustained growth and stability.

16. Developing countries need to base their growth dynamics on productivity increases and on creating new comparative advantages in order to sustain and strengthen their competitiveness in the global arena. To this end, placing an emphasis on innovativeness, increasing scientific and technological capacity, improving human capital, and effective usage of information and communication technologies constitute importance. In the coming period, areas such as biotechnology and nanotechnology will come to the forefront.

17. Within the framework of these basic trends, buoyancy has been experienced in the world economy in recent years. During the 1996-2005 period, while developed countries grew at an annual average rate of 2.8 per cent, developing countries grew by 5.1 per cent with the positive impact of the trade towards developed countries. Furthermore, the world output increased by 3.8 per cent. According to the United Nations 2005 Human Development Report, the Gini coefficient for income distribution across countries, which is 0.67, is consid-

erably far from equality. During the 2006-2010 period, the buoyancy in the world economy is expected to continue and developed countries, developing countries, and the world economy are expected to grow annually on average, by 2.9 per cent, 5.8 per cent, and 4.3 per cent, respectively.

18. Despite the buoyancy in the world economy and employment growth, unemployment still remains to be a problem in many countries and especially in the young population segment. The increase in global labor productivity has been around 2 per cent since 1995. While agriculture accounts for approximately 40 per cent of global employment, employment in the manufacturing industry is observed to have declined during the recent years and new employment areas are mostly created by the services sector.

19. The world trade has been growing faster than the world output. The world trade volume, including services, has grown by 6.5 per cent at an annual average rate during the 1996-2005 period. This development was affected by the increase in the demand for non-oil primary commodities and expansion of trade among developing countries along with the liberalization of the world trade in general. The world trade volume is expected to grow by 6.7 per cent at an annual average rate during the 2006-2010 period.

20. In the financial markets, a stable period has started. Long-term interest rates have remained low; stock markets have preserved their values in spite of some particular imbalances and uncertainties. In addition, the balance sheets of companies have improved gradually and their profitability has increased. In this favorable environment, developing countries, primarily China, are getting an increasingly higher share from foreign direct capital

investments. The inflow of foreign direct investment, which was 1,396.5 billion dollars in 2000, dropped to the level of 648.1 billion dollars in 2004. The share of developing countries during the same period, on the other hand, increased from 18.1 per cent to 36 per cent.

21. Oil prices, which have significantly increased since mid 2002, have not yet led to inflationary tendencies around the world in general. As a result of the shift of the world industrial production towards the cheap production in South East Asia generated by foreign direct investments, and the growth in developed countries being based more on the services sector, along with the efficiency achieved in the use of energy when compared to the 1970s have had an important role in this development. However, the continued rise in oil prices constitutes an important risk for the coming period.

22. Current account imbalances rising from current account deficit of the US, the locomotive of the world economy with its growth depending on domestic demand, and the surplus achieved especially in Germany, Japan and China on the other hand, constitute another important risk. In order to overcome protectionist tendencies in foreign trade, further liberalization of trade and abandoning the practice of undervalued currency, especially in Asian countries with surplus, have gained importance. Achieving fiscal discipline in the U.S. and realizing new and comprehensive structural reforms towards boosting domestic demand in Japan and in the Euro zone are also important for reducing this imbalance.

23. The rapid productivity increase and high profitability in the U.S. economy cause the boost in investments to continue and employment to increase. On

the other hand, low levels of long-term interest rates and the rapid increase in housing prices since the end of the 1990s have caused increases in household expenditures to an extent that gave rise to high current account deficit. Due to the rise observed in core inflation, the Federal Reserve Bank (FED) is likely to continue with interest rate increasing policy, which FED has been implementing in the recent years. It is evident that the negative developments that might be experienced in the U.S. economy due to the rapid reaction of extremely high housing prices to this policy or other effects that might be caused by the U.S. foreign policy will not be confined to this country alone. The U.S. economy is expected to grow at an annual average rate of 3.5 per cent during the coming period.

24. Unlike the U.S., the large countries in the Euro zone are not able to realize a fast and sustainable growth. The slowdown in the Euro zone growth is caused by the decline in export growth rate due to the appreciation of the euro and the stagnation in domestic demand observed in many countries. In addition, the inability of large countries in the EU to realize transformations satisfactorily, especially in the labor market, restricts the opportunities for growth. In the coming period, accelerating reforms in the Euro zone, especially finalizing the internal market process and achieving the integration of financial markets, is of great importance.

25. The EU, which constitutes an important example of regionalization that is taking place alongside globalization, reached 25 members in May 2004. Though the growth performances of the ten new members are relatively better, it is possible that these countries will be negatively affected in the future by the general stagnation in the Euro zone and high oil prices.

With the accession of Turkey, Croatia and Macedonia after Bulgaria and Romania, the regionalization process of Europe will have been completed on a large scale. Particularly the accession of Turkey, with its young population and dynamic economy, to the EU is expected to bring vitality to the EU economy, which has an expected long-term annual average growth rate of around 2 percent.

26. The 2000 Lisbon Strategy, which set forth the long-term economic and social development objectives of European countries, stipulated “to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion”. In March 2004, developments towards this objective were observed to have been inadequate and the Strategy was reformulated. In the new approach, “growth and job creation” continues to be the close and prior objective of the EU. It also stipulates the strengthening of national initiatives and ownership, in implementation of reforms of member countries.

27. Since 2002, the Japanese economy has started to show signs of overcoming the stagnation it has been experiencing since the first half of the 1990s following the reforms in the banking sector and regulations about the labor market, and achieved a 2.8 per cent growth rate in 2005. However, since the labor force supply will narrow and propensity to save will drop in the long run due to the ageing population, as in most developed countries, this country is not expected to repeat the high growth process of the past. As a matter of fact, the long-term annual average growth rate estimated for this country is only around 1 per cent. In Japan, where growth is based on productivity increases rather than tra-

ditional factors of production, it is important to strengthen some protected industries by opening them up for competition, to continue with the reforms concerning restructuring of the banking and corporate sectors and to encourage the entrance of foreign companies into the country.

28. Some economies of eastern and south-eastern Asia such as South Korea, Thailand, Indonesia, and Malaysia, which have displayed quite a good performance since the mid 1980s, have recovered to some extent after the 1997 crisis. Along with the structural measures taken following the crisis, which was basically caused by the weaknesses in their financial systems and in the financial structures of their companies, achievement of increase in public expenditures and exports as well as, acceleration of foreign direct capital inflows to countries such as Korea and Thailand have been effective in this revitalization. These countries have an annual average growth potential of 5–7 per cent until the year 2010.

29. The emergence of the Chinese economy, which has been growing with an annual average rate of 9 per cent in the last 25 years following the reforms it realized in 1978, has been one of the most important developments marking the globalization process. While per capita income was 280 dollars in China in 1985, it rose to 1290 dollars in 2005. As a result of this development, the prosperity level of approximately 500 million persons have gone up over the poverty level of 1 dollar per day within the past 20 years; however, income distribution has deteriorated in general.

30. China, which has a cheap labor force of hundreds of millions of persons and an extraordinarily high saving rate of approximately 50 per cent, follows a growth strategy based on foreign capital inflows



and exports. Relying on technologically intensive investments along with foreign direct investments in export-oriented industries allows this strategy to continue without interruption. What lies behind the labor-intensive exports is that working hours are much longer and the wage level is lower than those of many democratic countries. Sectors, which are not labor intensive, on the other hand, can find the export opportunity with the support provided by the banking system to state enterprises, which provide them with input and infrastructure services.

31. With its current foreign exchange reserves around 800 billion dollars, which was accumulated by achieving foreign trade surpluses for years, China has a large share in today's global current account imbalance. China reformed its foreign exchange rate regime in July 2005 and abandoned its exchange rate policy of pegging its currency to dollar, implemented since 1995 and, thereby allowing the country to keep the value of its currency low. Even though a serious appreciation has not taken place yet, the value of Yuan would inevitably rise reflecting the increasing economic strength of the country in the coming period.

32. China's membership in the World Trade Organization (WTO) in 2001 has adversely affected all countries, including Turkey, primarily their labor-intensive sectors. Particularly the removal of the quotas on textiles starting from the beginning of 2005 under the WTO Agreement, has negatively affected the textile production and exports of the developing countries.

33. The volume of foreign trade has reached 70 per cent of GDP in China. Therefore, in terms of sustainable growth in the Chinese economy, gradual transformation of the country's population towards be-

coming consumers, that is, supporting the export-led growth by domestic demand is also important. It is estimated that the Chinese economy will grow at an annual average rate of 8 per cent in the medium-term.

34. Another rapidly growing country in Asia is India, which has experienced rapid growth as a result of the structural reforms that have been implemented since 1991. India is expected to overcome important problems such as inadequacies in the physical infrastructure, especially insufficient energy and the financial problems of public organizations, and reach an annual average growth rate of approximately 7 per cent in the coming period.

35. India is increasingly strengthening its position as a world leader in the software sector. Within a couple of decades, India is expected to become one of the leading exporters of the world in nontraditional services. India's focus on high education for a long time lies behind this.

36. During the current period, just as in China, the share of working age population within the entire population is continuing to increase in India. However, this ratio is expected to start decreasing in China during the 2010s, while it is expected to take place at a later time and in a more gradual manner in India. Besides this demographic factor, the facts that India has a democratic experience and is an English-speaking country with an established British legal system in addition to the economic growth success would facilitate the emergence of this country as a global power.

37. If China and India implement the structural reforms required by the globalization process at a determined pace, their becoming a power on a global scale

in terms of their income levels will be a natural development, provided that they would sustain the rapid real growth pace they have achieved in the long run and their currencies would appreciate.

38. With its natural resources and agricultural potential, Brazil is expected to be among the countries, the importance of which will increase within the coming decades for the world economy. Low levels of saving rates in Brazil cause investments to remain at relatively low levels as well. Transition to flexible exchange rate policy in 1999 has cleared the way for exports. In recent years, Brazil is trying to make its economy more resilient against external shocks by using its increasing foreign exchange revenues to reduce its external debt. If obstacles such as high rates of informal economy, macroeconomic instability, regulations preventing the productivity of enterprises, and inefficiency of public services and infrastructure inadequacies are eliminated through reforms to be implemented, the economy of Brazil is expected to grow at an annual average rate of approximately 3-4 per cent in the coming period.

39. The global role of Russia, the largest non-OPEC oil producer and the natural gas supplier of a geography extending from the entire Western Europe to China in the east, which had lost ground for a few decades, has started to become stronger again. Achieving a performance well over its potential growth rate as a result of the positive impact of the increase in energy prices in the recent years, Russia occupies

a very important position with its energy transfer lines as well as its energy resources. Russia's ability to strengthen its current position in the future depends on the conditions of improving the investment environment as well as realizing the necessary major investments required for its physical infrastructure. While medium-term growth estimates for Russia are around 5 per cent, it is likely that this would increase if the rise in energy prices continues.

40. Azerbaijan, Turkmenistan, Uzbekistan and Kazakhstan, which emerged after the collapse of the Soviet Union and with which we share deep historical and common language ties, are countries with rich energy reserves. Due to Turkey's strategic location in the transmission of oil and natural gas of these countries to international markets in both east-west and north-south directions, it is likely for Turkey to become one of the key energy distribution centers during the coming period. For Turkey to complete the EU harmonization process while becoming a center of attraction in its region during the Plan period, it is stipulated that it should strengthen economic and commercial relations with its neighbors. Within this context, it is important that the effective role of Turkey in institutions such as ISEDAK (Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Conference), ECO (Economic Cooperation Organization), BSEC (Black Sea Economic Cooperation) and D-8 (Developing Eight), to which it is a party, be increased.

4 - *The EU Accession Process*

41. A new period started in the relations between Turkey and the EU with the launch of full membership negotiations on 3 October 2005.

42. In line with the target of EU membership, it is aimed to complete the accession process by the end of the Plan period through increasing the level of harmonization with the Copenhagen political criteria, fulfillment of the economic criteria and finalization of negotiations concerning the EU acquis gathered under 35 chapters.

43. The EU accession process will be carried out based on the rule of law and mutual benefit principle, with a long-term perspective and a rational approach.

44. The accession process will be considered as a comprehensive renovation and reform process, in which the development is accelerated and development gaps both within the country and compared to the EU averages are diminished. At the end of this process, convergence to the economic and social standards of the EU will be ensured.

45. EU membership will create an important synergy both for the European Union and Turkey's development owing to the

historical heritage, economic potential, cultural wealth, and young population of Turkey as well as its position as an energy terminal. While the growth potential of our country will rise as a result of the increase in foreign direct investments and efficiency in the use of resources, the EU economies will also be positively affected by Turkey's accession to the Union due to market enlargement, a more competitive internal market, and increase in factors of production.

46. While the accession process will lead to radical transformations in the economic, social and political life of Turkey, reaching EU norms and standards in many areas such as democracy, state of law, human rights, health, food security, consumer rights, competition rules, institutional improvement and environmental protection will raise quality of life for the people of Turkey.

47. The process of adaptation of the acquis will be organized by considering the priorities and opportunities of the country and will be directed with an integrated strategy. While specifying the priorities for harmonization, an approach that takes into account the public finance, competitiveness of the private sector, employment,

regional development, environment, and social balances will be taken as a basis.

48. In the fields of adaptation, alternatives will be analyzed and those with the lowest cost will be selected. Derogations will be requested in the necessary fields by considering the results of impact analyses to be conducted.

49. The harmonization process will be managed efficiently by establishing a balance among the requirements of EU membership, national priorities of the country and the needs of the sectors that are likely to be affected more by the harmonization process.

50. The accession process, which aims social development and transformation and will affect the entire society, will be carried out in a transparent and participatory approach. In this context, active participation and contribution of employer and employee organizations and other NGOs in the accession process will be ensured through multidimensional communication and collaboration with the public sector.

51. During the accession process, which requires the realization of many legal arrangements within a short period of time, necessary measures will be taken to ensure that the Turkish Grand National Assembly is informed efficiently and makes decisions at the speed required by the harmonization process.

52. The necessary administrative capacity will be set up for the effective implementation of the legal arrangements for harmonization and the problems arising from implementation will be identified and eliminated.

53. In moving towards the administrative structure required by the accession process as well as by the conditions following membership, measures that would make

public administration and the regulatory framework efficient will be taken. In this context, restructuring activities will be accelerated, bureaucracy will be reduced, overlapping authorities and duties will be eliminated, coordination mechanisms will be developed, decision making processes will be improved, and social participation will be increased.

54. Effective measures will be taken in order to educate the work force required for new duties and responsibilities. In this context, the number of qualified public sector personnel will be increased and necessary steps will be taken for continuous training of the existing personnel.

55. National resources and EU financial supports targeting the facilitation of the accession process will be used in areas that will contribute to the convergence of Turkey to EU averages. The administrative structure necessary for the efficient use of pre-accession funds, which serves as a preparatory tool for structural funds, will be completed and strategy development, programming, creation of project pool, and development of monitoring and evaluation mechanisms will be the areas focused on.

56. An effective communication strategy will be developed and implemented in order to form a favorable public opinion for Turkey's membership in the EU member countries and to inform the Turkish people about the EU and ensure that the Turkish people are prepared for the requirements of the accession process. Relations between societies will be strengthened at all levels and with multi-dimensional relations while cultural wealth and tolerance will be strengthened with the understanding of unity within differences.

5 - Economic and Social Developments in Turkey in the Pre-Plan Period

5.1. Macroeconomic Developments

57. Increasing fragilities in the macroeconomic structure owing to the fiscal and monetary policies implemented during the 1990s, moved the Turkish economy away from the stable growth path and the years with high growth rates were followed by the years of economic contraction or low growth rates. During this period, high inflation rates, increasing public deficits, interest payments, and debt stock and inefficiency alongside unstable growth became the fundamental problems of the economy. The 1990s, the decade of international competition and economic transformations experienced deeply in the world due to globalization and trade liberalization trends, were the lost years for the Turkish economy.

58. Incorrect policies implemented in social security, SEEs, and agricultural support in the beginning of this period resulted in a serious deterioration in public finance. The increasing debt stock and the resultant high real interest rate environment caused inflation to become chronic on the one hand, and domestic savings to be directed towards financing public deficits rather than funding productive investments, on the other.

59. In addition to these fundamental problems, the reforms needed to eliminate the structural problems in the economy could not be realized during this period. Privatization that would reduce the role of the state in the economy could not be realized and policies towards creating a strong financial system could not be implemented.

60. Although a deep economic crisis was experienced during the first year of the 8th Development Plan, which was prepared in such an environment, following the stabilization program and the structural reforms that were implemented afterwards, a serious transformation process started in the Turkish economy.

61. Within the framework of the Economic Program introduced, and of the political stability created following the crisis, tight monetary, fiscal, and incomes policies were implemented. Furthermore, a determined attitude was shown regarding the structural reforms that would make the macroeconomic stability permanent and the economy efficient, flexible and productive. In this context, necessary regulations were made to ensure efficiency in public finance, to strengthen the financial sector and to increase the role of the private sector in the economy.

5.1.1. Growth and Employment

62. Turkish economy grew at a rate of 7.4 per cent in 2000, which was the base year of the 8th Plan, however, it contracted at a rate of 9.5 per cent as a result of the 2001 crisis. During the period following the crisis, as a result of the tight fiscal and monetary policies that were implemented decisively, important steps were taken towards ensuring macroeconomic stability and a high growth performance was achieved. Consequently, during the 2002-2005 period, GDP grew at an annual average rate of 7.5 per cent. As a result of this, per capita income, which was 2,879 dollars in 2000, increased to 5,042 dollars in 2005.

63. By carrying out structural reforms and privatizations, the regulatory and supervisory role of the state in the economy was strengthened, while the share of private sector in the economy was increased. As a result of this and with the help of the confidence restored in the economy, economic growth was driven by the private sector, private consumption increased at an annual average rate of 6.8 per cent and the annual average increase of private investments reached 19.7 per cent during the 2002-2005 period.

64. Increases in productivity played an important role in this high growth performance. The contribution of the total factor productivity (TFP) to growth, which was 24.5 per cent annually on average during the 1996-2000 period, reached 42 per cent during the 2001-2005 period. During the same period, while the contribution of capital accumulation to growth was 51.7 per cent, the contribution of employment increase was realized as 6.3 per cent.

65. When the sectoral structure of growth is examined, it is observed that the greatest contribution came from industry. While the annual average growth rate of the agricultural sector was 1.1 per cent during the

2001-2005 period, industry and services sectors grew by 5.1 per cent and 4.3 per cent, respectively. As a result of these developments, the share of the agricultural sector in the total value-added continued to decrease and it fell from 14.1 per cent in 2000 to 10.3 per cent in 2005. On the other hand, the share of the services sector increased from 62.6 per cent to 64.4 per cent and the share of the industry sector rose from 23.3 per cent to 25.4 per cent.

66. The impact of economic growth on employment remained limited during the Plan period. The annual average increase in employment during the 2001-2005 period was 0.4 per cent and the unemployment rate reached 10.3 per cent as of 2005. The crisis of 2001 and the dissolution in agricultural employment were the determining factors in this development. As a matter of fact, while the agricultural employment decreased at an annual average rate of 3.3 per cent in the 2001-2005 period, non-agricultural employment increased by 2.5 per cent.

67. One of the distinctive developments observed in the labor market was the continuation of downward trend experienced in the labor force participation rate. The labor force participation rate, which was 49.9 per cent in 2000, declined to 48.3 per cent in 2005.

68. As a result of these developments observed in the labor market, the employment rate, which shows the share of those employed within the entire working age population, continued to remain low and was realized as 43.4 per cent as of 2005. In addition, the high unemployment rate among the young and educated population continued to be one of the important problems in the labor market.

5.1.2. Monetary Policy and Price Stability

69. Disinflation policy proposed in the 8th Plan based on crawling peg exchange rate regime was abandoned earlier than envis-



Table.5.1: Main Economic Indicators

| | Turkey | | | EU-15 | |
|---|--------|-------|------------------------|--------|----------------------|
| | 2000 | 2005 | Average of Eighth Plan | 2005 | Average of 2001-2005 |
| Growth and Employment | | | | | |
| GDP (At Current Prices, Billion YTL) | 124.6 | 487.2 | - | - | - |
| GDP (At Current Prices, Billion Dollars) | 200.0 | 363.4 | - | 12,757 | - |
| Per capita GDP (At Current Prices, Dollars) | 2,879 | 5,042 | - | 33,517 | - |
| Per capita GDP (PPP, Dollars) | 6,820 | 8,145 | - | 31,503 | - |
| GDP Growth ⁽¹⁾ | 7.4 | 7.4 | 4.4 | 1.5 | 1.6 |
| Total Consumption ⁽¹⁾ | 6.3 | 8.1 | 3.0 | 1.5 | 1.7 |
| Public | 7.1 | 2.4 | -0.6 | 1.6 | 2.0 |
| Private | 6.2 | 8.8 | 3.4 | 1.5 | 1.7 |
| Total Fixed Capital Formation ⁽¹⁾ | 16.9 | 24.0 | 4.1 | 2.7 | 1.2 |
| Public | 19.6 | 25.9 | -2.1 | - | - |
| Private | 16.0 | 23.6 | 5.9 | - | - |
| Population (Million Persons) | 67.4 | 72.1 | - | 380.6 | - |
| Labor Force Participation Rate (%) | 49.9 | 48.3 | 48.9 | 71.3 | 70.8 |
| Employment Level (Million Persons) | 21.6 | 22.1 | - | 165.0 | - |
| Unemployment Rate (%) | 6.5 | 10.3 | 9.9 | 7.9 | 7.8 |
| Non-Agricultural Unemployment Rate (%) | 9.4 | 13.6 | 14.2 | - | - |
| Total Factor Productivity Increase (%) | 1.8 | 1.6 | 2.0 | 0.3 | 0.4 |
| Foreign Trade | | | | | |
| Exports (FOB) (Billion Dollars) | 27.8 | 73.4 | - | - | - |
| Imports (CIF) (Billion Dollars) | 54.5 | 116.5 | - | - | - |
| Trade Balance (Billion Dollars) | -22.0 | -32.8 | - | - | - |
| Tourism Revenues (Billion Dollars) ⁽²⁾ | 7.6 | 18.2 | - | - | - |
| Current Account Balance / GDP (%) | -4.9 | -6.4 | -2.7 | -0.1 | 0.2 |
| Trade Volume / GDP (%) | 41.2 | 52.9 | - | - | - |
| Public Finance (Per cent) | | | | | |
| General Government Revenues ⁽³⁾ / GDP | 40.4 | 44.1 | 41.8 | 45.3 | 45.0 |
| General Government Expenditures ⁽³⁾ /GDP | 50.2 | 44.3 | 50.8 | 47.6 | 47.2 |
| General Government Borrowing Requirement ⁽³⁾ / GDP | 9.8 | 0.2 | 9.0 | 2.3 | 2.2 |
| General Government Interest Expenditures ⁽³⁾ /GDP | 17.0 | 9.6 | 16.6 | 2.8 | 3.1 |
| Public Sector Borrowing Requirement ⁽⁴⁾ / GDP | 11.9 | -0.1 | 8.5 | - | - |
| Public Net Debt Stock/ GDP | 57.5 | 55.7 | 71.2 | - | - |
| Public Gross Debt Stock/ GDP | 68.8 | 71.5 | 86.1 | 64.6 | 63.1 |
| Tax Burden ⁽⁵⁾ / GDP | 30.6 | 31.7 | 30.5 | 40.8 | 40.5 ⁽⁶⁾ |
| Prices (Percentage Change) | | | | | |
| CPI (End Year) | 39.0 | 7.7 | 28.8 | 2.2 | 2.0 |
| CPI (Average Annual Percentage Change) | 54.9 | 8.2 | 32.4 | 2.1 | 2.1 |

(1) Real percentage change.

(2) Definition of Tourism Revenues was changed as of 2003.

(3) Includes public institutions under general budget, institutions under special budget, regulatory and supervisory agencies, social security institutions, local administrations, revolving funds and funds.

(4) Includes General Government and SEEs.

(5) Includes social security premiums, excludes tax rebates and rejections.

(6) 2001-2004 average.

aged, following the 2001 crisis and floating exchange rate regime was adopted. Starting in early 2001, a monetary policy strategy, where short-term interest rates were used as the basic policy instrument and development of the monetary base was followed as an additional anchor alongside inflation target, was implemented under the new regime. In addition to the current inflation developments, the medium-term determinants of the inflation such as the supply and demand balance, productivity developments, inflation expectations, international liquidity conditions, and the outlook of the risk premium became the fundamental considerations of short-term interest rate decisions.

70. As a result of tight monetary policy supported with fiscal discipline and structural reforms, the inflation rate went down to single digit levels in 2004, for the first time in 34 years, and the rate was 7.7 per cent in 2005. Along with the Central Bank autonomy, setting price stability as ultimate goal of the monetary policy, reducing financial dominance of the public sector and increasing the credibility of the monetary policy laid the ground for shifting to explicit inflation targeting regime and this regime was adopted at the beginning of 2006. With the implementation of this regime, transparency and accountability of the monetary policy increased.

5.1.3. Balance of Payments

71. The Turkish economy has become a more integrated economy with the world and the trade volume has significantly increased. Exports, which were 27.8 billion dollars in 2000, increased by 2.6 times and were realized as 73.4 billion dollars in 2005. The annual average increase in exports was realized as 21.4 per cent in nominal terms, and as 15.4 per cent in real terms during the 2001-2005 period.

72. Imports, which were 54.5 billion dollars in 2000, increased by 2.1 times during 2001-2005 period, and reached 116.5 billion dollars in 2005. During this period, the annual average increase in imports was realized as 16.4 per cent in nominal terms and 10 per cent in real terms.

73. Even though exports increased significantly during the 2001-2005 period, the appreciation of YTL, the increasing imports of cheap products especially of Chinese origin, increasing dependency of exports on imports driven by the structural change in exports and the increasing oil prices, created considerable deficits in the trade balance. As a result of this, despite the increase in tourism revenues, which rose to the level of 18.2 billion dollars, the ratio of the current account deficit to GDP increased gradually and reached 6.4 per cent as of the end of 2005. However, as a result of the increases particularly in foreign direct investment inflows and non-banking private sector borrowings along with the increases in short-term capital inflows, improvement in the quality of financing of the current account deficit was observed. As a matter of fact, 42 per cent of the current account deficit in 2005 was financed by foreign direct investments.

74. Foreign direct investment, which is important for stable growth in Turkey, started to increase with the achievement of macroeconomic stability and progress towards accession to the European Union, and was realized as 9.7 billion dollars as of 2005.

5.1.4. Public Finance

75. During the course of the 8th Plan period, implementation of primary surplus policy that would contribute to the creation of a sustainable growth environment, support the struggle against inflation, and reduce the public debt stock to reasonable levels was continued.

76. Measures to increase revenues and to discipline expenditures were taken as a natural requirement of the tight fiscal policy, however fiscal adjustment was mostly achieved through revenue raising policies. High growth rates also contributed to this process by increasing revenues. Even though the health, social benefits and social security systems were considerably enhanced and thus services and benefits utilized by the people with low-medium income levels and the disabled were increased, the ratio of the primary expenditures in the budget to GDP dropped by approximately 1 per cent since fiscal discipline was implemented decisively.

77. At the same time, in parallel to these developments in public finance and with the impact of the confidence environment in the markets, interest rates and consequently the ratio of public interest expenditures to GDP declined considerably. The ratio of the public sector borrowing requirement to GDP of 11.9 per cent in 2000 and 16.3 per cent in 2001 turned into 0.1 per cent surplus by the end of 2005.

78. The fiscal deficits of social security institutions, which had shown improvements in their financial balances following the 1999 reform, increased over time as a result of the 2001 economic crisis, significant rates of real increases in retirement salaries, decrease in premium revenues due to expectation of premium amnesty, and high rates of real increases in health expenditures. As a matter of fact, the ratio of the budget transfers to social security institutions to GDP receded back from 3.5 per cent in 1999 to 2.6 per cent in 2000, however, by continuous increases starting from the year 2001, it reached 4.8 per cent in 2005. Therefore, deficits of social security institutions have become an issue, which must be focused on with scrutiny during the coming period.

79. The state economic enterprises complied with financial discipline through a policy of pricing according to market conditions and reduction of the idle employment. In this context, while the SEE system, including the enterprises within the scope of privatization, displayed a primary financial deficit of 1.62 per cent of GDP in 2000, it achieved primary surpluses of 0.22 per cent and 0.47 per cent in 2001 and 2005, respectively.

80. With regards to privatization, important steps were taken, such as the privatization of Türk Telekom, Tüpraş, Erdemir, Atatürk Airport and Petrol Ofisi, and 14.3 billion dollars worth of privatization transactions were realized during the 2001-2005 period. Along with the transactions in the first quarter of 2006, this figure reached 22 billion dollars.

81. Reduction of public debt stock to sustainable levels, which is the main objective of the fiscal policy, was also supported by the borrowing policy. Domestic borrowing policies with long-term maturity and low interest rates were effective in reducing the public debt stock and the interest burden. Thus, the annual average compound interest rate on discounted government domestic borrowing instruments, which increased to 99.6 per cent in 2001 from 36.2 per cent in 2000, dropped to 16.3 per cent in 2005. On the other hand, while the weighted average maturity of domestic borrowing instruments was 17.3 months in 2000, it rose to 27.4 months in 2005. The share of public sector interest expenditures in GDP increased from 17.6 per cent in 2001 to 24.3 per cent in 2001 and dropped to 9.7 per cent in 2005. As a result of these developments, the share of public net debt stock in GDP, which rose to 89.6 per cent in 2001 from 57.5 per cent in 2000, went back to 55.7 per cent in 2005.

5.1.5. Structural Reforms Strengthening the Macroeconomic Structure

82. The banking system was restructured. The fundamental results of this restructuring include minimizing the distortionary impacts of public banks on the system through the strengthening of their capital and liquidation of their duty loss receivables, restructuring of the banks that were transferred to the Savings Deposit Insurance Fund (SDIF), and focusing on having private banks increase their capital by using their own resources and narrow their risks.

83. The primary role of the Central Bank of the Republic of Turkey, which gained autonomy, was determined as maintaining price stability.

84. To improve the investment environment, regulations were introduced to eliminate administrative obstacles encountered in realizing investments and accelerate procedures by reducing red tape transactions.

85. Aiming to increase effectiveness and prevent corruption, a new procurement law, with competitive and transparent tender rules and in conformity with international norms was put into force.

86. With the Law No. 4749 on Regulating Public Finance and Debt Management, legislative disorder concerning borrowing and debt management was eliminated. Based on this Law, regulations were brought about to cover the payment, recording and reporting of financial obligations undertaken by the Treasury, to discipline the loans and guarantees given by the Treasury, to introduce a risk accounting system and to ensure transparency, accountability and discipline in borrowing.

87. The intra-budgetary and extra-budgetary fund system that deteriorated fiscal transparency in the public sector was con-

siderably eliminated through legislation in 2000 and 2001. Legislations permitting expenditures to exceed appropriations were repealed and to strengthen budgetary discipline and enhance budgetary scope, implementation of special revenue-special appropriation was abandoned as projected in the 8th Plan.

88. With the Public Financial Management and Control Law No. 5018, public financial management was restructured. Mechanisms to strengthen plan-program-budget relations were established with this Law and the budget preparation process and the budgetary scope was redefined. In this framework, it was resolved that the Medium Term Program (MTP), which starts the central government budget law preparation process and constitutes macro policies, principles and main economic aggregates, and the Medium Term Financial Plan (MTFP), which includes budgetary revenue-expense estimations and appropriation proposal ceilings of public administrations, be prepared annually to cover a three-year period. Implementation was started in 2005. In addition, the structure and operation of the public financial management, implementation of budgets, accounting and reporting of financial transactions and financial control were reorganized with the Law No. 5018 with the aim of ensuring effective acquisition and efficient use of public resources, accountability and financial transparency.

89. With the aim of making the tax system more efficient and simple, income and corporate tax rates were reduced, exceptions and exemptions were restricted, implementation of special consumption tax was initiated, differentiated taxation on investment instruments was abolished, an arrangement for entirely eliminating investment discounts at the end of a three year transition process was made, as an outcome of the improvement in public finance, reduction in the income tax and, in

the value-added tax in some sectors was realized, and the intermediation costs on the financial sector was reduced. In addition, the revenue administration was restructured.

90. Through amendments in the Execution and Bankruptcy Law, a facility based on reconciliation process for restructuring of non-performing loans was established and by using this channel, firms were given the opportunity to continue their activities while resolving their debts. In addition, execution and bankruptcy procedures were accelerated and made more efficient and the provisions concerning the procedure for appeals were arranged.

91. With the aim of increasing foreign capital investments and providing confidence to investors, legal regulations that would allow international arbitration were made.

92. The new Labor Law, which aimed to provide the working life with a flexible structure and made existing regulations more suitable for today's conditions, was put into force. The law also included provisions such as the establishment of a guarantee fund that would eliminate the losses suffered by workers in case the employer becomes insolvent, efficient implementation of job security, occupational health and safety, and establishment of private employment offices. Turkish Labor Institution was established with this Law to assist in protection, development and spreading of employment and activities related to unemployment prevention and to perform unemployment insurance services.

93. The necessary regulations were made in energy, telecommunication, tobacco and sugar beet sectors to transform the markets into a competitive structure and to regulate and monitor the markets within this

context. In addition, within the scope of agricultural reform activities, regulations towards harmonization of supply and demand were made by ensuring transition from products such as sugar and tobacco, which are in excess supply, to alternative products. Institutional structuring has been completed to a large extent in these sectors.

94. Starting from the year 2001 as a part of agricultural support, price supports provided through inputs and support purchases by the state were eliminated and producers began to be supported through direct income supports. A farmer registry system was created and the farmers were required to be registered in this system in order to be able to benefit from agricultural supports, especially direct income supports.

95. Agricultural sales cooperatives and unions were restructured and made autonomous.

5.2. Increasing Competitiveness

96. Within the globalization and rapid technological development process in the world, specialization in international markets and the technology development capability have become important factors of competitiveness. In this process, where factors of competitive advantage change rapidly, information and communication technologies have created radical changes in the ways of doing business. In economic development, the production of knowledge intensive and high value-added goods and services has come forth and, in particular, education level and attainment of required skills have gained importance for the labor force.

97. In recent years, an improvement in the rank of Turkey in competitiveness has been observed. This improvement is seen

Table.5.2: The Place of Turkey in International Competitiveness Comparisons

| Criteria | 2000 | 2002 | 2005 |
|---|------|------|------|
| The Number of Covered Countries | 59 | 80 | 117 |
| Growth Competitiveness Index (GCI) | 40. | 69. | 66. |
| -Technology Index | - | 54. | 53. |
| -Public Institutions | - | 63. | 61. |
| -Macroeconomic Environment | - | 78. | 87. |
| Business Competitiveness Index (BCI) | 29. | 54. | 51. |
| -Company Operations and Strategies | 28. | 56. | 38. |
| -Quality of National Business Environment | 29. | 55. | 51. |

Source: World Economic Forum: Global Competitiveness Reports (2000-2006)

more evident in company operations and strategies, the quality of the business environment, and technology factors.

98. It is observed that labor productivity in Turkey is low comparing to those of developed countries and Poland, which resembles Turkey in terms of labor costs. On the other hand, labor productivity is higher compared to those in China, India and Romania. One of the important advantages of these three countries is that the labor costs in the manufacturing industry are less than 1 dollar per hour. In order to increase Turkey's competitiveness, continuation of productivity increases should be maintained. The productivity level in the agricultural sector is much lower than the national average.

99. Even though considerable productivity increases have been obtained as a result of the structural reforms realized in many areas and the macroeconomic stability achieved in the recent years, the competitiveness of Turkey have not been sufficiently improved. The main reasons are the inadequacies in the quality of the business environment, in access to financing, in energy and transportation infrastructure, in protection of the environment and urban infrastructure, in development of R&D and innovativeness, in disseminating of information and communication technologies, in macroeconomic stability as well as the high level of informality, the problems in the agriculture and the inability to shift to a high value-added production structure in industry and services.

Table.5.3: Comparative Labor Productivity Indicators for 2004

| Countries | Productivity (Thousand Dollars) (1) | | | | Per Hours Worked (Dollar) | | Annual Average Hours Worked |
|-----------|-------------------------------------|-------------|----------|----------|---------------------------|----------------|-----------------------------|
| | General | Agriculture | Industry | Services | Productivity | Labor Cost (2) | |
| USA | 81.9 | 70.2 | 103.6 | 76.8 | 43.22 | 21.97 | 1,985 |
| Japan | 57.8 | 17.9 | 67.6 | 56.5 | 31.03 | 21.54 | 1,864 |
| Belgium | 71.4 | 36.8 | 77.3 | 70.6 | 42.06 | 30.45 | 1,722 |
| Germany | 60.6 | 33.6 | 63.8 | 60.2 | 36.17 | 32.84 | 1,674 |
| Poland | 33.6 | 4.4 | 37.6 | 41.3 | 17.65 | 2.54 | 1,901 |
| Romania | 18.2 | 7.8 | 24.1 | 22.1 | 9.15 | 0.53 | 1,992 |
| China | 9.4 | 2.6 | 20.9 | 9.8 | 4.78 | 0.75 | 1,958 |
| India | 7.3 | 3.6 | 11.5 | 12.7 | 3.10 | 0.60 | 2,347 |
| Turkey | 24.0 | 8.5 | 30.6 | 32.2 | 11.14 | 3.46 | 2,154 |

Source: IMD World Competitiveness Yearbook 2005

(1) GDP (PPP)/Number of Workers

(2) Manufacturing Industry

5.2.1. Improving the Business Environment

100. Recently, in addition to achieving macroeconomic stability, as a result of carrying out various regulations, significant progress has been achieved in Turkey in improving the business environment and an increase in investments has been recorded.

101. Within the scope of the Reform Program for Improving the Investment Environment, many regulations were realized towards the removal of administrative obstacles encountered during investment and operation periods.

102. In this framework, it was made possible to set up a company in one day, the lowest amount of capital required for foreign direct investment was removed, transition from the system of permission to the system of notification was realized, the differentiation between foreign and domestic investments prior to setting up business was eliminated, principles regarding the working permits to be granted to foreigners who will work in Turkey were determined, and the Ministry of Labor and Social Security was identified as the sole authorized organization for these permits.

103. With the new Mining Law, regulations, which facilitated the process in the permissions to a great extent, were realized. In addition, the Development Agencies Law allowed for the creation of Investment Support Offices as sole authorities where permission applications would be made, followed and coordinated in the provinces.

104. Excessive, repetitious and ambiguous bureaucratic procedures with regard to permissions, approvals and licenses given by relevant organizations from the start until the operation phase of investments in Turkey continue to be problems that should be resolved during the coming period. This is more evident when the business environment indicators of Turkey are compared with the OECD average.

105. It is observed that the ratio of total tax payments of enterprises to their gross profits is still high compared to the OECD average. Several discounts were realized in tax rates in order to reduce the tax burden. In addition, as a result of the regulations realized in income and corporate taxes, the tax burden on corporate earnings in terms of income and corporate taxes are expected to decline to the level of 34 per cent. On the other hand, due to

Table.5.4 Business Environment Indicators (2005)

| | Starting a Business | | Hiring-Firing Difficulty Index | | Registering Property | | Enforcing Contracts | | Closing a Business | Paying Taxes | |
|--------------|----------------------|-----------------|--------------------------------|--------|----------------------|-----------------|----------------------|-----------------|--------------------|-------------------|------------------------------------|
| | Number of Procedures | Duration (Days) | Hiring | Firing | Number of Procedures | Duration (Days) | Number of Procedures | Duration (Days) | Duration (Years) | Payments (Number) | Total Tax Payable (% Gross Profit) |
| Turkey | 8 | 9 | 44 | 40 | 8 | 9 | 22 | 330 | 5.9 | 18 | 51.1 |
| OECD Average | 6.5 | 19.5 | 30.1 | 27.4 | 4.7 | 32.2 | 19.5 | 225 | 1.5 | 16.3 | 45.4 |

Source: World Bank, Doing Business in 2006.

the complexity of the tax system and the enormous numbers of taxes to be paid, the cost of tax transactions still maintains its high level.

106. There is still need to reduce the tax and social security premium burden on employment. Reduction of these burdens is also deemed important in terms of registering the labor force.

107. Legal regulations in line with the EU *acquis* regarding the SME definition were realized in 2005. To improve the business environment, it is important to develop the corporate governance of SMEs that have an important role in the Turkish economy, to provide technical assistance through supportive institutions similar to Business Development Centers (İŞGEM), and to increase diversified financing facilities with reasonable conditions.

108. Intellectual property rights system was strengthened and regulations were put into practice with the aim of preventing intellectual right piracy and counterfeit. However, a more effective and efficient structure in the area of the copyrights and related rights could not be provided yet. In addition, there is still need to improve the judicial system in the area of intellectual rights.

109. In order to eliminate existing problems such as too many lawsuits filed related to permissions, the long duration of the judicial process, annulment of permissions granted by ministries through the expert witness committee and stopping operation of activities, efforts for setting up of the legal infrastructure towards establishing an efficient and fast operating judicial system still continue.

110. Issues such as lack of efficient support instruments, complexity, repetition, lack of coordination and inadequacy of performance monitoring mechanisms in the incentive system maintain their importance.

5.2.2. Reducing the Informal Economy

111. What lie behind the informal economy, which has become a structural problem of the Turkish economy, are economic reasons such as the macroeconomic instability experienced for long years in Turkey, high inflation, high tax and premium rates, and administrative–financial–legal burdens.

112. Even though improvements have been achieved in the fields of macroeconomic stability and inflation, structural and social reasons such as a major part of enterprises being on a small scale, poverty, unemployment, corruption and wasteful public expenditures, unplanned urbanization, bureaucratic formalities, high levels of cash use in the economy compared to developed countries, ineffectiveness of the monitoring system, lack of coordination among public institutions, frequent issuance of amnesties, and inability to create social and political will in fighting with the informal sector have resulted in increasing the dimensions of the informal economy.

113. Studies on informal economy in Turkey show that the size of this problem is quite high compared to those of the developed economies. Increasing the size of the informal economy cause the creation of unfair competition amongst individuals and enterprises, deterioration of income distribution, and decrease in the willingness of taxpayers to pay taxes. Spreading of informal economy causes this problem to be perceived as being legitimate by the society and, therefore, results harming social values.

114. Meeting the public financing requirement, stemming from the informal economy, through raising the tax rates, increases the resistance against paying taxes and creates a vicious circle that feeds the informal economy. In addition, even though infor-

mal economy seems to create a competitive advantage for enterprises at the initial stages, it actually creates a disadvantage in terms of international competition as a result of the increasing tax burden on inputs and decreasing labor productivity.

115. The volume of informal economy could not be reduced, although regulations were introduced to reduce bureaucracy, in implementation of inflation accounting, in transition to automation in customs, social security and tax transactions, to fight against smuggling, for protection of intellectual property rights and to encourage employment increase in underdeveloped provinces. In fact, the rate of informal employment in non-agricultural sectors soared from 29 per cent in 2001 to 34 per cent in 2005.

116. Regulations towards the utilization of the financial system within the scope of the fight against the informal economy were realized. In this framework, it has become obligatory to use the tax identification numbers in financial transactions since September 2001. On the other hand, the condition that transactions of collections and payments exceeding 8,000 YTL should be conducted through banks or Turkish Postal, Telephone, Telegraph System (PTT) offices has been introduced. In addition, a database application, which takes financial records as basis towards the determination of informal transactions, has been developed.

117. The usage of tax identification numbers has become widespread and the number of identification numbers granted has reached 41,114,357 as of 30 April 2006.

118. Usage of receipts in gas stations and the practice of connecting fuel oil pumps to electronic cash register devices have been started as an important step in the fight against informal economy.

5.2.3. Improving the Financial System

119. Following the 2001 crisis, due to the realization of risks arising from its structural weaknesses, the financial sector contracted considerably and imposed a serious burden on public finance.

120. With the program, which was implemented following the crisis and aimed to restructure the banking sector, significant progress was made towards the elimination of the sector's fragility. In this framework, public banks were restructured financially and operationally, insolvent banks were taken over by the SDIF and were taken out of the financial system, private banks have acquired a sounder structure, and the supervision and surveillance framework of the sector was strengthened.

121. While a total resource amounting to 21.9 billion dollars was transferred to public banks to compensate for their duty losses and as a capital support in the framework of the financial restructuring of public banks; the number of their branches and staff was reduced to rational levels in line with their operational restructuring. 17.3 billion dollars were provided by the Treasury with the aim of resolving the financing problems of the banks taken over by the SDIF and 2.7 billion dollars were deposited by the shareholders of private banks in order to strengthen the capital structure of these banks.

122. The implementation of İstanbul Approach, which aimed to assist real sector companies that are experiencing payment difficulties due to the 2001 crisis and able them to continue their activities and to resolve the problematic loans of the banking sector, was started in 2002. In the context of the mentioned approach, which ended in June 2005, debts of 322 companies amounting 6 billion dollars were restructured.

123. As a result of these developments, the foreign exchange open position and non-performing loans of the sector have been diminished; the capital structure of the sector has been strengthened, and with macroeconomic improvement, its profitability ratios and the share of credits in total assets have risen.

124. Another reform that helped the banking sector operate in a more efficient and competitive structure was limiting the guarantee for deposits to 50,000 YTL starting as of July 2004 and starting the collection of savings deposit insurance premium over the insured portion of the deposit on a risk basis.

125. Throughout the 8th Plan period, a series of regulations in the banking sector were put into force and the Banks Law No. 5411, which was prepared in conformity with the EU legislation became effective in 2005. With this law, a more effective regulatory and supervisory framework, conducting of regulatory and supervisory stages on a consolidated basis in line with the consolidation trend that emerged in the financial sector, and improvement of corporate governance in financial companies and in regulatory and supervisory authority were ensured. In addition, regulation and supervision of non-bank financial institutions were transferred from the Undersecretariat of the Treasury to the Banking Regulation and Supervision Agency (BRSA).

126. With the recent regulations in capital markets, significant progress has been achieved towards harmonization with the EU acquis. Steps towards creating investor confidence, such as the Investor Protection Fund and transition to the registry system in stocks and bonds were taken. With the establishment of the Turkish Derivatives Exchange (TurkDEX), risk management opportunity was improved and implementation of international financial reporting standards for companies whose stocks are traded in the stock market, for intermediary institutions and for portfolio management companies was ensured in the context of improving transparency and corporate governance. On the other hand, the main problems of Turkey's capital markets are the low saving level, less developed capital market culture, inadequate individual and institutional investor base, and the limited variety of instruments in the market.

127. The insurance sector, which has a high growth potential, has not sufficiently developed compared to those of the EU countries. The private pension system, whose legal infrastructure was established during the 8th Plan period and which was launched in 2003, is important as a complementary element of the social security system and in terms of creating long-term funds.

128. As a result of the 2001 crisis, insurance companies with weak financial structures were removed from the sector parallel

Table 5.5: The Comparison of Banking Sector Indicators with EU (%)

| | Turkey | | | EU-15* |
|------------------------------------|--------|------|------|--------|
| | 2000 | 2004 | 2005 | 2004 |
| Assets / GDP | 83.7 | 71.2 | 81.5 | 289.2 |
| Loans / GDP | 27.5 | 24.0 | 31.4 | 122.2 |
| Deposits / GDP | 53.6 | 44.4 | 49.9 | 98.6 |
| Net Profits / Total Assets | -2.6 | 2.1 | 1.4 | 0.7 |
| Non-Performing Loans / Total Loans | 11.5 | 6.2 | 4.9 | 2.5 |

Source: BAT, BRSA, SPO, ECB Report on EU Banking Structure, October 2005; IMF Global Financial Stability Report, September 2005

* The figures for EU-15 include the balance sheets of financial institutions under the definition of credit institutions.

with those in the banking sector and with- in this context activities towards strength- ening the financial structures of insurance companies and ensuring the sounder per- formance of activities in the sector are still continuing.

129. Although the need to amend the leg- islation concerning the insurance sector still exists in order for the sector to reach a sound and competitive structure within the EU harmonization process, progress has been accomplished in terms of harmo- nization with the EU *acquis* and interna- tional standards with the regulations un- dertaken recently regarding the financial structure.

130. As a result of the improvements achieved in macroeconomic environment and the strengthening of the legal infra- structure of the financial sector, the share of foreigners in the financial sector has in- creased. As of May 2006, the share of for- eigners in all the stocks traded in İstanbul Stock Exchange (ISE) was realized as 65 per cent. As of the same period, 14.5 per cent and 28 per cent of bank shares exclud- ing and including those circulating in the ISE, respectively, belongs to foreigners.

131. In spite of the recent developments achieved in the financial system, it still has a small scale in terms of main indica- tors when compared with those of the EU countries.

5.2.4. Improving the Energy and Transportation Infrastructure

Energy

132. Along with the economic growth and population increase, significant increases were observed both in primary energy and electricity consumption during the 8th Plan period. Consumption of primary energy reached 92.5 million tons of oil equivalent (mtoe) as of the end of 2005 with an annual average increase of 2.8 per

cent while electricity consumption reached 160.8 billion kWh with an annual average increase of 4.6 per cent during this period. These increases are more evident in the pe- riod following 2003, since the impact of the 2001 crisis was alleviated, and the economy stabilized. During this term, primary energy and electricity utilization grew at an annual average rate of 5.7 per cent and 6.7 per cent, respectively.

133. During the 8th Plan period, electric- ity and natural gas sectors were opened to competition with the Electricity Market Law No. 4628 and the Natural Gas Market Law No. 4646 and the Energy Market Regulatory Authority (EMRA) was established to regu- late the market. The main elements of the liberalization efforts are; gradual elimination of the state's role as an investor in electricity and natural gas sectors excluding transmis- sion, and the privatization of facilities under its ownership, strengthening the regulatory role of the state by ensuring that the private sector makes the necessary investments within a competitive environment and en- suring supply security.

134. In the framework of the liberalization, while public institutions operating in the electricity sector have been restructured, natural gas distribution in the cities has been carried out by the private sector. With the enactment of the Oil Market Law No. 5015 for oil products and with the Law No. 5307 on Amending the Liquefied Petroleum Gas (LPG) Market Law and with the Electric- ity Market Law for LPG, it is provided that EMRA will perform the necessary regulat- ing, directing, monitoring and supervising activities in order to ensure LPG market ac- tivities to be carried out in a transparent, eq- uitable, and stable manner.

135. The Law No. 5346 on the Use of Re- newable Energy Resources for Electricity Production Purposes was enacted during this period with the aim of increasing the

share of renewable energy resources in electricity production. However, the Energy Efficiency Law, the preparation process of which was completed, has not been put into force.

136. In order to eliminate the inadequacies in the implementation of the Law No. 4628, to coordinate and accelerate the work carried out towards transforming to a liberalized market, the Electricity Power Sector Reform and Privatization Strategy Document was prepared and put into implementation as of the year 2004. In line with the proposed “transition process” in this document, the required activities, the measures, in particular, to be taken for the privatization of electricity distribution and generation facilities and for supply security, were scheduled and the responsible and related institutions were determined.

137. The Baku-Tbilisi-Ceyhan Main Export Pipeline project developed in order for the oil produced in the Caspian Basin and primarily in Azerbaijan to be transported to the world markets with oil tankers from a terminal in Ceyhan through a pipeline over Georgia, which has a capacity of 50 million tons/year, was completed in 2006. The 501 km long Samsun-Ankara Natural Gas Transmission Line, which will carry 16 billion cubic meters of natural gas annually under the agreement made with the Russian Federation, was completed and purchase of natural gas from this line was started in 2003.

Transportation

138. As competition increased parallel with the rapidly liberalizing world trade and as transportation distances became longer with the increasing role of global and regional scale organizations, the factor of speed became even more important. This situation has increased the importance of transportation of raw materials and processed products to buyers at low

costs and on time and has led to widespread use of multi-modal transportation systems supported by logistic services.

139. The inadequacy of traffic safety in Turkey, primarily on the highways, has continued to be a serious problem.

140. Due to the inability to adequately develop the physical infrastructure of railway and maritime transportation in line with the increasing transportation demand and the fact that road transportation is the most suitable way for door to door forwarding in Turkey, the freight and passenger transportation is concentrated more on the highway network in Turkey. This situation has resulted in the emergence of an imbalanced and inefficient transportation system.

141. During the 8th Plan period, the share of highways in domestic freight transport rose from 88.7 per cent in 2000 to 90 per cent in 2005. The small share of maritime transportation in freight transportation decreased even more to the level of 2.8 per cent in 2005. Railway and pipeline transportation maintained their shares. During this period, 95.2 per cent of domestic passenger transportation was done by highways. While freight transportation abroad was dominated by maritime transportation, passenger transportation abroad continued to be dominated by airways.

142. During this period, problems about the lack of coordination among the institutions within the sector and the failure to formulate sound policies that would handle the sector in a balanced and holistic approach continued to exist. The works about the Transportation Master Plan Strategy aiming to solve these problems were completed in 2005.

Railways

143. The existing railway network of Turkey is 10,984 km in total, 8,697 km of which

are main lines. 2,305 km of the existing railway network consist of electrified lines and 2,665 km consist of signalized lines.

144. In terms of the railway density, Turkey has the lowest railway density compared to the EU member countries. Transportation through the corridors connecting main cities is carried on a relatively old infrastructure. The most important problem of the railway infrastructure is that the railway lines between the highly populated cities are not appropriate for high speed and good quality service. In terms of total traffic units per km, Turkey also remains well below the EU average of 3.2 per cent.

145. Along with the activities for restructuring of TCDD (Turkish Railways), which is a monopoly in railway operations, construction activities of Ankara-İstanbul High Speed Train Project are continuing, and the tender for the infrastructure of Ankara-Konya High Speed Train Project has been completed for the purpose of transition to high speed train operations.

Maritime

146. The Ports Master Plan study, which was started in 1999 in order to ensure that the port development decisions are based on sound information and data, was completed in 2001.

147. The Turkish maritime fleet, which was 18th in world listings in 2000, dropped back to 24th in 2005 due to the financing problems and flag avoidance that are more evident in the recent years.

148. While the container handling capacity in our ports was expected to reach 1.9 million Twenty-foot Equivalent Unit (TEU) at the end of the 8th Plan period, it was realized as 2.3 million TEU. The North Marmara Port and İzmir Port Dredging and Extension Projects and the construction of the Derince Container Port, which were planned to be realized under the Build-Operate-Transfer (BOT) model could not

have been started. South Aegean Port Survey has been finalized.

149. Studies carried out in collaboration with Spain for harmonization with the EU acquis and practices about the strengthening of sea safety have been completed.

Airways

150. In Turkey, there are 37 airports open to traffic as of the beginning of 2006. While a total of 34.9 million passengers were transported in 2000, this figure went up to 55.5 million passengers in 2005. As a result of reducing the state share over the ticket and starting of domestic flights by private airline companies, passenger demand has increased.

151. Implementation of the BOT model in passenger terminals of the airports operated by the General Directorate of State Airports Administration (DHMI) was continued. Operation of the terminals in Atatürk and Antalya Airports were transferred to the private sector and activities for increasing the prevalence of this method are continuing.

152. In spite of the Law issued in 2005, there is need to ensure the efficiency of the General Directorate of Civil Aviation in terms of regulation and supervision in parallel with the growth in the sector.

Highways

153. Economic losses and deaths caused by traffic accidents continued to be an important problem. The number of deaths per passenger-km caused by traffic accidents is well over the EU average. According to 2004 statistics, a total of 537 thousand accidents occurred on local and intercity roads. In these accidents, 4,428 persons died and 136,229 were injured.

154. As of the beginning of 2005, approximately 4,000 km of the total 62 thousand km of state and provincial roads, excluding the village roads, are still unpaved.

During the 8th Plan period, construction of 170 km of motorways and connection roads were completed and with the 117 km of roads transferred to İstanbul Metropolitan Municipality, the length of the total motorway network reached 1,944 km. With the dual carriage ways constructions in state and provincial roads, which accelerated after 2003, the total length of dual carriage ways reached 9,441 km with an increase of 5,576 km. The length of bituminous hot mixture coated (BHM) state and provincial roads suitable for heavy vehicle traffic is 7,080 km. A major part of the recently constructed dual carriage ways were paved with surface treatment asphalt and works for transforming them to BHM have been started.

155. Turkey's international road transport fleet, which consists of approximately 32,000 vehicles and has 1.4 million tons of carriage capacity according to 2004 data, generates an annual revenue of around 2 billion dollars and transports 40 per cent of our exports in value. The transit quota limitations being applied to Turkish fleet in EU countries continue to be a problem and prevent the efficient use of the fleet capacity.

Urban Transportation

156. In the framework of sustainability in transportation in EU member countries, demand and traffic management practices and efficient use of information technologies have gained importance in solving urban transportation problems rather than capacity increasing solutions.

157. Rapid and unplanned urbanization, high population growth in big cities and increase in the ownership of motor vehicles aggravate the problems experienced in urban transportation such as excessive fuel consumption, environmental pollution, accidents and traffic congestion. In highly populated metropolitan areas, nec-

essary investments cannot be made at the required level and public transportation services cannot be improved due to high infrastructure costs and insufficient financial resources.

158. During the 8th Plan period, the Eskişehir Tramway, Bursa Light Rail Transport (LRT), İstanbul Yenibosna Airport LRT and Eminönü-Kabataş Tramway Systems started to be operated. 17 rail transportation system projects in Ankara, İstanbul, İzmir, Adana, Bursa and Kayseri are currently under construction and the tender processes for two tramway lines in Samsun and Antalya are continuing.

5.2.5. Protecting the Environment and Improving the Urban Infrastructure

159. Rapid population growth and industrialization continue to be important factors threatening sustainable use of natural resources. The uncertainties about the duty and authority distribution among institutions, for the sustainable use of natural resources while protecting the environment without adversely affecting the production process, could not be adequately eliminated.

160. Within the EU harmonization process, even though progress has been achieved regarding waste management, protection of the nature, noise and environmental impact assessment, many regulations are still needed in this field. However, as a result of the excessive amount of costly investments required for harmonization, new financing methods including the participation of the private sector has come into the agenda. In this context, achievement of legislative harmonization and necessary additional investments will take a long time.

161. In order to protect and maintain the natural vegetation gene source and the biological diversity in Turkey, the need for establishing standards about the use and

movement of Genetically Modified Organisms (GMO) and biotechnology products is still continuing.

162. With the ratification of the United Nations Framework Convention on Climate Change (UNFCCC) by the Turkish Grand National Assembly, Turkey became a party to the UNFCCC as of 24 May 2004.

163. There is still need to improve the infrastructure for environmental monitoring, auditing and reporting for increasing their efficiency and to ensure that the information flow and exchange among the relevant institutions are carried out through an integrated system.

164. As of 2004, according to the statistics obtained from 1911 of 3225 municipalities, among the population living in municipality boundaries, the ratio of those having sewage services, waste water treatment facilities, water for drinking and daily use, and drinking water treatment facility services have reached 80 per cent, 47 per cent, 93 per cent and 42 per cent, respectively.

5.2.6. Improving R&D and Innovativeness

165. Innovativeness is one of the most important factors of the competitive economic structure and a major part of innovations result from R&D activities that produce knowledge and technology. The R&D infrastructure in Turkey is mostly in universities and public research institutions and most of the research activities are carried out in these institutions. Since a strong network could not be established among the institutions that carry out R&D activities, support these activities and use the knowledge and technology obtained from these activities, outcome of the R&D activities cannot be put into practice and the conducted researches are generally far from meeting the needs and demands of the industry.

166. The share of R&D expenditures in GDP, which was 0.67 per cent as of 2002, is quite low when compared to the countries advanced in the field of science and technology. Even though public resources allocated to science and technology have been significantly increased since 2005, the share of R&D expenditures in GDP is still lower than 1 per cent.

167. During the 8th Plan period, centers of excellence in strategic areas were created in several universities. In addition, since 2002, projects to create scientists and since 2004, multilateral projects with interdisciplinary characteristics have started to be supported.

168. Support given to activities in technology development zones, technology centers, technology incubators without walls and university-industry joint research centers has been continued.

169. Companies in technology development zones are exempt from corporate and value-added taxes until the end of 2013 and exemption from all kinds of taxes is also provided for researchers working in these zones. 40 per cent of R&D expenditures of companies, which remain outside of this region, are deducted from income and corporate tax bases.

170. Within the scope of the Turkish Research Area Program, which was put into implementation by TUBITAK in 2005, the programs of "Academic and Applied R&D Support", "Public R&D Support", "Industry R&D Support", "Defense and Space R&D Support", "Increasing Science and Technology Awareness" and "Scientist Raising and Improving" have been started.

171. The number of full-time equivalent research personnel per 10,000 labor force in Turkey was 13.6 in 2002, which is well below the OECD average of 66.6. In addition, while 73.1 per cent of researchers in

Turkey work in higher education institutions, 70 per cent of researchers in developed countries are employed in the private sector.

172. Even though Turkey has fully participated in the Sixth Framework Program of the EU in the field of science and technology, the share received from the projects compared to the contribution to the Program has remained quite low. The most important reasons for this situation are the weak relation with the EU research network, and inadequacies in the R&D infrastructure and the number of researchers.

5.2.7. Disseminating Information and Communication Technologies

173. Activities towards the liberalization of electronic communication sector gained pace with the establishment of the Telecommunication Authority in 2000 and the sector was opened to competition as of the beginning of 2004. The Telecommunication Authority has, to a great extent, completed the secondary legislation required by the liberalized market in line with the EU regulations. Moreover, with the aim of consolidating the disordered legislation under a single law, the Draft Law on Electronic Communication has been submitted to the TGNA. The Law on providing universal service in the electronic communication sector became effective in 2005.

174. Following the liberalization of the electronic communication sector, new operators have been authorized to provide the long distance telephone services and infrastructure operating services, which were previously carried out under the monopoly of Türk Telekom A.Ş. In addition, authorizations concerning the provision of cable platform services have been finalized and efforts regarding the licensing of new services are being continued.

175. Operators in the GSM mobile communication market, which previously performed their activities according to the principle of revenue sharing with Türk Telekom A.Ş. and under license after 1998, signed a concession agreement with the Telecommunication Authority in 2002. With the contribution of this, a significant increase has been recorded in mobile telephone penetration rates.

176. While the fixed telephone subscriber penetration rate in Turkey, which was 27.9 per cent in 2000, dropped to 26.3 per cent at the end of 2005, mobile telephone subscriber penetration rate increased from 20.5 per cent to 60.5 per cent. Currently three operators are performing activities in the mobile telephone market.

177. Works about the transition to digital broadcasting carried out under the coordination of Radio and Television Supreme Council have been completed. In this context, the necessary legal and technical infrastructure work is being conducted under the coordination of the Ministry of Transportation.

178. With the implementation of the e-Transformation Turkey Project, the use of information and communication technologies in the provision of public services has become widespread and important developments regarding the awareness of the citizens and businesses about these technologies and regarding their service demand have been experienced. These developments have significantly increased the demand for Internet access and, consequently, the broadband infrastructure investments, and the number of broadband subscribers increased to 1.5 million as of the end of 2005.

5.2.8. Improving Efficiency of the Agricultural Structure

179. While the share of agriculture in GDP, which was 14.1 per cent at the beginning of the 8th Plan period, declined to 10.3 per cent in 2005, the share of agricultural em-

ployment in total employment decreased from 36 per cent in 2000 to 29.5 per cent in 2005.

180. Animal husbandry and plant production are generally performed together in agricultural enterprises and the small scale and fragmented structure of enterprises cause productivity to remain at low levels. Provisions of the Turkish Civil Code No. 4721 of 2001 regarding the inheritance law resolved the issue of excluding the enterprises without sufficient agricultural assets from distribution among heirs and prevented the problem of land fragmentation from becoming even more severe.

181. While the total area of highly productive agricultural land used for non-agricultural purposes had reached 1.26 million hectares within the past decade, the Law No. 5403 on Soil Conservation and Land Use has provided a significant development regarding the efficient use of soil resources.

182. The closing down of the General Directorate of Rural Services in 2005 has brought along the need for taking additional measures with regard to implementing land consolidation, drainage, soil protection, and small dam, surface and ground water irrigation investments.

183. With the increase in the transfer of irrigation facilities to beneficiaries, operation and maintenance services of 95 per cent of the irrigation infrastructure developed by the General Directorate of State Hydraulic Works (DSİ) have been transferred to various organizations until the end of 2005. However, in order to ensure the sustainability of this structure, legal arrangements are still needed for those organizations to which services are transferred.

184. A considerable stability in the incomes of producers was aimed with the Direct Income Support payments, which

have been implemented instead of price support since 2002. "The Agriculture Strategy 2006–2010" document was approved by High Planning Council in 2004. In this framework, the Agricultural Law No. 5488, which was enacted in 2006, aims to create a predictable and stable environment for producers, where they can make production planning. With the aim of protecting the producers and the production level against risks, the Agricultural Insurances Law No. 5363 was enacted in 2005. The Law on Licensed Warehousing in Agricultural Products, which aims to contribute to market creation and risk management, was put into effect in 2005.

185. Organic agriculture production, the legal infrastructure of which was set up with the Organic Agriculture Law in 2004, is rapidly increasing. In addition, with the aim of developing new plant varieties and protecting these plants and the rights of breeders, the Law on the Protection of Breeder's Rights for New Plant Varieties was enacted in 2004.

186. Animal husbandry enterprises are generally small scaled in Turkey and the productivity obtained per unit of livestock is low, fodder plant production is insufficient and number of artificial insemination is below international averages. Even though raising productivity per livestock and increasing livestock production was aimed in the Plan period, limited progress has been accomplished in this field.

187. Resource management in coastal fishing production and inland fishing needs to be conducted by focusing on sustainable use of natural resources. On the other hand, sustainability problems in terms of environment are being experienced in the breeding activities.

188. Contribution of producer organizations to training and extension services, which are currently carried out by the

state, is limited. In addition, R&D activities carried out by public institutions need to be organized in a way to support the activities of relevant institutions.

189. Even though the Agricultural Producer Unions Law No. 5200 came into effect in 2004 with the aim of improving formation of organizations among producers, a framework supporting the producers to organize for various purposes could not be created.

190. Efforts are carried on for sustainable management of forests, which are the main sources of water and wood production and biodiversity. While industrial and soil protection plantation constituted 10 per cent of the total forest area in 2000, this ratio increased to 12 per cent at the end of 2005. In addition, some forest areas were started to serve as urban forests in 52 provinces. However, approximately 9 per cent of the afforested areas during the 8th Plan period were destroyed by fires and 17 per cent of those were excluded from the scope of the forest regime. Despite the progress achieved, important problems in this area include the inability to complete the cadastral procedures and road infrastructure within the sector, limited number of national parks and similar protected areas, failure to attach the necessary importance to non-wood products and services, inadequacy of forest maintenance activities and low levels of annual forestation to avoid erosion and ensure long-term wood supply and demand balance. In addition, the problems such as lack of training focused on the ecosystem and lack of technical personnel and workers specialized in the relevant activities also constitute important bottlenecks in the utilization of the resource within a sustainable forest management approach and in increasing competitiveness of wood processing industries.

191. Reasons such as the lack of coordination in and among institutions and insufficient institutional capacity cause problems

in the implementation of animal health, phytosanitary and food safety policies. Within this scope, it is important to take up the legislation regarding animal health and surveillance, feed, plant protection and quarantine, and food in an integrated manner, along with the developments in the EU towards handling animal health, feed and food legislation.

5.2.9. Ensuring the Shift to High Value-Added Production Structure in Industry and Services

Industry

192. While the share of the manufacturing industry in GDP in Turkey was 19.2 per cent in 2000, it went up to 20.8 per cent in 2005.

193. Along with the recovery that started following the 2001 crisis, significant increases have been observed in investments, production and exports of manufacturing industry since 2002. The change in the sectoral composition of exports with the increases in investment and exports, and real appreciation of the currency have led to high increases in imports of intermediate and investment goods.

194. Exports of manufacturing industry, which were 25.5 billion dollars in 2000, rose to 68.8 billion dollars in 2005, therefore, its share in total exports increased from 92 per cent to 93.7 per cent. In the 8th Plan period, while food, textiles-clothing and iron and steel industries maintained their weight in the manufacturing industry exports, automotive, machinery, electronics, metal products, oil products and rubber-plastic sectors increased their shares. During the Plan period, around 52 per cent of the manufacturing industry exports were to the EU-25 countries.

195. Imports of manufacturing industry rose from 44.2 billion dollars in 2000 to 94 billion dollars in 2005 and its share in total imports was realized as 80.7 per cent. While

Table.5.6: Manufacturing Industry Indicators

| Indicators (Per cent) | 2000 | 2005 | 2001-2005 Average | EU (2004) |
|--|------|------|----------------------|--------------|
| Share in GDP | 19.2 | 20.8 | 20.4 | 20.5 (1) |
| Production Increase (At Constant Prices) (2) | 6.5 | 4.8 | 4.9 | 2.8 (3) |
| Exports Increase (At Current Prices) | 6.7 | 15.2 | 21.9 | 9.5 (4) |
| Imports Increase (At Current Prices) | 29.8 | 16.6 | 16.3 | 8.8 (4) |
| Share in Private Sector Investments | 26.5 | 41.4 | 35.5 | - |
| Private Sector Capacity Utilization Rate | 74.6 | 78.9 | 74.6 | - |
| Partial Productivity Increase per Worker | 8.8 | 5.6 | 6.0 | -0.3 (5) |

Source: TURKSTAT - EUROSTAT

(1) EU-25 Industrial Data

(2) The rate of increase in industrial production index is used.

(3) EU-25 Manufacturing Industry data for the year 2005.

(4) EU-25 SITC Classification

(5) EU-15

55.9 per cent of the manufacturing industry imports were from the EU-25 countries in 2000, this ratio declined to 49.8 per cent in 2005. Imports of manufacturing industry products from China, which was 1.3 billion dollars in 2000 increased to 6.7 billion dollars in 2005 with an annual average increase of 38.2 per cent. Main sectors of imports from China were electrical machinery, electronics, computing machines, textiles-clothing and leather, machinery and chemical industries.

196. During the 8th Plan period, the value-added, exports, imports and private sector fixed capital investments in manufacturing industry rose by 5.3 per cent, 21.9 per cent, 16.3 per cent, and 10.2 per cent, respectively, annually on average.

197. Structural problems, which restrict rapid development of the manufacturing industry, such as inadequacy in production of technology, inability of spreading modern technology usage rapidly, lack of qualified labor force, limited production capability in high value-added products, inability to undertake sufficient investments in emerging sectors, need for improvement in production and management structures of facilities, difficulties in investors' access to information, inability to establish organized industrial zones as much as needed and unfair competition

resulting from informal economy and imports have been continuing.

198. Today, the share of R&D expenditures in high technology sectors of the manufacturing industry is quite high, and while the determining factors of competitiveness in these sectors are information and technology production, labor cost is the determining factor in low technology sectors. In both groups, it is observed that information and innovativeness can create differences in competitiveness in sub-activity areas of main sectors.

199. The favorable developments observed in industrial exports in medium and high technology sectors following the start of the Customs Union in 1996 continued during the 8th Plan period as well.

200. With the integration of China and India, which have cheap labor force, into the world trade system, sustainability of competition based on costs in basic products has become difficult. As a result, production in traditional sectors of Turkey, such as textiles, clothing and leather decreased during the 2002-2005 period.

201. On the other hand, the share of medium and high technology sectors in the manufacturing industry rose significantly during the 2002-2005 period due to high

Table.5.7: Structure of Manufacturing Industry Production and Exports (Per cent Share)

| Technology Intensity (1) | Turkey | | | | | | EU Exports (4) |
|--------------------------|------------|-------|----------|---------|-------|-------|----------------|
| | Production | | | Exports | | | |
| | 2000 (2) | 2002 | 2005 (3) | 2000 | 2002 | 2005 | 2003 |
| High | 5.9 | 5.1 | 6.3 | 7.8 | 6.2 | 6.0 | 21.5 |
| Mid-High | 22.5 | 18.2 | 25.3 | 20.4 | 24.3 | 28.5 | 41.9 |
| Mid-Low | 30.4 | 26.7 | 27.0 | 20.5 | 22.8 | 26.9 | 15.9 |
| Low | 41.2 | 50.0 | 41.4 | 51.3 | 46.8 | 38.7 | 20.7 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: TURKSTAT, OECD STAN Database

(1) OECD Science, Technology and Industry Scoreboard classification is taken as reference.

(2) It covers the businesses, which employ more than 10 people.

(3) Forecast of SPO at 2002 prices.

(4) EU countries, which are OECD members.

increases in exports and production in automotive, machinery and electronics industries. However, the share of these sectors still remains low compared to the EU countries. On the other hand, because of high dependency on imported inputs in these sectors, the increase in value-added cannot be realized at the expected level.

202. These developments make it necessary for Turkey's manufacturing industry, in terms of both sub-sectors and sub-activity areas, to move towards areas where information and innovativeness constitute the determining factor of competition in the value chain.

203. In Turkey, it is observed that scales of companies are small and productivity is low in traditional industries with low levels of technology. In addition, small enterprises are inadequate in input procurement, R&D activities and employment of qualified work force.

204. Activities have been carried out towards integrating the defense industry with the domestic industry and increasing the share of domestic input. However, high foreign dependency in defense industry products is still continuing.

Services

205. The growth rate of the services sector, which accounts for approximately 64 per cent of GDP, has been higher than the overall economic growth. The biggest share in the services sector belongs to the trade services with a rate of 32 per cent. While the share of services sector in the total employment was 46.3 per cent in 2000, this rate increased to the level of 51.1 per cent in 2005. However, it remains below the EU-15 average, which is 69.4 per cent.

Tourism

206. In terms of the value-added, employment and foreign exchange revenues it has created, tourism has been one of the sectors that has displayed significant progress within the past 20 years. While the share of Turkish tourism in the international tourism revenues was 1.6 per cent in 2000, it reached 2.9 per cent in 2005. During the same period, while the number of foreign tourists rose from 10.4 million to 21.1 million persons, tourism revenues increased from 7.6 billion dollars to 18.2 billion dollars. With this increase in the number of tourists and foreign exchange revenues, Turkey is 12th on the rank of countries that receive the highest number of tourists in the world and 8th in revenues.

Table.5.8: Indicators for Services Sectors (1)

| Indicators (Per cent) | 2000 | 2002 | 2005 |
|-------------------------------------|------|------|------|
| The Share of Services in GDP | 62.6 | 63.2 | 64.4 |
| The Share in Total Services | | | |
| Construction | 8.3 | 6.5 | 6.8 |
| Trade | 31.9 | 31.9 | 31.8 |
| Transport and Communication | 22.6 | 23.8 | 22.9 |
| The Share of Services in Employment | 46.3 | 46.6 | 51.1 |

(1) At current prices.

207. The bed capacity certified by the Ministry of Tourism and Culture, which was 352 thousands in 2000, increased to 450 thousands in 2005, whereas the municipality certified bed capacity of 350 thousands rose to 400 thousands. On the other hand, there are 260 thousand beds under investment. 4,825 travel agencies perform activities in the sector.

208. Despite the rapid increase in bed capacity and important developments achieved in the recent years in Turkey, it is apparent that there is a need of structural reform in the advertisement and marketing areas. The fact that transition to professional certification system could not have been realized yet, adversely affects the service quality.

Construction, Engineering–Architecture, Technical Consulting and Contracting Services

209. While the share of the sector in GDP decreased between the years 2001 and 2003, it started to increase after 2004. The increase in the area of housing construction has an important impact on the growth in 2005. The building construction permission, which increased by 85 per cent, reached 99.5 million m²/year and the building utilization permission, which increased by 32 per cent, reached the level of 48.5 million m²/year at the end of the 8th Plan period. The share of the construction sector, where an average of 1.1 million persons are employed, in total employ-

ment was realized as 5.3 per cent as of the end of 2005.

210. In the Plan period, specialist engineer and specialist architecture titles were introduced with the Decree Law No. 601 and conditions for acquiring a specialization certificate were determined with a regulation. The Decree Law No. 595 was revoked and the Law No. 4708 came into effect to replace it. The Public Procurement Law No. 4734 and the Public Procurement Contracts Law No. 4735, which were prepared with the aim of ensuring harmonization with EU standards and the World Trade Organization legislation and later the Law No. 4964 for resolving the problems encountered in implementation related to these laws came into force. The Communiqué Concerning the State Aids Provided for the Activities of Technical Consultancy Firms Abroad was published.

211. The revenues obtained by Turkish contracting and consulting companies related to their activities abroad, were included among the earnings which are continuously exempt from corporate tax and legal regulations were made to ensure provision of social security for the Turkish workers to be employed by contracting companies in their projects abroad.

Information Technologies Services

212. The size of the information technologies market in Turkey is around 3 billion dollars. Hardware accounts for a large part of the market and the share of soft-

ware and services in information technologies market remains around 30 per cent.

213. Even though there are many companies in the areas of software and services in the information technologies sector, problems in terms of scale, capability, experience and financial strength are being experienced. The average age of the largest 20 companies in the sector is 13. The shallowness of the market and the limited development in vertical markets makes it difficult to increase the experience and technical expertise and inadequacy in penetration into foreign markets and price based competition in domestic markets make it difficult to grow.

214. On the other hand, while the software and services areas in the world are becoming one of the main factors of productivity increase in the economy, they also appear as major areas of employment.

Trade Services

215. The share of trade services in gross national product was realized as 20.5 per cent in 2005. Wholesale and retail trade services, which accounts for a major part in trade services with a share of 82.4 per cent, have accomplished significant progress especially with the impact of private sector final consumption and investment expenditures due to the improvements observed in the economy within the recent years. During the 2002-2005 period, wholesale and retail trade services grew at an annual average rate of 11.2 per cent.

216. In line with these developments, importance of transporting of raw materials and processed products both at low cost and on time and the multi-modal transportation systems supported by logistic services have increased in the transportation sector.

217. The share of highways in the transportation sector is remarkable and need

for distributing the transported goods among the transportation modes in a balanced manner still continues.

218. Legislative efforts were carried out during the 8th Plan period to ensure establishment and operation of large retail stores, which have developed in the recent years, in the framework of certain rules.

5.3. Increasing Employment

219. Even though the negative effects caused by rapid population growth in the country decreased during the Plan period, problems related to increasing employment, reducing unemployment, and education could not be solved, and the relation between education and employment could not be sufficiently established.

220. While the rate of population growth was 1.41 per cent in 2000, it dropped to 1.26 per cent in 2005. During the same period, working age population, covering the age group 15-64, and senior population consisting of people older than 65 years, increased and their shares in total population increased from 64.7 per cent to 65.7 per cent and from 5.4 per cent to 5.9 per cent, respectively.

221. The employment created in Turkey during the 8th Plan period has remained less than the increase in working age population and the labor force. During this period, the working age population, labor force and employment rose by an annual average rate of 1.9 per cent, 1.3 per cent and 0.4 per cent, respectively. The employment figures, which declined following the 2001 crisis, displayed increases in 2004 and 2005. Even though the GDP grew at an annual average rate of 4.4 per cent during the Plan period, the total employment increase was realized as 0.4 per cent.

222. The most important reason for the rate of increase of employment being lower than the growth rate is the decrease in

The most important reason for the rate of increase of employment being lower than the growth rate is the decrease in agricultural employment.

agricultural employment. The share of the agricultural sector in total employment receded from 36 per cent to 29.5 per cent and employment in this sector was reduced by 1 million 276 thousand persons during the Plan period. Employment increased substantially in non-agricultural sectors, especially following the year 2003, creating 1 million 742 thousand persons of employment during the Plan period. Creation of employment for 1 million 162 thousand persons in 2005 suggests that this increase accelerated at the end of the period. Another reason for the low rate of total employment increase was that after the crises

enterprises that used the labor force more efficiently needed additional employment at lower levels.

223. During this period, progress was not made in labor force participation and employment rates, which were lower than EU averages. Such low rates are caused by insufficient participation of women to the labor force and employment. The female labor force participation and employment rates are around one third of the rate for men.

224. As a result of the decrease in employment in the agricultural sector and with the impact of the 2001 crisis, the unemployment rate, which was 6.5 per cent in 2000 increased to 10.3 per cent in 2005. Non-agricultural unemployment rate, on the other hand, rose from 9.4 per cent in 2000 to 15 per cent in 2002 and declined to 13.6 per cent in 2005. The unemployment rate among young people, which is approximately twice as much as total unemployment rate, continues to be significant.

5.3.1. Improving the Labor Market

225. Besides the non-wage labor costs, employers in Turkey also have obligations to employ a certain number of people and to

Table.5.9: Employment Indicators (Per cent)

| | 2000 | 2002 | 2005 |
|---|------|------|------|
| Distribution of Employment by Sectors | | | |
| Agriculture | 36.0 | 34.9 | 29.5 |
| Industry | 17.7 | 18.5 | 19.4 |
| Services | 46.3 | 46.6 | 51.1 |
| Unemployment | | | |
| Unemployment Rate | 6.5 | 10.3 | 10.3 |
| Non-agricultural Unemployment Rate | 9.4 | 15.0 | 13.6 |
| Unemployment Rate Among the Young People | 13.1 | 19.2 | 19.3 |
| Unemployment Rate Among the Young People Who Completed Tertiary Education | 28.2 | 38.0 | 30.9 |
| Labor Force Participation Rate | 49.9 | 49.6 | 48.3 |
| Female | 26.6 | 27.9 | 24.8 |
| Male | 73.7 | 71.6 | 72.2 |
| Employment Rate | 46.7 | 44.4 | 43.4 |

Source: TURKSTAT

establish units, depending on the number of workers they employ. In order for employment to be increased and unemployment to be reduced, the need to revise the obligations of employers regarding employment and make new arrangements in this regard still continues.

226. In the labor market there still is the requirement for the assessment of the applicability of flexibility provisions in the legislation, elimination of problems and the establishment of the relation with the social security.

227. During the Plan Period, significant legal and institutional regulations regarding the labor market were made. The Labor Law No. 4857, which aimed to ensure the harmonization of the working life regulation with the changing and developing conditions of Turkey, the International Labor Organization (ILO) contracts and the EU legislation, came into effect in 2003. With the Turkish Employment Agency Law No. 4904, the Agency was restructured as an employment organization in line with today's needs and conditions. Approval was given to opening of private employment offices. The Labor Market Information Advisory Board was established with the aim of setting up the information system concerning the labor market. The Law No. 5084, which aimed to increase employment and investments, was put into effect.

228. The Employment Status Report was prepared in 2003 within the scope of the activities towards harmonization with the European Employment Strategy in the EU accession process. The Joint Assessment Document, which sets priorities and policies to be followed for employment, is also planned to be completed in 2006. As for the next stage, the National Reform Program on employment will be prepared.

5.3.2. Increasing the Sensitivity of Education to Labor Demand

229. 73.8 per cent of the labor force in 2000 and 67.3 per cent of it in 2005 consisted of those with a level of education below upper secondary education and illiterate. While the share of higher education and faculty graduates in the labor force was 8.8 per cent in 2000, it increased to 11.5 per cent in 2005. Even though the education level of the labor force rose during the Plan period, it continued to remain low compared to the EU average. This situation is an important problem in today's world, where it is essential to have a highly qualified and skilled labor force.

230. During the Plan period, the education system remained insufficient to meet the requirements of the labor market. A remarkable reduction in the unemployment rates of young and educated people could not be achieved as well. New mechanisms that would respond to the demands of the economy and the labor market and, particularly, increase the employability of young people are needed.

231. Even though difficulties are experienced in finding mid-level workers in those areas required by the economy, the unemployment rate of vocational education graduates is high. This rate increased from 10.9 per cent in 2000 to 13.3 per cent in 2005. This situation resulted from the fact that students with high cognitive skills do not prefer vocational education, the vocational education system is not of a nature to meet the requirements of the labor market, the current vocational education programs are not updated in collaboration with all the stakeholders, and there is lack of equipment and insufficient qualified education personnel.

232. In the framework of reviewing education programs, activities towards transition to a modular system have been started

with the participation of the social parties to provide vocational education with the flexibility to respond to the developments in the labor market.

233. A consistent and reliable examination and certification system based on professional standards which could also certify the skills acquired outside education institutions could not be established. On the other hand, work is under way to draft legislation towards creating a National Professional Qualifications Agency for spreading, developing and maintaining a system of professional standards, examination and certification in collaboration with the state, employee's and employer's organizations.

5.3.3. Developing Active Labor Policies

234. The importance given to active labor policies as an effective instrument in increasing employment increased during the 8th Plan period. Active labor policies, which aim to increase employability by improving the skills and qualifications of the labor force, cover programs such as training the labor force, vocational education, and labor force harmonization programs, provision of vocational directing, vocational consultancy and counseling services, development of job searching strategies, providing disadvantaged groups such as the unemployed, the disabled, women and the young with opportunities to find jobs, entrepreneurship training and employment-guaranteed education programs.

235. Activities for disseminating the programs developed by the Turkish Employment Agency (İŞKUR), which is the main implementing agency for active labor policies in Turkey, are continuing. In this context, the Active Labor Market Programs Project jointly financed by the EU and Turkey was carried out by İŞKUR. 50,059 persons were trained within the scope of this program and 7,463 persons of the total

were employed. In spite of this, the ratio of the expenditures within the scope of active labor policies to GDP is well below the EU average, which is 0.7 per cent.

5.4. Strengthening Human Development and Social Solidarity

236. Important steps were undertaken and significant progress was achieved towards improving the education and health infrastructure and income distribution during the 8th Plan period to increase the quality of life of the people. However, there still exists the need for increasing the quality of education and the employability.

237. The demographic structure of Turkey has started to become similar to those of the developed countries in terms of the fertility rate and the age structure. The changing population structure has brought the requirement for reviewing policies, particularly, in the fields of education, employment, health and social security.

5.4.1. Enhancing the Educational System

238. Important enhancements have been accomplished in the population's access to education. With the extension of compulsory education to eight years, a significant increase in the number of students has been achieved and the ratio of students passing from primary education to secondary education has increased. However, regarding the schooling rates, the rate for pre-school education remained at low levels, 100 per cent could not be achieved in primary education and the share of vocational education could not be increased in secondary education. Even though significant progress has been attained in terms of schooling rate for higher education, there is still an increasing demand for higher education. Fifteen new state universities were established in 2006 to meet this demand.

239. While the obligatory requirements caused by increasing number of students can primarily be met with the allocated resources at all levels of education, the problem of quality in education still remains an important issue. During the 8th Plan period, the support provided by the private sector for education investments increased to a significant extent, use of information and communication technologies in schools has become widespread and curriculum improvement activities were accelerated. In order to increase the quality of education there is the continual requirement to improve the physical infrastructure, equipment and qualifications of teachers, use of resources allocated for education more effectively and in harmony with the renewed curriculum programs and teaching methods.

240. Important headway has been made in higher education, particularly in the student and instructor exchanges within the scope of the Bologna process, the European credit transfer system and the diploma supplement. However, problems regarding the centralized structure and the quality of the higher education system are continuing to adversely influence its competitiveness and capacity to be able to respond to the requirements of the society.

241. Turkey has been successfully and actively participating in the education and youth programs of the EU since 1 April 2004. Approximately 49,300 persons, 20,000 of which from the General Education Program, will have benefited from the programs as of 2006.

242. As a result of both the lack of integration of programs between vocational schools in higher education and vocational and technical secondary education institutions and the inability to update the vocational and technical education programs according to the demands of the labor

market, employment rates for vocational and technical education graduates cannot be increased, thereby, the demand for vocational education decreases.

243. The structure of education focusing on examination, results in the inability to reach the objectives expected from education, significant amount of expenditures on the preparation for examinations which cause inefficient use of resources allocated for education, and the emergence of financial, social and psychological problems for students and their families.

5.4.2. Making the Health System Effective

244. Improvements in health sector indicators such as the number of health personnel, the number and utilization rates of inpatient beds, infant mortality rates and immunizations were achieved during the 8th Plan period. However, the desired level could not be reached yet.

245. While the number of persons per doctor was 792 in 2000, it declined to 715 in 2005, however, it is still below the EU average of 288. The number of graduates from faculties of medicine per one thousand population, which is 8.8 in the EU countries, declined from 7.5 to 6.1 in Turkey during this period. This situation causes the gap between Turkey and developed countries to become even wider.

246. Imbalances still exist in the provision of health services at regional and urban-rural levels. While the number of persons per bed in 10 provinces with the lowest level of socio-economic development, is 2.5 times more than that in 10 provinces with the highest level of socio-economic development, as for the number of persons per doctor, the difference between these groups of provinces increases up to 4 times.

247. Insufficiency in infrastructure, personnel and quality in primary level health

Table.5.10: Health Indicators

| | 2000 | 2005 |
|---------------------------------------|------|------|
| Infant Mortality Rate (Per Thousands) | 28.9 | 23.6 |
| Total Fertility Rate | 2.27 | 2.19 |
| Life Expectancy at Birth (Year) | 70.4 | 71.3 |
| Number of Persons per Inpatient Bed | 391 | 374 |
| Number of Persons per Physician | 792 | 715 |

Source: Ministry of Health, SPO.

services and inefficient referral system cause patients to prefer using secondary and tertiary level health services with a higher service cost and the resulting overflow decreases the quality of services in hospitals. Even though significant progress was made during the 2000-2004 period with the improvement in the conditions of health posts and the implementation of mobilized health services, 95 per cent of the hospital admissions consist of outpatient services.

248. Health Transformation Program was initiated during the 8th Plan period with the aim of facilitating access to health services, increasing the quality of service, strengthening the planning and regulatory role of the Ministry of Health, developing health information systems, ensuring rational use of medications and materials, and establishing the universal health insurance system. In this context, pilot implementation of family medicine is being continued in order to increase the effectiveness of referral system. Moreover, all state hospitals were gathered under the umbrella of the Ministry of Health with the aim of separating provision and financing of services and considerable progress was achieved in accessibility to health services. Improvements were accomplished in personnel motivation and efficiency with the implementation of additional payments based on performance, and the number of full-time specialists working in the public health institutions was increased by five times. Even though efforts towards the standardization of services and efficient

use of information systems have been started, the need to provide hospitals with financial and administrative autonomy still continues.

249. Total health expenditures, which accounted for 6.6 per cent of GDP in 2000, reached 7.6 per cent in 2005. The ratio of medicine payments to health expenditures, which was 39 per cent in 2000, was realized as 34 per cent in 2005. In EU countries, however, medicine expenditures constitute approximately 16 per cent of total health expenditures.

5.4.3. Improving Income Distribution, Social Inclusion and Fight Against Poverty

250. As a result of the high growth rates achieved following the year 2001, per capita national income increased and improvements in the indicators for income distribution inequality and poverty were observed. In spite of the tight fiscal policy following the crisis, the share of social expenditures in GDP was increased. Transfers to increase the incomes of the retired, the disabled, widows and orphans and students in particular, as well as those of poor families and families living in rural areas were made. In addition, the minimum wage increased in real terms during this period.

251. While the share of disposable income held by the richest 20 per cent quantile was approximately 9.5 times more than that received by the poorest 20 per cent quantile in 2002 in Turkey, it declined to the level of 8.1 in 2003 and to 7.7 in 2004.

Table.5.11: Selected Income Distribution and Poverty Indicators (Per cent)

| | 2002 | 2003 | 2004 |
|--|-------|-------|-------|
| Quantiles | | | |
| First | 5.3 | 6.0 | 6.0 |
| Second | 9.8 | 10.3 | 10.7 |
| Third | 14.0 | 14.5 | 15.2 |
| Fourth | 20.8 | 20.9 | 21.9 |
| Fifth | 50.1 | 48.3 | 46.2 |
| Gini Coefficient | 0.44 | 0.42 | 0.40 |
| Food Poverty Rate (Hunger) | 1.35 | 1.29 | 1.29 |
| Food and Non-food Poverty Rate (Poverty) | 26.96 | 28.12 | 25.60 |

Source: TURKSTAT

The same ratio for the EU-25 average was approximately 4.6 in 2003. In addition, the Gini coefficient, which was 0.44 in 2002 in Turkey, receded back to 0.42 in 2003 and 0.40 in 2004.

252. While the ratio of population, which is below the poverty line including food expenditures, to total population was 1.35 per cent in 2002, it declined to 1.29 per cent in 2004. The food and non-food poverty rate, which is also defined as the poverty rate, was 26.96 per cent in 2002 and decreased to 25.6 per cent in 2004.

253. Even though an improvement was realized in the poverty rates during the 2002-2004 period in Turkey, it is observed that poverty has increased in rural areas in terms of some indicators. As a matter of fact, unpaid family workers that are widespread in rural areas, constituted the poorest group in 2004.

254. Those, who migrate to urban areas as a result of the structural change in agriculture, are deprived from a regular income and experience social adaptation problems because they have low levels of education and are unskilled workers. In addition, these people are generally employed on daily wages in the services sector. While the poverty rate of those working on daily wages was 45 per cent in 2004, it dropped to 37.5 per cent in 2004.

255. The need for increasing education, culture and health services targeting at people exposed to the risk of poverty, primarily the women, children, elderly, disabled and those who have migrated to urban areas, still exists.

256. 24.8 per cent of handicapped people with chronic illnesses and 36.3 per cent of other handicapped people are illiterate. Furthermore, only 1 of every 5 handicapped persons can take part in the labor market since social life areas restrict their mobility, a suitable environment cannot be created in places of employment, and the demand for disabled labor is quite limited. The Law on the Disabled No. 5374, which aims to secure their participation in society through increasing the access of disabled people to health, education, employment and social security and, came into force in 2005.

257. Reasons such as the increase in the senior population and the transformation in the family structure in Turkey have increased the importance of provision of services to the senior population.

258. Even though the number of working children decreased as a result of activities towards eradicating child labor and the extension of compulsory education to eight years, the problems of child labor, street children and street-working children are still important.

Even though the literacy rate in women increased from 76.2 per cent to 80.6 per cent between 2000 and 2004, it is still behind the literacy rate of men.

259. Even though the literacy rate in women increased from 76.2 per cent to 80.6 per cent between 2000 and 2004, it is still behind the literacy rate of men. While employment rate for women is 22.3 per cent, it is 64.8 per cent for men. Women, who are employed as unpaid family workers in rural areas, leave the labor force when they migrate to urban areas and become exposed to the risks of poverty and social exclusion by remaining outside the economic life because of their lack of qualifications for urban jobs and the social pressures imposed by a different environment. As a matter of fact, while labor force participation rate for women is 19.3 per cent

in urban areas, it is 33.7 per cent in rural areas.

260. As it is the case in the world, violence is a problem faced mostly by women and children in Turkey. In order to prevent the violence and abuse against women, education and information efforts towards public awareness continue.

261. Participation of women in decision making process is inadequate when compared to the EU countries. In fact the rate of women representation in the parliament was approximately 4.4 per cent in 2002 election.

262. In the process of harmonization to the EU, Turkey joined in the Society Action Plan for Fighting with Social Exclusion. As a requirement of this process, work on the preparation of the Social Inclusion Document has been started in order to determine the existing situation and the strategies in the field of social exclusion.

5.4.4. Increasing Effectiveness of the Social Security System

263. While the proportion of the population covered by social insurance programs was 82.2 per cent and the proportion of population covered by social insurance coverage regarding health services was

Table.5.12: The Population Covered by Social Insurance Programs

| Institutions | 2000 | 2005 |
|--|--------|--------|
| Civil Servants Pension Fund in Total (1000 Persons) | 8,230 | 9,271 |
| The Social Insurance Institution (SII) in Total (1000 Persons) | 32,192 | 40,719 |
| BAĞ-KUR in Total (1000 Persons) | 15,036 | 15,990 |
| The Private Funds in Total (1000 Persons) | 324 | 306 |
| General Total (1000 Persons) | 55,782 | 66,286 |
| Social Insurance Coverage with respect to Health Services (1000 Persons) (1) | 54,939 | 66,018 |
| Total Population (1000 Persons) (2) | 67,893 | 72,520 |
| Ratio of Insured Population, % | 82.2 | 91.4 |
| Ratio of Insured Population Covered by Health Services, % | 80.9 | 91.0 |

Source: The Civil Servants Pension Fund, The Social Insurance Institution, BAĞ-KUR, SPO.

(1) Those who are voluntary insured by SII are excluded from the scope of health insurance.

(2) 2005 year-end population estimates based on the 2000 General Census of TURKSTAT, and the 2003 Demographic and Health Surveys of Hacettepe University Institute of Population Studies (HIPS).

80.9 per cent in 2000, these rates rose to 91.4 per cent and 91 per cent, respectively, in 2005.

264. The most important problem of social security institutions is that their revenues cannot meet their expenditures. While the ratio of the transfers from the budget to social security institutions to GDP was 2.6 per cent in 2000, this ratio increased to 4.8 per cent in 2005. In addition, the social security system also has problems such as the inability to cover the entire population, different rights and obligations provided by institutions, inadequate information system infrastructure, lack of a shared database, and ineffective operation of the supervision mechanisms in the system. Towards eliminating these problems in the social security system; the Law on Social Security Institution and the Law on Social Insurance and Universal Health Insurance Law, which were prepared to assemble social security institutions under a single institution and to establish the universal health insurance, were enacted by the TGNA.

265. The need for social services and assistance in Turkey increases because of reasons such as migration, urbanization, change in family structure, population increase and unemployment. While the ratio of total social assistance expenditures to GDP was 0.48 per cent in 2000, this ratio increased to 0.86 per cent in 2005. In this context, aids such as the salaries granted to the disabled and the old, education and health aids to children and support to families, in need of care, for heating and income generating project, are provided. These types of assistance, which facilitates the access of poor segments to services such as education and health, raise their quality of life.

266. Efforts for setting up sound criteria in the determination of persons and groups to benefit from social services and assis-

tance have been started. However, due to the lack of collaboration among organizations and insufficient qualified personnel in the system, services cannot be provided at the desired level to those really in need. In addition, there still exists the need to develop collaboration with voluntary organizations in social services and assistance.

5.4.5. *Protecting and Improving Culture and Strengthening Social Dialogue*

267. During the Plan period, activities to strengthen the cultural infrastructure, to make cultural activities more widespread, to develop cultural relations with other countries in the world, especially with those that we share a common history, and activities towards the identification, exploration, maintenance-repair and restoration of Turkey's cultural assets both within and outside the country were continued.

268. With the aim of vitalizing cultural life and expanding cultural activities throughout the country, legal and administrative regulatory activities to transfer cultural services that are local in nature to local administrations and develop public and private sector collaboration in this area were started. Increasing harmonization between socio-economic and cultural policies has emerged as a requirement.

269. The need for benefiting from Turkey's potential in cultural tourism does still exist.

270. The issues of meeting the qualified manpower requirement, ensuring necessary coordination among the relevant institutions and eliminating deficiencies related to promotion in the field of culture are important.

271. Turkish language, conveyor of our culture, is under the risk of losing its fundamental and distinctive characteristics, because it can be negatively affected by

foreign languages. It is still imperative to create Turkish language consciousness, particularly in science, education, training institutions and media. As a result of the intense migration and the problems in urbanization, troubles in the participation into the cultural life have increased.

272. The accelerating transformation process has also negatively affected the cultural and social relations within the family and the society. Diversification in mass communication, inability to leave traditional methods in communication within the family, and insurmountable problems of the education system have increased the problems young people face such as breaking away from their families, becoming insensitive to social problems, hopelessness and lack of self confidence and, consequently, increased the crime proneness among young people. On the other hand, increase in communication opportunities and development of non-governmental organizations enable the young people to clearly express their personal demands.

273. Problems associated with adaptation as a result of intense migration and unplanned urbanization create an environment for other issues such as terrorism and lack of public order, which harm social integrity and harmonization. In this context, measures need to be taken that would develop the sense of integration and belonging to the society both at national and local levels and increase the capacities of local administrations and their dialogues with NGOs.

274. Improvements in bilateral and trilateral social dialogue mechanisms were achieved during the Plan period. In this context, particularly, the law on the establishment of the Economic and Social Council (ESC), which constitutes an important element of trilateral social dialogue, was enacted in 2001 and ESC convened six times for various agendas.

5.5. Ensuring Regional Development

5.5.1. Making Regional Development Policy Effective at the Central Level

275. The globalization process is bringing forth new conditions and opportunities in terms of local and regional development by directly influencing local dynamics. Cities and regions, which have transformed into competition units under the conditions of global competition, have had the chance to catch a faster development path in the framework of right strategies that utilize their dynamics and potentials through implementation of good governance models that include all segments of the society in the development process.

276. The EU accession process of Turkey also makes radical changes in regional development policies and implementation possible. Within this scope, on the one hand, the necessary infrastructure is being created at the central and local levels in order to prepare for the structural funds that could be used after membership, on the other hand, the environment required for an active and participatory regional development policy supported by adequate financing and institutional structure to be implemented from bottom to top is being prepared.

277. The imbalances in socio-economic structure and income level both across rural and urban settlements and across regions in Turkey continue to maintain its importance. The existing physical and social infrastructure and the employment opportunities in cities remain insufficient in meeting the population pressure created by intense migration movements. This structure requires an integrated regional development policy that includes different measures tailored according to the problems and potentials of the regions.

278. The Official Nomenclature of Territorial Units for Statistics (NUTS), which en-

**Table.5.13: Selected Indicators for the First and Last Five NUTS 2 Level Regions
Ranked According to SEDI**

| Regions | SEDI (2003, Within 26 Regions) | GDP per capita (2001, TR=100) | Sectoral Structure of Employment (2005) | | | Urbanization Rate (%) (2000) | Net Migration Rate (per thousand) (2000) |
|--|-----------------------------------|----------------------------------|--|-----------------------------------|---------------------------------|------------------------------|---|
| | | | Share of Agricultural Sector (%) | Share of Industrial Sector (%) | Share of Services Sector (%) | | |
| TR10 (İstanbul) | 1 | 143 | 0.7 | 37.0 | 62.4 | 90.7 | 46.1 |
| TR51 (Ankara) | 2 | 128 | 7.3 | 16.0 | 76.6 | 88.3 | 25.6 |
| TR31 (İzmir) | 3 | 150 | 18.1 | 27.7 | 54.2 | 81.1 | 39.9 |
| TR41 (Bilecik, Bursa, Eskişehir) | 4 | 117 | 18.3 | 37.8 | 43.8 | 76.4 | 38.7 |
| TR42 (Bolu, Düzce, Kocaeli, Sakarya, Yalova) | 5 | 191 | 20.4 | 26.8 | 52.8 | 57.2 | -9.5 |
| Turkey | - | 100 | 29.5 | 19.4 | 51.1 | 64.9 | - |
| TRA1 (Bayburt, Erzincan, Erzurum) | 22 | 50 | 62.0 | 3.5 | 34.5 | 57.3 | -43.5 |
| TRC2 (Diyarbakır, Şanlıurfa) | 23 | 54 | 38.1 | 5.7 | 56.1 | 59.1 | -39.5 |
| TRC3 (Batman, Mardin, Şırnak, Siirt) | 24 | 46 | 29.3 | 10.0 | 60.8 | 59.6 | -46.8 |
| TRA2 (Ağrı, Ardahan, Iğdır, Kars) | 25 | 34 | 61.8 | 3.1 | 35.1 | 44.6 | -57.3 |
| TRB2 (Bitlis, Hakkari, Muş, Van) | 26 | 35 | 48.0 | 6.3 | 45.8 | 49.3 | -39.5 |

Source: SPO, TURKSTAT

ables the determination of the framework for regional development policies, the collection of regional statistics and the creation of a comparable statistical database harmonized with the EU regional statistics system was realized at three levels in 2002.

279. On the other hand, new incentive measures were put into practice with the aim of accelerating the increase in investments and employment and increasing the contribution of the private sector to regional development. The incentive implementation, which was initially started in 36 provinces with the Law No. 5084 that became effective in 2004, was expanded to cover 49 provinces with the amendment made in 2005. In this framework, discounts were implemented in income tax and Social Insurance Institution (SSK) premium payments imposed on employees in enterprises located in provinces covered within

the scope of Regions Prioritized in Development (RPD), in provinces where the national income per capita for 2001 was less than 1,500 dollars and in provinces with negative Socio Economic Development Index (SEDI) values in 2003, based on the condition to increase employment. In addition, support of energy and land without charge was introduced for these enterprises. Support for various projects of Special Provincial Administrations and municipalities in RPDs from appropriations of local administrations is still continuing.

280. Implementation of the Southeastern Anatolia Regional Development Project (GAP), the Zonguldak-Bartın-Karabük Regional Development Project (ZBK), the Eastern Black Sea Regional Development Plan (DOKAP) and the Eastern Anatolia Project Master Plan (DAP), which were prepared during the past periods, and the

activities for the Yeşilırmak Basin Development Project (YHGP) are continuing. Excluding GAP, these projects were provided with limited financing opportunities only within the scope of sectoral allocations.

281. However, the GAP project needs to be handled as an integrated regional development program activating local initiatives by benefiting from the joint collaboration platform of new development agencies to be established, rather than only as an infrastructure project consisting of energy and irrigation investments. In this context, new policies are required to be developed in fundamental areas such as implementing modern irrigation techniques, transition to competitive product types, enhancing marketing opportunities, and developing human resources and institutional capacities.

5.5.2. Ensuring Development Based on Local Dynamics and Internal Potential, Increasing Institutional Capacity at the Local Level

282. Recently, parallel with the developments in the world, local development initiatives have gained pace in Turkey as well. The Law on the Establishment, Coordination and Duties of Development Agencies, which was prepared taking NUTS 2 Level regions as the basis, in order to improve collaboration among the public sector, the private sector and non-governmental organizations in local and regional development, ensure efficient use of resources and provide regional development with a new impetus by activating local dynamics and internal potential, came into force in 2006.

283. On the other hand, authorities and responsibilities of local administrations in the field of development were increased with the Laws on Special Provincial Administrations, Municipalities, Metropolitan Municipalities, and Local Administration Unions, which were put into effect

during the 8th Plan period. Therefore, developing the capacities and increasing the resources of all local administrations, primarily those in less developed regions, have gained even more importance.

284. Parallel with the development approaches and the changes in the local institutional structure, the need to review planning approaches and mechanisms, including spatial planning, in such a way as to eliminate the authority dissonance existing in this field, has emerged. With regard to planning stages, establishment of connections among plans, clarification of authority and responsibilities and coordination among organizations at central and local levels for subjects such as plan preparation and implementation methods and supervision procedures have become inevitable.

285. The Preliminary National Development Plan (pNDP), which covers the 2004-2006 period, was prepared within the scope of the EU accession process in order to determine the medium-term main priority areas to be financially supported in the field of economic and social harmonization. Within the scope of this plan, which stipulates improving and spreading local development initiatives, strategic operational regional development programs with independent budgets and cross border cooperation programs were put into practice in 12 NUTS 2 Level regions determined by taking into account the socioeconomic development index.

286. In this context; the Eastern Anatolia Development Program (Bitlis, Hakkari, Muş, Van); the GAP Regional Development Program; TR82 (Çankırı, Kastamonu, Sinop), TR83 (Amasya, Çorum, Samsun, Tokat), and TRA1 (Bayburt, Erzincan, Erzurum) NUTS 2 Level Regions Development Program; the TRA2 (Ağrı, Ardahan, Iğdır, Kars), TR72 (Kayseri, Sivas, Yozgat), TR52 (Konya, Karaman); TRB1 (Bingöl,

Elazığ, Malatya, Tunceli) NUTS 2 Level Regions Development Program and Turkey-Bulgaria Cross Border Cooperation Program implementations were started. In order to start the implementation of the TR90 (Artvin, Giresun, Gümüşhane, Ordu, Rize and Trabzon) NUTS 2 Level Region Development Program in 2006, preliminary works has been continuing.

287. Along with the cross border cooperation programs, an important capacity creation is also being achieved at the local level during the implementation of EU supported regional development programs, the budgetary size allocated from the pre-accession financial support of which has reached approximately 300 million euros and the geographical scope of which corresponds to 49 provinces. With the assistance of the project units established in regions where the programs are implemented, more than 15 thousand persons were informed, 4,250 persons were provided with project preparation training and a total of 2,400 project proposals were received for grants with regional improvement and local development purposes.

288. The work for Territorial Review of the İstanbul Metropolitan Area has been started with the collaboration of the Organization for Economic Cooperation and Development (OECD) and İstanbul Metropolitan Municipality under the coordination of the State Planning Organization (SPO) with the aim of determining the improvement tendencies of the province of İstanbul, identifying the city's potential and contributing to the prioritization of policies to strengthen its competitiveness.

5.5.3. *Ensuring Development in the Rural Areas*

289. The National Rural Development Strategy was prepared and put into force in 2006 with the aim of solving the harmonization problems of the rural areas

caused by international obligations, the EU membership process and the accelerating transformation in the agricultural structure and creating a framework for rural development projects and activities.

290. Within the scope of the legal and institutional regulations carried out to increase the effectiveness of the rural development policies, efforts to establish a rural development institution, the decision making processes of which is stipulated to involve the relevant organizations and to establish an implementation and payment unit are continuing.

291. In order to reduce the relative unproductivity in the agricultural sector, which is the most important economic activity of the rural area; priority should be given to issues such as accelerating land consolidation activities, strengthening producer organizations and making the education and dissemination activities effective.

292. The settlement related duties of the General Directorate of Rural Services, which was closed down, were transferred to the Ministry of Public Works and Settlement and other duties of the said directorate related to rural areas were transferred to metropolitan municipalities in the provinces of İstanbul and Kocaeli, and to special provincial administrations in other provinces. Along with this, direct funds were allocated to special provincial administrations and local administration unions in 2005 and 2006 and implementation of the Project for Supporting the Infrastructures of Villages (KÖYDES) was started in order to improve the infrastructures of villages. However, scattered and disorganized structure of rural settlement units restricts the effective and widespread provision of physical and social infrastructure services.

293. Activities towards providing economic and social infrastructure for citizens, who had to leave their villages in the past due to terrorism in Eastern and Southeastern Anatolia Regions and who wish to return to their villages, are continuing.

5.6. Increasing Quality and Effectiveness in Public Services

294. In order to ensure effective management of the economic and social development process, it has become a requirement to provide public administration in Turkey, which has a centralized structure, with a contemporary understanding, structure and operation, where citizen oriented and high quality services can be provided in an effective and rapid manner and concepts such as flexibility, transparency, participation, accountability, responsibility and predictability are emphasized.

295. The Law on the Right of Access to Information was enacted for the purpose of providing the citizens with access to information produced by the public sector in compliance with the principles of equality, neutrality and openness as is required by a democratic and transparent management.

296. With the Law No. 5176 on Establishing Ethics Board for Public Servants and Amendments to Certain Laws, code of conduct such as transparency, neutrality, honesty, accountability and protecting public interest, which need to be complied by public officials, were identified and The Ethics Board for Civil Servants was set up for monitoring the implementation.

297. Conventions of the European Council towards fighting against corruption were approved and Turkey became a member of the Group of States Against Corruption (GRECO). In addition, the United Nations Convention against Corruption was ratified and the Law on Amendments to Certain Laws to Prevent Bribery of Foreign Public Officials in International Business

Transactions was enacted in order to ensure harmonization with the OECD Convention.

5.6.1. Rationalizing Powers and Responsibilities Between Institutions

298. Important regulations with regard to the institutional structure of the state were realized during the 8th Plan period.

299. In order to allow the Prime Ministry to return to its principal duty by reducing the tasks it executes and to downsize its organizational structure, the number of institutions and organizations attached and affiliated to the Prime Ministry was reduced. The Ministry of Culture was merged with the Ministry of Tourism and the Ministry of Environment was merged with the Ministry of Forestry. Thus, the number of ministries, which was previously 36, was reduced to 23.

300. The General Directorate of Rural Services and the Undersecretariat of Housing were closed down, the confusion about authority and duties among the relevant institutions in the fields of production, consumption and supervision of food items was removed and the Ministry of Agriculture and Rural Affairs was rendered as the sole authority.

301. In spite of this, confusion about authority and duties among public institutions and organizations is still being encountered in some sectoral and thematic fields, especially in disaster management. Alongside the changing role of state, the Report on Reviewing the General Institutional Structure in the State was prepared in order to ensure that the duties, authorities and functions of all public institutions and organizations are reviewed and are provided with a structure where they can perform their principal duties. In this report, replication of authority and duties among public institutions and organiza-

tions were identified and recommendations about “which institutions should perform certain functions” were made.

302. In recent years, when some institutions are established in Turkey, the relevant units of ministries, which previously performed these duties, or the duties of these ministries, are not regulated. The duties assigned to the newly established institutions continue to remain among the duties of the relevant units of ministries that used to previously perform these duties.

303. In sectors where more than one institution or organization performs activities, it is observed that a general coordination problem and lack of collaboration exist.

304. In spite of the legal regulations realized to organize the duties, authorities, resource sharing and service relations among central and local administrations in recent years, the administrative, financial and personnel problems related to local administrations still continue. Furthermore, there is still the requirement for the central government to determine the necessary standards in order to reach a certain level of service in the country in the framework of these regulations and to supervise the compliance with these standards.

5.6.2. Increasing Policy Making and Implementation Capacity

305. Comprehensive reforms, which were started in public administration and public financial management, have focused on strengthening the confidence in public administrations, ensuring financial efficiency and provision of effective public services by organizations.

306. In this framework, the Public Financial Management and Control Law No. 5018, which covers the allocation of public resources to prioritized public services,

the efficient, effective and economic use of these resources and delegation of more authority during the budgeting process to public administrations, was enacted. Compliance with the principles introduced by the Law No. 5018 has been accomplished with the realization of the legal regulations concerning local administrations in recent years.

307. Guidelines that will be helpful in strategic planning and performance based budget implementation were prepared. Pilot applications of strategic planning and performance based budgeting were started in selected public organizations in 2004 and strategic planning activities have been completed in six of the eight public organizations. The studies for updating and improving the guidelines in light of the information and experience obtained from pilot applications have reached the stage of completion.

308. Extending the implementation of strategic planning in public administrations within the framework of a gradual transition program has been adopted. A Strategic Management Survey to determine the management processes, management quality and the institutional capacity in public organizations was conducted in 2005 in order to create the transition program based on data and information.

309. With the aim of creating an organization towards activating a strategic management understanding in public administrations, strategy development units were established at the end of 2005. Some of secondary legislations have been completed.

5.6.3. Developing Human Resources In the Public Sector

310. An effective human resource planning to bring the public employees up to a competent level cannot be made in public institutions and organizations. The inability

ity to provide public employees with adequate on the job training, prevents them from acquiring the necessary information and skills that would allow them to perform their duties productively.

311. Unclear and inadequate definition of promotion on the job in the legislations, lack of an effective reward system and inequalities in salaries in the public sector, affect the personal development of public employees in a negative manner.

312. The problems of imbalanced distribution of public employees among institutions and organizations and inadequate number of employees are observed. The fact that the transition to the use of norm cadre could not be fully realized in public institutions and organizations, results in the inability to determine the number and qualifications of employees required by public services.

313. Efforts are still under way to enact a new law to replace the Civil Servants Law No. 657 in order to resolve such problems.

5.6.4. Ensuring the Dissemination and Effectiveness of e-Government Applications

314. Individual e-government activities carried out by public institutions and organizations were gathered under the same roof with the e-Transformation Turkey project, which was started in 2003 and is being currently carried out in an integrated manner. In the first and the second action plans prepared within the scope of this project, covering the 2003-2004 period and 2005, respectively, special emphasis was placed on achieving effective information sharing in an electronic environment and creating the legal infrastructure and the laws regulating the issues concerning e-signature and the right of access to information have been put into effect.

315. With the Central Census Management System (MERNIS) Project, an information system, where national identification information is kept based on a single unique number has been set up and this information has started to be shared with other public institutions. Tax and customs transactions are currently being presented in an electronic environment to a considerable extent and the use of these systems is being spread. The implementations of The National Judiciary Network Project and e-declaration that covers social insurance transactions have started. The Budget Management Information System supporting the budget preparation and operation process is being effectively implemented by public administrations. The legal and administrative infrastructure for the use of e-signature in public sector has been established and the implementation has been started. The works for e-government gateway, which were started in 2005 towards integrated provision of services to citizens from a single point, on the other hand, are still continuing.

316. 12 of the 20 basic public services accepted by the EU are being provided through electronic channels at various levels in Turkey. While the level of Turkey's provision of these 20 public services in electronic environment was 53 per cent as of 2005, the EU-25 average was 65 per cent.

5.6.5. Improving the Justice System

317. Fundamental constitutional and legal regulations were made during the 8th Plan period to harmonize the justice and the judicial system with the EU norms. With the amendments to the Constitution, radical regulations have been put in place to raise the fundamental rights and freedoms to the level of universal standards and to achieve harmonization with the Copenhagen Criteria in an effective manner. In addition, the fact that women and men have

equal rights has been more clearly stated and the death penalty has been entirely abolished.

318. The courts specialized in the areas of family, consumer rights, maritime, and intellectual and industrial property rights were established along with the Turkish Justice Academy. The law on the establishment of regional justice courts (courts of appeal) as second-degree judicial courts to serve between the first-degree courts and the Supreme Court of Appeals came into effect. Judicial organizations in 137 districts and 120 punishment execution institutions were closed down in order to ensure effectiveness and to prevent inefficiency in judicial services.

319. Within the scope of renewing the fundamental laws, which have become outdated in terms of the social, political and economic changes, and can not respond to today's needs, so as to meet the contemporary requirements, the Turkish Civil Code, the Turkish Criminal Code, the Code of Criminal Procedure, the Law on Misdemeanors, the Law on the Execution of Punishment and Security Measures and the Law on Parole and Probation and Assistance Centers and Protection Boards were enacted. Furthermore, the draft of the Turkish Commercial Code and the Turkish Code of Obligations were prepared.

320. Within the context of improving the physical conditions of judicial services and accelerating their processes, during the Plan period significant progress was achieved with regard to the field of e-justice and separation of courthouses from government buildings and moving them to detached locations.

321. On the other hand, the inability to implement the rule of law with all its institutions and rules, to adequately follow new developments in forming legal rules, to eliminate problems associated with quality and quantity of human resources in the judicial system, to sufficiently meet the physical and technical infrastructure requirements, and the slow operation of the trial process prevent effective provision of judicial and justice services with high quality.

322. Compared to EU countries, it is observed that there are insufficient number of judges and judicial staff in Turkey.

5.6.6. Making Security Services Effective

323. In an environment where rapid transformation are experienced in social and cultural areas together with economic fluctuations, employment and urban adaptation problems are widespread due to internal migration, international and organized activities of criminal organizations through use of information and communi-

Table.5.14: Number of Judges, Judicial Staff and Cases per 100,000 People (2002)

| Countries | Number of Judges (*) | Number of Judicial Staff (*) | Number of Cases in the Courts |
|-----------------|----------------------|------------------------------|-------------------------------|
| Germany | 25 | 73 | 3,381 |
| France | 10 | 27 | 3,711 |
| The Netherlands | 11 | 31 | 4,197 |
| Spain | 10 | 89 | 4,255 |
| Portugal | 15 | 93 | 6,540 |
| Italy | 12 | 56 | 7,145 |
| Turkey | 7 | 31 | 3,352 |

Source: The European Commission for the Efficiency of Justice (CEPEJ) 2002 European Judicial Systems.

(*) Decimal numbers are rounded to the closest integer.

cation technologies have led to an upward trend in organized crimes, especially in terrorism. Therefore, the issue of domestic security has maintained its importance also during the 8th Plan period.

324. Even though some progress was accomplished in the issues such as fighting against terrorism and its financing and illegal migration and refugee movements, human trafficking, organized crimes, and

drug use and abuse, this progress was behind the Plan targets.

325. Issues such as lack of coordination among security forces, inability to establish sufficient coordination among relevant institutions in intelligence activities carried out to prevent crime and the failure to strengthen and spread the criminal infrastructure that provides important inputs in reaching the suspect from the evidence throughout the country, still remain important.



6-Targets and Projections for the Plan Period

326. Owing to structural reforms and decisive implementation of tight monetary and fiscal policies in recent period, Turkish economy achieved stability and displayed a distinguished growth performance among world economies. During the Ninth Development Plan period pursuance of the reform process and implementation of tight monetary and fiscal policies without any concessions, will ensure the sustainability of this growth per-

formance. GDP is expected to increase at an annual average rate of 7 per cent during the Plan period and per capita income is expected to be realized as 10,100 dollars in 2013. Thus, significant progress will be recorded within the process of nominal convergence to the EU and with its GDP reaching approximately 800 billion dollars; Turkey will rank as the 17th biggest economy in the world.

Table.6.1: Main Macroeconomic Indicators

| | 2006 | | 2013 | 2007-2013 Average |
|-------------------------------|-------------------------------|---------------------------------|---------------------------------|--------------------------------|
| | Current Prices Billion YTL | As a Share of GDP (Per cent) | As a Share of GDP (Per cent) | Real Growth Rate (Per cent) |
| Agriculture | 54.8 | 9.9 | 7.8 | 3.6 |
| Industry | 142.9 | 25.9 | 27.2 | 7.8 |
| Services | 354.1 | 64.2 | 65.0 | 7.3 |
| GDP | 551.8 | 100.0 | 100.0 | 7.0 |
| Total Consumption | 449.0 | 81.4 | 76.1 | 6.8 |
| Public | 68.8 | 12.5 | 9.8 | 1.6 |
| Private | 380.2 | 68.9 | 66.3 | 7.2 |
| Fixed Capital Investment | 117.2 | 21.2 | 24.2 | 9.1 |
| Public | 31.0 | 5.6 | 6.0 | 8.1 |
| Private | 86.2 | 15.6 | 18.2 | 9.4 |
| Total Final Domestic Demand | 566.2 | 102.6 | 100.3 | 7.5 |
| Total Domestic Demand | 593.4 | 107.5 | 103.4 | 7.2 |
| Exports of Goods and Services | 161.5 | 29.3 | 32.4 | 11.2 |
| Imports of Goods and Services | 203.2 | 36.8 | 35.8 | 11.2 |

327. Productivity increase will again play an important role in the growth performance, as in the 2002-2005 period. Increase in TFP is expected to realize at an annual average rate of approximately 2.3 per cent. TFP increases are particularly expected to arise from the industry and services sectors. With the impact of both the reforms realized in the labor market and the active labor policies being carried out, the growth is expected to be reflected in employment and employment is estimated to increase at an annual average rate of 2.7 per cent during the Plan period. A considerably high rate of increase, an annual average of 835 thousand persons, in employment of industry and services sectors is envisaged during the Plan period, and despite the population growth and dissolution in agriculture, this increase is expected to

reduce the unemployment rate to 7.7 per cent at the end of the period.

328. Private and public sector fixed capital investments are expected to increase at annual average rates of 9.4 per cent and 8.1 per cent, respectively, and increase in the total fixed capital investments is estimated to be realized as 9.1 per cent during the Plan period.

329. Thus, the contribution of factors of production to growth are estimated as 33.6 per cent for the increase in capital stock, 29.4 per cent for the increase in employment and 37.0 per cent for the increase in the TFP during the Plan period.

330. The reduction in inflation rate, which has a major role in achieving sustainable growth environment, is projected to continue during the Plan period, and the CPI

Table.6.2: Other Macroeconomic Indicators

| | 2006 | 2013 | 2007-2013 Annual Average Percentage Change |
|--|-------|---------|--|
| Increase in Factors of Production, % | | | |
| Employment | 2.3 | 3.3 | 2.7 |
| Capital Stock | 4.3 | 5.6 | 4.8 |
| TFP | 1.5 | 2.2 | 2.3 |
| Contribution to Growth by Factors of Production, % | | | |
| Employment | 27.0 | 35.1 | 29.4 |
| Capital Stock | 34.8 | 36.3 | 33.6 |
| TFP | 38.2 | 28.6 | 37.0 |
| GDP, Current Prices, Billion YTL | 551.8 | 1,145.5 | --- |
| GDP, Current Prices, Billion \$ | 380.5 | 797.4 | --- |
| GDP per capita, \$ | 5,215 | 10,099 | 9.9 |
| GDP per capita, PPP, \$ | 8,786 | 15,332 | 8.3 |
| Foreign Trade | | | |
| Export f.o.b., Billion \$ | 83.1 | 210.0 | 14.2 |
| Import c.i.f., Billion \$ | 133.3 | 275.0 | 10.9 |
| Trade Balance, Billion \$ | -38.1 | -45.0 | --- |
| Trade Volume / GDP, % | 54.4 | 59.0 | --- |
| Tourism Revenues, Billion \$ | 19.6 | 36.0 | 9.3 |
| Current Account Balance / GDP, % | -7.3 | -3.0 | --- |
| Foreign Direct Investment Inflow, Billion \$ | 17.0 | 12.0 | 12.1* |
| Prices | | | |
| Increase in CPI, End of Year, % | 5.0** | 3.0 | --- |

* Annual average foreign direct investment inflows.

** 2006 Annual Programme target has been kept.

increase is expected to decline to 3 per cent.

331. When the sectoral composition of production in the Turkish economy, which is projected to grow at an annual average rate of 7 per cent during the Ninth Development Plan Period, is examined, the industry and services sectors are expected to come forward. Along with the modernization of the economy and structural reforms, the share of the agricultural sector in total production and value-added is expected to continue to decrease. The share of agriculture sector in production, which was 18 per cent and 11.2 per cent on the average in the 1980-2000 and 2002-2005 periods, respectively, is projected to recede back to 7.8 per cent as of 2013, whereas the annual average growth rate of agriculture sector is expected to be 3.6 per cent during the 2007-2013 period. While the transformation in the sectoral composition of production is expected to take place against the agriculture sector, developments in favor of the industry sector are projected with the contribution of the policies that would increase competitiveness and support the shift to a high value-added struc-

ture. In this context, the share of the industry sector in total production is expected to increase during the Plan period and reach 27.2 per cent at the end of this period. During this period, the annual average growth rate of industry sector is projected to exceed the economic growth rate and to realize as 7.8 per cent. On the other hand, the annual average growth rate of the services sector is projected to be 7.3 per cent during the Plan period; therefore, the share of services in total production is expected to increase slightly compared to previous years and reach 65 per cent at the end of this period.

332. During the Ninth Development Plan period, a sustainable high increase in exports will be attained through the policies to be followed towards increasing competitiveness of the economy and shifting to a high value-added production structure. Exports, which were realized as 73.4 billion dollars in 2005, is targeted to reach 210 billion dollars in 2013 with an annual average increase of 14.2 per cent during the Plan period. Parallel with the sustainable high economic growth, imports are also projected to show an annual average

Table.6.3: Targets and Projections for the Public Sector (As a Share of GDP)

| | 2006 | 2013 | Average of 2007-2013 |
|---|------|------|-------------------------|
| General Government Expenditures | 45.1 | 36.1 | 40.3 |
| General Government Primary Expenditures | 36.9 | 34.2 | 36.4 |
| General Government Revenues | 45.5 | 39.7 | 41.8 |
| General Government Borrowing Requirement (1) | -0.3 | -3.6 | -1.6 |
| General Government Interest Payments | 8.2 | 1.9 | 3.9 |
| Public Sector Borrowing Requirement (1) | -0.9 | -3.6 | -1.7 |
| Transfers to Social Security Institutions & Health Expenditures in the Budget (2) | 5.6 | 5.0 | 5.3 |
| Tax Burden (3) | 31.6 | 30.0 | 30.8 |

(1) (-) Refers to deficit.

(2) The figure for 2006 refers to the total transfers to social security institutions, invoice payments and additional premia paid to Civil Servants Pension Fund, health expenditures for civil servants and green card holders as well as state contribution to the Unemployment Insurance Fund, whereas the figure for 2013 refers to the total transfers to be made from the budget in order to compensate the deficit of pension system and universal health insurance, state contribution to the pension system, universal health insurance and unemployment insurance fund as well as the invoice payments to be paid to the Civil Servants Pension Fund.

(3) Including social security contributions, excluding tax rebates.

increase of 11 per cent and reach 275 billion dollars in 2013. Therefore, the trade volume will be realized as approximately 470 billion dollars at the end of the Plan period. The ratio of the trade deficit to GDP, which was 9 per cent in 2005, is expected to decline to 5.6 per cent in 2013. In this framework, the ratio of the current account deficit to GDP will decrease from 6.4 per cent in 2005 to 3 per cent at the end of the Plan period.

333. Structural measures, economic stability and high economic growth rate are expected to positively affect public finance balances during the Plan period and the ratio of the general government budget balance to GDP, which displayed a deficit of 9 per cent annually on average during the 8th Plan period, is projected to turn to a surplus of 1.6 per cent on the average due to the impact of the decline in interest expenditures.

334. The success to be achieved in the fight against informal economy will be one of the major instruments in sustaining the stability in public finance during the Plan period. The increase in revenues with the contribution of the economic growth, will allow for a more equitable distribution of the tax burden and a highly competitive economic structure as well as the sustainability of the stability in public finance. Furthermore, it will enable allocation of more resources to priority areas without making concessions from fiscal discipline.

335. The share of the SEE system in the economy will considerably decline with the impact of privatization. The ratio of the overall gross sales revenues of SEEs to GDP is expected to decline from 9 per cent in 2006 to 3.3 per cent in 2013. During the same period, the ratio of the value-added of the SEE system to GDP is also estimated to decrease from 2 per cent to 0.6 per cent.

336. At the end of the Plan period, as a result of privatization, it is aimed that the state will completely withdraw from activities such as airlines and maritime transportation and locomotive and railway car production; sugar, tobacco and tea products processing; petrochemical industry; material procurement; distribution and wholesale trading of electricity. Furthermore, its shares in electricity generation, the natural gas market, coal and other mining operations are planned to be reduced. However, the SEEs in the areas of grain purchasing, seed production, railway transportation infrastructure, electricity transmission, oil exploration, airport operation, postal services and coastal security provision are not expected to be privatized during the Plan period.

337. Following the reform, which will become effective starting from 2007, the increasing social security deficit is aimed to be realized at lower rates in terms of its share in GDP during the Plan period compared to its 2006 level. Even though a decrease in the retirement system deficit is expected following the reform, the social security deficit cannot be reduced to the desired levels because of the additional burden to be brought by the universal health insurance system that will cover the entire population, facilitate access to health services and provide common standards in health insurance.

338. With the expansion of premium bases for civil servants, the increase in premium revenues at an annual average rate of 0.5 per cent of GDP are effective in the reduction of the retirement system deficit. Since the additional employer premium amount arising from the expansion of the base will impose a burden on the budget and since the additional amount that should be paid by the civil servants will be met from the budget so as not to cause a reduction in salaries, this regulation will increase budgetary expenditures. Therefore, since the



increase in budgetary expenditures caused by this regulation will create additional revenues in the social security system, no changes will take place in the total fiscal balance of the public sector.

339. During the Plan period, with the impact of the gradual reduction in Social Security Organization (SSK) employer premium rate in order to reduce the informal economy, it is projected that a certain amount of increase will take place in the deficit of the system during the initial years of this application. However, towards the end of the Plan period, the increasing formal employment caused by this premium reduction will bring additional revenues to the system, hence deficit of the system will start to decrease.

340. During the Ninth Development Plan period, the shares of public investment in education and health sectors, which are among priority sectors, will be increased. Public investments will be increased in order for the irrigation project stock to be

used up in the agriculture sector, and an important part of these projects will be completed via speeding up the projects. Parallel with the liberalization policy, the share of the public sector in energy investments will be gradually decreased. Even though the transportation sector will receive the largest share from public investments during the Plan period, since major projects will be completed over the years and financing models that involve the participation of the private sector will be utilized to the maximum extent during the same period, the share of the sector in public investments will be reduced. Following the withdrawal of the public sector from the production of commercial goods and services and the privatization of important SEEs, the share of public investment in mining and manufacturing industries will decrease. The weight of judicial services and e-government investments in other public service investments will be increased during the Plan period.

Table.6.4: Public Fixed Capital Investments by Sectors

| Sectors | 2006 (At Current Prices) | | 2013 (At Current Prices) | | 2007-2013 (At 2006 Prices) | |
|------------------------------|-----------------------------|---------|-----------------------------|---------|-------------------------------|---------|
| | Million YTL | % Share | Million YTL | % Share | Million YTL | % Share |
| Agriculture | 1,375 | 7.7 | 5,040 | 11.8 | 17,278 | 10.2 |
| Mining | 640 | 3.6 | 1,141 | 2.7 | 5,514 | 3.3 |
| Manufacturing | 445 | 2.5 | 169 | 0.4 | 1,517 | 0.9 |
| Energy | 2,529 | 14.2 | 2,592 | 6.0 | 17,750 | 10.5 |
| Transportation-Communication | 5,674 | 31.8 | 10,984 | 25.6 | 44,023 | 26.0 |
| Tourism | 48 | 0.3 | 198 | 0.5 | 768 | 0.5 |
| Housing | 109 | 0.6 | 390 | 0.9 | 1,310 | 0.8 |
| Education | 2,494 | 14.0 | 9,399 | 21.9 | 32,405 | 19.1 |
| Health | 1,268 | 7.1 | 3,702 | 8.6 | 14,293 | 8.4 |
| Other Services | 3,243 | 18.2 | 9,239 | 21.6 | 34,636 | 20.4 |
| -Economic | 1,728 | 9.7 | 4,195 | 9.8 | 15,624 | 9.2 |
| -Social | 1,515 | 8.5 | 5,044 | 11.8 | 19,012 | 11.2 |
| Total | 17,824 | 100 | 42,855 | 100.0 | 169,495 | 100.0 |
| Investment Workers Payment | 2,463 | | 3,885 | | 19,180 | |
| Local Administration | 10,690 | | 22,217 | | 105,936 | |
| Grand Total | 30,978 | | 68,957 | | 294,611 | |

Table.6.5: Targets in Energy Sector

| | 2006 | 2013 | 2007-2013* |
|--------------------------------------|---------|---------|------------|
| Primary Energy Demand (Thousand Toe) | 96,560 | 147,400 | 6.2 |
| Electricity Demand (GWH) | 171,450 | 295,500 | 8.1 |

* Denote developments within the period.

341. In line with the economic and social development, an average annual increase of 6.2 per cent is projected for primary energy demand during the Plan period. The share of natural gas in energy consump-

the other hand, the electricity demand is projected to increase by 8.1 per cent annually on average during the Plan period, driven mainly by the developments in industrial production and services sector.

Table.6.6: Targets in Transportation Sector

| | 2006 | 2013 | 2007-2013* |
|---|-------|--------|------------|
| Railway Length of Main Lines (Km.) | 8,257 | 9,195 | 938 |
| a) New Line Construction | | | 938 |
| b) Line Renewing | | | 1,000 |
| Length of Divided Highways (Km.) | 9,441 | 15,000 | 5,559 |
| Length of of Bituminous Hot Mixture Coated State and Provincial Roads | 7,500 | 14,500 | 7,000 |
| Airport Passenger Traffic (Million Passengers) | 60 | 110 | 50 |

* Denote developments within the period.

tion, which was 28 per cent in 2005, is expected to increase to 34 per cent, while the share of oil products is estimated to reduce from 37 per cent to 31 per cent. On

342. An annual average increase of 12 per cent has been projected in domestic railway freight transportation during the 2007–2013 period considering the

Table.6.7: Developments in Freight Transport (Million Tone-km)

| | 2006 | 2013 | 2007-2013 Percentage Change |
|---|---------|-----------|-----------------------------------|
| Domestic | | | |
| Highway (1) | 169,500 | 248,000 | 5.6 |
| Railway | 11,505 | 25,400 | 12.0 |
| Maritime | 5,400 | 8,400 | 6.5 |
| Airline (3) | 468 | 659 | 5.0 |
| Pipeline | | | |
| Crude oil | 2,655 | 2,685 | 0.2 |
| Natural Gas (Millions of m ³) (2) | 29,253 | 49,844 | 7.9 |
| International | | | |
| Railway | 1,730 | 8,248 | 25.0 |
| Maritime | 749,000 | 1,740,000 | 12.8 |
| Airline (3) | 2,613 | 4,777 | 9.0 |
| Pipeline | | | |
| Crude oil (Transit) | 7,583 | 71,174 | 37.7 |

(1) The transportation on the 117 kms of motorways and connection roads that were transferred to the İstanbul Metropolitan Municipality is excluded beginning from 2005.

(2) Not included in total.

(3) Turkish Airlines' value



Table.6.8: R&D Targets

| | 2002 | 2006* | 2013 |
|--|--------|--------|--------|
| The Share of R&D Expenditures in GDP (%) | 0.67 | 0.80 | 2.00 |
| The Number of Full Time Equivalent Researchers | 23,995 | 28,000 | 80,000 |

Source: TURKSTAT

* Estimation of the Undersecretariat of SPO.

factors such as starting the operation of private sector trains in Turkish State Railways (TCDD) lines as a result of ending the transportation monopoly of TCDD, the additional capacity to be allocated to cargo trains with the shifting of passenger transportation from classical trains to high speed trains and the productivity increases as a result of the private sector involvement. International railway freight transportation has the highest development potential in railway transportation. Due to the natural advantage brought by the approximately 2200 km long transportation route between Germany and Turkey and the difficulties encountered by TIR fleets in Europe, major import companies have started to prefer the international railway transportation as an alternative. The high increase in international railway transportation in the 8th Plan period is expected to continue during the Ninth Development Plan period and the increase is forecasted to be 25 per cent annually on average.

343. In increasing the share of R&D expenditures in GDP, substantial increases in private sector R&D expenditures as well as investments and supports provided from the state budget for R&D in increasingly growing amounts, constitute great importance. As of 2002, 64.3 per cent

of total R&D expenditures were realized by the higher education institutions, while 7 per cent and 28.7 per cent were made by other public institutions and the private sector, respectively. As of 2013, the private sector is projected to realize at least 60 per cent of total R&D expenditures. In this framework, supports to be provided by the public sector will be designed in a way to increase the R&D activities of the private sector.

344. Increasing R&D expenditures at this scale will only be meaningful with a sufficient number of adequately qualified researchers, who can use the created resources efficiently. As of 2002, 73.1 per cent of total researchers were employed in universities, while 11.5 per cent and 15.4 per cent of those were employed in other public institutions and the private sector, respectively. In this scope, policies will be implemented to ensure increasing the number of researchers and employing major part of these researchers in the private sector.

345. During the Plan period, a significant change is not expected in the fixed telephone subscriber penetration, which has reached the saturation point. On the other hand, the upward trend in mobile tele-

Table.6.9: ICT Infrastructure (Per cent)

| | 2006 | 2013 | 2007-2013* |
|--|------|------|------------|
| Fixed Telephone Subscriber Penetration Rate | 26.0 | 25.0 | -0.6 |
| Mobile Telephone Subscriber Penetration Rate | 64.0 | 90.0 | 5.0 |
| Broadband Subscriber Penetration Rate | 3.5 | 20.0 | 28.3 |
| Internet User Penetration Rate | 20.0 | 60.0 | 17.0 |

* Annual average growth rate.

Table.6.10: Improving Efficiency of Agricultural Structure

| | 2006 | 2013 |
|--|------|------|
| The Share of Animal Production in Total Agricultural Production, Per cent | 28.0 | 37.0 |
| Percentage of Certified Cereal (Wheat-Barley) Seed Usage, Per cent | 30.0 | 50.0 |
| Proportion of Cultured and Cross Bred Cattle to Total Cattle Stock, Per cent | 67.0 | 77.0 |
| Proportion of Organic Agricultural to Total Agricultural Land, Per cent | 1.0 | 3.0 |
| DSİ Irrigation Area (Net Cumulative), Million Hectare | 2.55 | 3.00 |
| Land Consolidation Activities of General Directorate of Agricultural Reforms (Cumulative), Million Hectare | 0.60 | 1.27 |
| Industrial and Soil Protection Plantation (Cumulative), Million Hectare | 2.60 | 3.30 |

phone subscriber penetration is expected to continue and the penetration of subscribers is estimated to reach 90 per cent at the end of the period. Moreover, parallel with the increase in the supply of services provided in electronic environment by the public and private sectors, the internet user penetration rate of individuals who create the demand for these services is expected to rise to the level of 60 per cent. With the increase in the number of internet users and the increase in the provision of services in electronic environment, the ratio of broadband subscribers is also estimated to reach 20 per cent.

346. In order to ensure productivity increase within the process of attaining a competitive agricultural structure during the Ninth Development Plan Period, the proportion of certified seed usage in grain production is expected to double by the end of the Plan period compared to 2005 and the share of the animal husbandry in agricultural production is estimated to continue rising with the increase in cross bred and culture bred cattle. The ongoing

increase in organic farming is expected to continue and the share of organic agricultural fields is expected to reach 3 per cent of the total agricultural fields at the end of the Plan period. In addition to these, in line with the investment opportunities to be created, it is aimed to increase irrigation areas of General Directorate of State Hydraulic Works (DSİ) and forestation activities.

347. While the tourism revenues are estimated to reach 36.4 billion dollars by the end of the Ninth Development Plan period, the number of tourists visiting Turkey and the number of Turkish citizens going abroad are expected to rise to 38 million and 15 million persons, respectively.

348. By the end of the Ninth Development Plan period, it is expected that the total number of certified beds will be 950 thousands, the facilities under construction and at the project stage will be completed and the total number of beds will reach 1.3 million including the beds opened for tourism in second residences.

Table.6.11: Tourism Targets

| | 2006 | 2013 | 2007-2013* |
|---|------|------|------------|
| The Number of Tourists, Million Persons | 23.0 | 38.0 | 7.4 |
| Tourism Revenues, Billion Dollars | 19.6 | 36.4 | 9.3 |

* Annual average growth rate.



Table.6.12: Demographic Indicators and Age Distribution of Population

| | 2006 | 2013 |
|---|------|------|
| Total Population, Mid Year, Million | 73.0 | 79.0 |
| Annual Natural Increase, In Thousands(1) | 12.4 | 10.1 |
| Total Fertility Rate, Number of Children | 2.18 | 2.07 |
| Infant Mortality Rate, In Thousands | 22.6 | 18.5 |
| Life Expectancy at Birth, Year | | |
| Female | 74.0 | 74.8 |
| Male | 69.1 | 69.9 |
| Total | 71.5 | 72.3 |
| Distribution of Population by Three Main Age Groups | | |
| 0-14 | 28.1 | 25.3 |
| 15-64 | 66.0 | 68.2 |
| 65+ | 6.0 | 6.5 |

(1) Not including migrations.

349. Due to the improvements observed in demographic indicators and the expectation that the improvements will continue during the Plan period as well as in the long-term, it is possible to suggest that the population structure of Turkey is becoming relatively similar to those of the developed countries. Important changes are also expected in the age structure of the population. The downward trend both proportionally and in numerical terms in the 0-14 age group since 2005, will continue in the long run and the working age population and the elderly population will consistently increase both proportionally and in numerical terms.

350. The structural transformation observed in the labor market is expected to continue during the Plan period as well and the labor force leaving agriculture is estimated to shift to the other sectors. The transformation in the structure of employment is expected to be basically in favor of the services sector.

351. Employment is estimated to increase at an annual average rate of 2.7 per cent during the Plan period as a result of new employment opportunities to be created in non-agricultural sectors by achieving

employment focused sustainable growth, improving the business environment, enabling efficient functioning of the labor market, raising the level of quality and skills of the labor force and developing active labor market policies.

352. On the other hand, labor force participation rate is expected to increase by 2.1 percentage points during the Plan period through raising the level of education, increasing employability by active labor market policies, and facilitating and encouraging entrance into the labor market. The main determinant of this increase is expected to be the increase in female force participation rate.

353. Based on these developments, it is expected that the employment rate will increase by 3.2 percentage points, whereas the unemployment rate will decrease by 2.7 percentage points during the Plan period.

354. During the Plan period it is aimed that significant increases in the schooling rates of pre-school and secondary education will be achieved. It is aimed to ensure all children to have primary level education with the contribution of the decrease in the population of this age group. Along

Table.6.13: Employment Indicators (Per cent)

| | 2006 | 2013 | Average of 2007-2013 |
|------------------------------------|------|------|----------------------|
| Labor Force Participation Rate | 48.6 | 50.7 | 49.8 |
| Female | 25.4 | 29.6 | 27.8 |
| Male | 72.2 | 72.2 | 72.2 |
| Growth Rate of Employment | 2.3 | 3.3 | 2.7 |
| Agriculture | -2.9 | -2.9 | -2.9 |
| Non-Agriculture | 4.4 | 4.9 | 4.5 |
| Industry | 3.6 | 2.0 | 2.5 |
| Services | 4.7 | 5.9 | 5.2 |
| Sectoral Composition of Employment | | | |
| Agriculture | 28.0 | 18.9 | 22.7 |
| Non-Agriculture | 72.0 | 81.1 | 77.3 |
| Industry | 19.7 | 19.4 | 19.8 |
| Services | 52.4 | 61.7 | 57.5 |
| Employment Rate | 43.6 | 46.8 | 45.1 |
| Unemployment Rate | 10.4 | 7.7 | 9.6 |

with the rising schooling rate in secondary education, the higher education schooling rate is planned to reach 48 per cent in order to meet the increase in higher education demand.

355. The number of inpatient beds and physicians and their shares in the population, which are important indicators of ac-

cessibility to health services, are expected to improve during the Ninth Development Plan period. However, since the impact of the quota increases to be realized in Ninth Development Plan period will be seen in the following Plan period, the improvement regarding the number of persons per physician will remain limited in the Ninth Development Plan period.

Table. 6.14: Targets by Education Levels (1)

| | | 2005/2006 (2) | 2012/2013 |
|---|--------|---------------|-----------|
| Schooling Rates (%) | | | |
| Pre-school Education (3) | | 19.9 | 50.0 |
| Primary Education | | 95.6 | 100.0 |
| Secondary Education | | 85.2 | 100.0 |
| Higher Education (4) | Total | 38.4 | 48.0 |
| | Formal | 24.8 | 33.0 |
| Number of Students per Classroom | | | |
| Primary Education (5) | | 43.5 | 30.0 |
| General Secondary Education | | 37.9 | 30.0 |

Source: TURKSTAT, MoNE, SPO.

(1) The data for each education level is given as gross school rates.

(2) 2004-2005 data is used for higher education.

(3) Calculated for 4-5 age group.

(4) The universities and other higher education institutions are included, the graduate students are excluded. Calculated for 17-20 age group.

(5) Calculated for urban areas.



Table.6.15: Targets for Health Services

| | 2006 | 2013 |
|---|---------|---------|
| Number of Physicians | 103,150 | 120,000 |
| Number of Persons per Physician | 707 | 658 |
| Number of New Admissions to Faculties of Medicine | 4,800 | 7,000 |
| Number of Inpatient Beds | 197,170 | 236,600 |
| Number of Persons per Impatient Bed | 372 | 335 |

Table.6.16: Regional Development Indicators

| | 2001 | 2013 |
|---|-------|------|
| GDP per-capita | | |
| The highest region / the lowest region | 6.7 | 5.0 |
| The Share of Industry and Services in GDP (%) | | |
| The lowest region | 56.1 | 65.0 |
| The highest region | 99.5 | 99.6 |
| Urbanization Rate (%) | | |
| The lowest province | 26.1* | 40.0 |
| The highest province | 90.7* | 90.0 |
| The highest province - The lowest province | 64.6* | 50.0 |

* The figure is for the year of 2000.

7- Main Objectives: Development Axes

7.1. Increasing Competitiveness

356. The main objective is to ensure that the economy will have a structure, which has a high technological capability and a qualified labor force, rapidly adapts to changing conditions and which is competitive in domestic and international markets, stable and highly productive.

7.1.1. Making Macroeconomic Stability Permanent

357. Macroeconomic stability will be maintained in order to increase the competitiveness of the economy and to achieve sustainability of high economic growth.

358. Structural reforms, which will secure the macroeconomic stability and provide an effective, flexible and productive economic structure, will be continued.

359. Fiscal, monetary and incomes policies will continue to be implemented in a coherent and corroborative way.

360. The policy of explicit inflation targeting will be continued to ensure the price stability.

361. Incomes policy will be implemented in a way to take price stability and competitiveness into consideration in accordance to the requirements of the economic conjuncture.

362. In the framework of floating exchange rates regime, the exchange rate will continue to be determined by the supply and demand in the market.

363. For a current account deficit, which is sustainable and financed by sound resources, it will be ensured that structural reforms will continue, the share of high value-added products in exports will increase and the increase in exports will be persistent.

363. For a current account deficit, which is sustainable and financed by sound resources, it will be ensured that structural reforms will continue, the share of high value-added products in exports will increase and the increase in exports will be persistent.

The main objective is to ensure that the economy will have a structure, which has a high technological capability and a qualified labor force, rapidly adapts to changing conditions and which is competitive in domestic and international markets, stable and highly productive.

364. During the Plan period, fiscal discipline will be followed in a way that would continue the process of decreasing the ratio of public debt stock to national income and to assist in keeping the current account deficit under control.

365. The main objective of tax policies is to achieve a tax system, which respects the rights of taxpayers, reduces tax losses and evasion, considers equitable and balanced distribution of the tax burden in compliance with the financial power principle, and does not distort economic efficiency while meeting public expenses. For this objective;

- Legislation will be simplified and made more efficient and enforceable through the review of tax laws. Tax exemptions and exceptions will be reevaluated within the framework of economic and social policies and public financing conditions.
- Stability in tax regulations and implementation will be achieved with the aim of ensuring predictability for decision makers in the economy.
- Regulations regarding the rights of taxpayers will be made in a way to help increasing voluntary compliance of taxpayers.
- Additional resources to be created as a result of tax base expansion and the fight against informal economy will be used in reducing tax rates, particularly the transaction taxes, and social security premiums.

366. Regulations concerning the expenditure reform, which will provide significant contributions to the sustainability of the fiscal discipline will be continued; the Law No. 5018, which aims to increase efficiency, transparency and accountability in public expenditures will be fully implemented. With this aim;

- Resource allocation in the public sector will have been based on strategic plans and performance based budgeting system by the end of the Plan period.
- Internal control and internal auditing systems required for the strengthening of the management responsibility of administrations will be fully implemented in collaboration with the Central Harmonization Units responsible for guidance and supervision of these systems, in conformity with international standards and EU applications and at an internationally accepted quality level.
- The fields of social security, agriculture, health and personnel will have priority in the efforts to make public expenditures more efficient.
- Regulations that contradict with the envisaged purposes of structural reforms will be avoided.
- Public investments will be directed towards infrastructure that will increase the competitiveness of the economy and they will be used as an effective instrument in the realization of sectoral, regional and EU harmonization purposes.
- In the provision of public services and in the realization of public infrastructure investments models that will increase the participation of the private sector will be developed.

367. A new corporate governance system will be created in SEEs towards ensuring accountability, transparency and flexibility in decision making processes and reducing the number of institutions with the right to intervene in SEEs.

368. Implementation of the pricing policy in compliance with market conditions will be continued in SEEs.

369. With the aim of increasing the competitiveness of the industry and improving the investment and business environment, regulations in favor of industrial subscribers will be made in determining energy input prices, which create a negative pressure on the costs of the manufacturing industry.

370. The universal health insurance system will be implemented together with the Health Transformation Program, in order to reduce the financial burden it will bring along. In case the financial burden to be caused by the universal health system exceeds the projected amount, the system will be reevaluated and measures towards reducing the financial burden will be taken.

7.1.2. Improving the Business Environment

371. The main objective is to improve the business environment by providing a competitive structure.

372. With the aim of creating an information infrastructure for investors and other decision makers, the industrial information system project will be finalized and implemented.

373. The taxes and burden on the earnings and transactions of business enterprises as well as on employment will be structured in a way that will not adversely affect competitiveness.

374. Activities will be developed to encourage institutionalization in enterprises in line with corporate governance principles and, thereby, facilitate their access to financial means.

375. Access of enterprises to the financial sources under affordable conditions will be facilitated and diversification of these sources will be ensured. Access of enterprises, particularly of SMEs, to loans, will be facilitated through the development of venture capital, start-up capital and credit guarantee systems.

376. Factors having characteristics of selectivity and guidance power will be integrated to the incentive system. By ensuring coordination in practice, repetitive applications will be abolished and efficiency of incentives will be monitored. Predictability and transparency will be ensured and bureaucracy will be reduced in implementations. The harmonization of the system with the EU will be achieved and acting in compliance with the WTO rules will be continued.

377. Creation of new industrial centers will be ensured by encouraging the direction of investments towards medium level centers with appropriate infrastructure.

378. The physical infrastructure and the technological infrastructure, particularly the information and communication technologies, and logistic facilities for enterprises, will be improved and efficiency in these areas will be ensured.

379. Opportunities for acquiring building sites and lands with completed infrastructure will be increased.

380. The informal economy in the real sector will be reduced to the minimum level and entrance to the formal sector will be facilitated through the establishment of a strong supervision and monitoring system. In order to ensure functioning of the business environment according to the free market rules and to provide transparency, there will be an effective fight against corruption and organized crime activities and the use of influence will be prevented.

381. By taking into account the impact of the intellectual rights system on the economy; short, medium and long-term strategies will be determined in this area and an action plan for the implementation of these strategies will be created. Activities towards raising public awareness about the intellectual rights system will be increased.

382. Competition rules will be implemented in an effective manner against agreements, concerted actions and decisions, behaviors of dominant undertakings towards abuse of their positions and mergers and acquisition transactions that will limit competition to a considerable extent. By monitoring price movements in sectors with monopolistic and oligopolistic characteristics, activities restricting competition will be punished in a dissuasive manner, activities that prevent competition in public procurements will be investigated in an effective manner and the competition culture in the society will be improved. Except for situations where services related to general economic interest are considered, administrative operations or regulations that prevent, restrict or distort competition will be eliminated.

383. In the framework of collaboration between universities and the business world; labor force education system will be enhanced in a way to attain the characteristics required by a competitive and information based economy and to contribute more to the development of research potential. Standards regarding the competencies of the technical personnel will be introduced and the differences in the qualification levels will be eliminated through organization of various certification programs.

384. In order to ensure efficiency in the provision of public services to investors and enterprises; transparent and objective rules will be introduced, a well functioning judicial system will be created, bureaucracy related to permissions, approvals and operations will be reduced, and efficient incentive policies will be implemented.

385. Activities within the scope of the Reform Program for Improving the Investment Environment will be continued in an effective manner.

386. The public sector services provided to the business world will be transferred to the electronic environment in an inte-

grated form by restructuring the processes and steps will be taken for the widespread use of these services by the enterprises. Along with this, support will be given to enterprises for utilization of information and communication technologies in business processes, for reducing costs by dissemination of methods for doing business in the electronic environment and e-commerce, for increasing productivity and for developing sales potentials both within and outside the country. In addition, with the dissemination of e-procurement practices, a convenient, transparent and competitive environment in public procurements will be created especially for the participation of SMEs.

387. With the establishment of Development Agencies, importance will be given to benefiting from foreign capital investments to utilize the potentials of the regions and, thereby, an approach to complement the promotion activities carried out by the Investment Support and Promotion Agency throughout the country will be implemented on a regional basis. In addition, permission procedures of investors will be facilitated through the establishment of Investment Support Offices in provinces.

7.1.3. Reducing the Informal Economy

388. The fight against informal economy will be started with the preparation of a comprehensive strategy driven by a strong social and political will with the participation of all segments of the society.

389. The registered system will be strengthened to ensure the registration of unregistered enterprises, persons and employees. With this aim, administrative, financial and legal obligations will be gradually reduced within budgetary means, financing opportunities targeting registered enterprises and primarily SMEs will be increased, bureaucratic formalities will be reduced by simplifying the legisla-



tion concerning the business and working life, institutionalization of enterprises will be encouraged, public services for registered enterprises and individuals will be improved and flexibility in the business and labor market will be increased. Efficient collaboration and coordination will be ensured among institutions that play an active role in fighting against the unregistered sector.

390. All kinds of amnesty and debt restructuring expectations, which reward informality, weaken the confidence in the state and encourage informality, will be prevented.

391. In order to prevent the informal economic activities; an information system based on a single unique number covering all legal entities will be created, commercial registers will be kept in the electronic environment, e-procurement, electronic invoicing and electronic payment systems will be improved, data bases concerning financial transactions and title deed registrations will be created, and measures that will reduce the use of cash in payments will be developed. Supervision and monitoring mechanisms will be made more efficient by ensuring information sharing and coordination among public institutions.

392. With the aim of ensuring efficiency in supervision, activities towards increasing the implementation capacity of public administrations will be emphasized and the human and technological infrastructure of administrations will be improved.

393. Along with the regulations to be made in the area of taxation, legal regulations to be enacted in the areas of private law, such as the trade law that regulates daily commercial activities, will also support the fight against the informal economy.

394. Information campaigns will be organized, brochures will be distributed and training will be provided to encourage people to be part of the registered economy and to explain the adverse effects of the unregistered economy.

7.1.4. Improving the Financial System

395. In the scope of developing new markets and products and deepening the financial system; development of gold banking will be supported, rights of minority shareholders in companies will be improved and financial instruments will be issued to benefit from the capital accumulation in Gulf countries.

396. An autonomous regulatory structure for all financial institutions will be established and no gaps will be left in the regulation and supervision of the financial system.

397. Accounting and supervision standards in the financial system will be improved by taking the EU and OECD norms as the basis.

398. Legal infrastructure of insurance, factoring and financial leasing sectors will be developed.

399. Regulations ensuring the implementation of risk management in all financial institutions will be realized. In addition to the transition to Basel II, harmonization with the relevant EU regulations will be achieved and a credit and corporate governance rating system will be set up in the financial system.

400. With regard to taxation of similar transactions and opportunity to access information, factors that deteriorate competition among different institutions in the financial system will be eliminated.

401. Transaction and intermediation costs and bureaucracy will be reduced in a way to ensure efficient resource allocation in financial services.

402. Implementation of corporate governance principles will be ensured in financial markets and the real sector obtaining funds from financial markets.

403. Asset based security instruments will be developed with the aim of increasing long-term funding opportunities in capital markets.

404. Transparent, fair and encouraging activities in the area of consumer rights and consciousness will be increased.

7.1.5. Improving the Energy and Transportation Infrastructure

Energy

405. It is the main objective to supply the energy required for economic and social development in a continuous and secure manner at minimum cost. While meeting the energy demand; environmental damages will be kept at the minimum level and energy will be used in the most efficient and economical manner at all stages from generation to final consumption.

406. Privatization of public electricity generation plants and the distribution system in the electricity sector will be realized in line with the Strategy Document that was put into effect in March 2004. With the aim of obtaining the benefits expected from the privatization of distribution and generation facilities as soon as possible, the privatization process will be accelerated.

407. In order to increase the supply security, a balanced resource diversification on the basis of primary energy resources and country of origin differentiation will be ensured. It is targeted that the share of domestic and renewable energy resources in the production system will be raised to the maximum extent.

408. A suitable environment will be established, with legislative regulations if necessary, in order for the private sector to fill the gap that will arise as a result of

the withdrawal of the state from the sector, in a timely manner and to expedite the start of the new production investments in line with supply and demand projections. Thus, emphasis will be given to privatization of the existing facilities in order to prevent the burden of new investments on the state. The state will be adequately equipped in a way to closely monitor the supply security within the framework of its regulatory and supervisory role and to take measures.

409. In electricity transmission, which will remain under state ownership, investments will be carried out in a way to protect the security and reliability of the electricity system.

410. A stock agency will be set up in order to maintain sufficient emergency supply stock of oil. Adequate construction of oil and natural gas storage facilities will be ensured. Dissemination of natural gas distribution within cities will be continued.

411. It is fundamental to complete the projects, in particular the hydroelectricity power plant projects, covered by the public investment program with the lowest costs and in the fastest manner. For this reason, emphasis will be given to ensure that investment costs reflect the true cost, cross financing among sectors are avoided and cost increases that could arise as a result of delays in projects are prevented.

412. In order to create a healthy diversification in electricity supply, nuclear energy

It is the main objective to supply the energy required for economic and social development in a continuous and secure manner at minimum cost.

Turkey will be brought into the position of a transit country between energy producing and consuming countries by making efficient use of its existing geo-strategic location, thereby, strengthening Turkey's geo-strategic location even more.

will also be included among electricity production resources. Before the construction of a nuclear power plant, detailed plans and programs on storage, elimination of wastes and informing the public will be prepared by considering maximum harmony with the free market.

413. Within the framework of the liberalization of the electricity sector, a system that will produce electricity at the lowest cost will be created with the aim of increasing the competitiveness of the economy and raising the welfare of the society.

414. Turkey will be brought into the position of a transit country between energy producing and consuming countries by making efficient use of its existing geo-strategic location, thereby, strengthening Turkey's geo-strategic location even more. Ceyhan will be targeted to be one of the main distribution points in international oil markets and one of the main important places in setting the oil prices. Necessary measures will be taken in natural gas for completing the construction of transit pipelines, thereby becoming actively involved in the gas sales to Europe. The necessary infrastructure for electricity trade

with other countries, which will contribute to increasing supply security, will be created.

Transportation

415. In creating a balanced, rational and efficient transportation infrastructure where transportation modes will be used in the most suitable areas in technical and economic terms, the transportation system will be handled in an integrated approach; furthermore, policies, which will ensure shifting freight transportation to railways and transforming major ports to logistic centers and which will emphasize safety in transportation modes, will be followed.

416. Importance and priority will be given to increasing traffic safety in all modes of transportation, highways in particular, to protecting and efficiently using the existing infrastructure, and to making maximum use of information and communication technologies.

417. There will be a shift to the corridor approach in the development of transportation projects. It is essential that this approach be in a way to determine the most advantageous transportation mode with the considerations that alternative transportation modes are examined and externalities are covered.

418. With an investment and operation approach that will ensure transportation superiority in corridors, where railway and maritime transportation can compete with highways, transporting of freights, exceeding a certain tonnage by railways and sea on a corridor basis will be encouraged.

419. Realization of projects strengthening the connections with Caucasian countries, Central Asia and Middle East will be ensured with the priority given to projects that will ensure integration of the EU Trans European Transport Networks (TEN-T) with Turkey.

420. Priority will be given to the implementation of the public-private partnership models in the construction and operation of large transport projects so as to meet the financing needs and to utilize the efficiency of the private sector.

421. A continuously updated and homogeneously structured transportation database that will also cover the externalities in the sector will be established, performance criteria suitable for each sub mode will be determined, and monitoring mechanisms will be developed in order to measure the performance of public institutions in the sector.

422. An administrative structure will be established to ensure coordination in decision making and programming processes by gathering the institutions in the transportation sector under a single organizational structure.

Railways

423. Transporting freights mainly by railways is a strategic objective of the transportation sector. To this end, train operation by private sector in railways will be developed. Freight transportation will be liberalized in order to benefit from the operational advantages of the private sector; and also TCDD will be restructured and its financial burden on the public will be drawn back to a sustainable level. Railways connection line investments will be realized primarily in industrial regions by introducing partnerships with the private sector and vehicle investments will be left to the private sector.

424. Passenger transportation with high-speed train will be started on the core network consisting of the İstanbul-Ankara-Sivas, Ankara-Afyonkarahisar-İzmir, and Ankara-Konya corridors, with Ankara being the central city. Public-private partnership models will be utilized in the construction and operation of the lines on this network.

Maritime

425. In line with the objective of transforming each port into a logistic center enabling multi-modal transport besides being spots where loading and unloading is realized, highway and railway connections of all major ports will be completed.

426. Port capacities will be increased primarily in the İzmir, Marmara and Mediterranean Regions. In this scope, the Mediterranean Region will be supported to be an important logistic center of the Eastern Mediterranean.

427. In sea transportation, vessel and port investments that will increase short distance maritime transports will be intensified.

428. In the context of increasing safety in maritime transportation, Flag, Port and Coastal State controls will be improved. In this framework; Vessel Traffic Services projects will be implemented in ports, gulfs and regions where maritime traffic is more intensive.

429. With the aim of designing and manufacturing military and commercial vessels in Turkish shipyards with high domestic contribution and renewing the Turkish Maritime Fleet, new shipyards will be established primarily in the Ceyhan region based on the Turkish Shipyards Master Plan.

Airways

430. In the aviation sector, the basic objective is to be leader in the region and a major player in the world with the realization of investments towards increasing air traffic security and capacity, besides the additional measures to be taken.

431. Capacities will be increased in airports where traffic is more intensive, service standards, including easy access to airports, will be raised, and air traffic control services will be modernized.

432. Airports will be ensured to have a structure, which is environment-friendly, provides good quality services and has potential to grow. Distorted settlement surrounding airports will be prevented.

433. Towards meeting long-term demand, new airport investments will be planned primarily in İstanbul region.

434. In order to meet the requirement arising as a result of the rapid growth in the sector, an adequate number of personnel with the necessary qualifications will be trained by organizations providing training at international standards and it will be ensured that these personnel will be employed in the areas of their expertise.

435. In order to develop regional air transportation, support of local administrations and non-governmental organizations will be provided, cost reducing measures will be taken and airline companies will be directed towards creating fleets suitable for small (STOL) airport structure and passenger profiles.

436. Restructuring of the General Directorate of Civil Aviation will be completed to ensure supervision of the sector, primarily with regard to security, productivity and competition issues.

Highways

437. With the accomplishment of harmonization with the acquis and the completion of other necessary structural regulations, achieving an institutionalized highway transportation sector that respects humans and the environment and operates in a sustainable competitive environment is aimed.

438. Initiatives will be taken towards abolishing quotas and similar restrictions that prevent efficient use of the international transportation fleet capacity and distort competition.

439. Major highway routes will be transformed into two-lane highways in Bituminous Hot Mixture (BHM) standards.

440. In order to ensure the realization of maintenance and repair services on highways in a timely and adequate manner, implementation of the superstructure management system will be started and these services will be carried out on the basis of the preventive maintenance concept. In this context, necessary legal and institutional regulations will be put into practice for the maintenance and repair services to be performed mainly by the private sector.

441. Dark points, where traffic accidents take place more frequently, will be eliminated and importance and priority will be placed on making traffic control services more efficient, spreading these services within the framework of target programs, and making the public more conscious about traffic with education activities starting from the primary level. Support of public and non-governmental organizations for the traffic safety programs and participation of the private sector in projects related to traffic safety will be encouraged.

442. Costs and benefits of road construction and maintenance will be determined in a way to include all externalities.

Urban Transportation

443. A comprehensive national urban transportation strategy that is sustainable and consistent with energy, environment, economics, housing and land use policies will be set up. This strategy will be binding for the public sector and indicative for the private sector.

444. Urban transportation planning, which provides equal opportunities for all segments of the society, provides safe and continuous pedestrian movement, protects public in-

terest, minimizes foreign dependency by utilizing domestic resources, and is participatory, sensitive to the environment and productive in economical terms, will be made. Evaluation of land utilization decisions together with impacts on transportation on all scales and preparation of urban transportation plans required by each scale will be ensured.

445. Diversity and integration in urban transportation modes will be ensured through taking care of the original structure, dynamics and potentials of each city.

446. To constitute a basis for transportation studies, Urban Information Systems, which contains regularly updated data about the existing transportation system and travel demand, will be developed and widely used. These systems will be developed in a way to meet the citizens' information demand.

447. Towards creating a sustainable urban transportation system within the EU harmonization process, pedestrian and bicycle transportation and public transportation modes will be prioritized and the use of these modes will be encouraged.

448. Operation of public and individual transportation modes in a system, where they do not compete with each other and amongst each other will be ensured.

449. Rail transit system projects will be planned in corridors where alternative transit modes are insufficient and where the travel demand during the peak hour in the year, when the system is projected to operate, is expected to be at a minimum level of 15,000 passenger/hour in a single direction.

450. Models that will minimize foreign dependency in the financing of urban transportation projects and utilize domestic production, employment and financing opportunities to the maximum extent will be used.

Conditions for protection and utilization of natural resources will be determined by taking the needs of the future generations into consideration.

451. Conformance of the project costs and internal-external financing compositions with the financial structures of municipalities will be a criterion in the selection of urban transportation projects for which external financing is planned.

452. The necessary regulations defining the duties, authorities and responsibilities of the units responsible for the decision, policy, implementation and supervision of urban transportation at the national and local level will be put in place.

7.1.6. Protecting the Environment and Improving the Urban Infrastructure

453. Conditions for protection and utilization of natural resources will be determined by taking the needs of the future generations into consideration. Environmental management systems will be established in order to ensure equitable utilization of natural resources by everyone.

454. Fulfillment of international obligations will be realized in the framework of the principle of sustainable development and the principle of common but differentiated responsibility.

455. In the stages of investment, production and consumption in all sectors, the instruments, which consider the principle of the polluter and user pay, will be effectively used. In the scope of EU harmonization,

in doing legal regulations determining the environmental standards and management, country conditions and efficiency in public administration will be considered.

456. It will be ensured that the regulations regarding the environment will be implemented effectively by not allowing them to be interrupted as a result of amnesties.

457. In order to benefit from the advantages of economies of scale in the realization and operation of environmental infrastructure investments, collaboration and coordination will be improved among local administrations and in this scope, establishment of unions of local administrations will be supported.

458. Sound and integrated information systems about the environment and the development will be established and the monitoring, auditing, and reporting infrastructure will be improved.

459. Activities for researching, protecting and utilizing the biological diversity and genetic resources in Turkey and for transforming them into economic value will be accelerated.

460. Agricultural, environmental and technological policies will be assessed in an integrated manner in order to minimize the risks related to bio-security and genetically modified organisms.

461. In the framework of the conditions of Turkey, and with the participation of the relevant parties, a National Action Plan that sets forth the policies and measures for reducing greenhouse gas emissions will be prepared. Thus, responsibilities concerning UN Framework Convention on Climate Change will be fulfilled.

462. In the sectors sensitive to environment, especially agriculture and tourism, ecological potential will be utilized and protection-utilization balance will be considered.

463. More efficient production and less waste will be achieved by increasing the effectiveness in raw material use with the implementation of environment friendly techniques in industry.

464. Financial and technical consultancy given to municipalities in the realization of urban infrastructure investments will be improved.

465. To identify the urban infrastructure requirement in the entire country towards protecting the environment, an urban infrastructure master plan and financing strategy, which will determine the infrastructure needs such as drinking water, sewer system, wastewater treatment and solid waste disposal facilities of municipalities, will be prepared.

466. Systems and technologies most suitable for the conditions of the country will be preferred in the construction, maintenance and operation of water, waste water and solid waste infrastructure facilities related to environment protection.

467. Efficient use of water resources of the country will be ensured by reducing losses and illegal uses in existing water supply facilities.

468. The works, which were started to make regulations and establish an administrative structure in Turkey related to the allocation, use and improvement of water resources as well as protection against pollution, will be completed.

469. Protection of ground water and surface water resources from pollution will be ensured and use of treated wastewater in agriculture and industry will be encouraged.

470. The technical and financial assessment of separation at the source, collection, transportation, recycling and disposal stages will be done as a whole in domestic solid waste management. Landfills, which

are solid waste disposal technology that have low investment and operation costs and is most suitable for the conditions of the country, will be preferred.

471. Production of non-domestic wastes will be reduced and collection, transportation, recycling and disposal systems that are suitable for the type of the waste and conditions of the country will be established.

472. New financing methods, including the participation of the private sector, will be developed in the realization and operation of environmental investments.

473. Capacity of municipalities about the planning, designing, implementation and operation of environmental infrastructure services will be improved.

474. Training and informing activities for public will be realized to increase the environmental consciousness.

7.1.7. Improving R&D and Innovativeness

475. With the aim of increasing productivity and competitiveness, it will be ensured that R&D activities will be designed in a way to produce innovations and target the market. In this context, the share of R&D expenditures in GDP and the share of the private sector in expenditures will be increased. In this framework, the basic objective of the science and technology policy is to increase the capability of the private sector to create innovation.

476. Venture capital and similar instruments will be disseminated in order for the entrepreneurship aiming at technology development to be encouraged and innovative ideas to be put into practice. In addition, establishment of research institutes and/or centers by the private sector in selected priority fields will be encouraged.

With the aim of increasing productivity and competitiveness, it will be ensured that R&D activities will be designed in a way to produce innovations and target the market.

477. In order to raise the culture and awareness of science, technology and innovation, activities to increase awareness will be carried out in all segments of the society and, primarily in the private sector.

478. The researcher work force will be improved in terms of quality and quantity and employment of researchers will be encouraged in the private sector. Necessary conditions will be provided in order to employ Turkish researchers living abroad within the country, particularly in priority fields. In addition, employment of foreign researchers in the needed fields in Turkey will be supported.

479. The necessary legal and institutional regulations to establish an efficient structure, which will also increase collaboration among institutions, will be realized and duties and activities of institutions and organizations involved in the national innovation system will be reviewed. Regulations will be put into effect for monitoring and evaluating policies, programs and projects in the scope of science and technology independent of implementing institutions.

480. R&D activities supported in universities will be designed towards contributing to the economic, social and cultural development of the country and patents and

Infrastructures of Technology Development Regions, which bring universities and the private sector together, will be completed and their specialization in the areas of priority will be encouraged.

similar outcomes of these studies, other than scientific publications, will be considered in academic promotion.

481. Support will be given to improving the university-industry collaboration and the use of R&D human resources and infrastructure in universities by the private sector. Infrastructures of Technology Development Regions, which bring universities and the private sector together, will be completed and their specialization in the areas of priority will be encouraged.

482. Towards the future era; nanotechnology, biotechnology, new generation nuclear technologies and hydrogen and fuel battery technologies; research in the sectors to be given priority by the industrial policy; R&D activities that aim to transform local resources into value-added; research in the field of health to increase the quality of life, primarily vaccination and anti-serums; information and communication technologies, and defense and space technologies, will be supported as priority fields.

483. Technology Transfer Centers, which will have a duty to transfer the information obtained as an outcome of R&D activities to the industry and production, will be set up. In addition, establishment of private sector and non-governmental organizations that will provide consultancy services in areas such as the selection,

transfer and management of technology will be supported.

484. Public procurement system will be given a structure that will support R&D activities and domestic technology development.

485. Cooperation activities aimed at information and technology transfer will be carried out with countries, primarily the EU countries, which are competent in the area of science and technology.

7.1.8. Disseminating Information and Communication Technologies

486. Information and communication technologies infrastructure, which has become one of the determining factors in global competition due to the productivity increases and the arising network effect stemming from its widespread usage, will be improved. To realize this objective, competition in the electronic communication sector will be increased and with the introduction of alternative infrastructure and services, efficient, fast, secure, and widespread access to information at affordable costs will be provided.

487. The high tax burden on electronic communication services will be gradually drawn back to reasonable levels in order to accelerate the process of transformation to information society. Broadband communication infrastructures will be disseminated.

488. In order to increase the productivity level and competitiveness of the economy, widespread use of information and communication technologies by enterprises, citizens and institutions will be ensured. To this end, actions envisaged within the scope of the Information Society Strategy (2006-2010) will be taken.

489. In order to increase competition in the electronic communication sector; regulations relating to number portability will be completed, authorizations concerning the new generation mobile telecommunication service, the virtual mobile network service, the broadband wireless access service, the fixed telecommunication service and terrestrial digital platform services will be realized and efficient implementation of these regulations will be ensured. The regulations and authorization will be reviewed in line with current economic and technological developments and compatibility will be ensured. New technologies with high market potential will be closely monitored and a proactive approach about the use of these technologies in Turkey will be adopted.

490. The production capabilities of satellite technologies in Turkey will be improved and a center to research these technologies will be established.

491. Broadband communication needs of the public sector will be provided in a collective manner, and in this way, reduction in the cost of the service to the public sector and development of broadband communication infrastructures will be ensured.

492. The purchaser role of the public sector will be used as a policy tool that will support the development of information and communication technologies infrastructure.

493. Public broadcasting service will be developed by taking the advancements in information and communication technologies into consideration, and it will have a content that will respond to the needs of different segments of the society and give a right to choose.

Competition in the electronic communication sector will be increased and with the introduction of alternative infrastructure and services, efficient, fast, secure, and widespread access to information at affordable costs will be provided.

7.1.9. *Improving Efficiency of the Agricultural Structure*

494. Achieving food security and safety and sustainable use of natural resources will be taken into account in creating an agricultural structure that is highly organized and competitive.

495. While implementing policy instruments to ensure that production is directed for meeting the demand, priority will be given to carrying out the necessary transformation in the agricultural structure in order for Turkey to be able to compete in the European Union following its EU membership.

496. The main principles include making efficient use of soil resources through the use of highly productive agricultural fields for agricultural production purposes, utilizing agricultural lands in line with their capabilities determined with analyses and by making use of proper agricultural techniques as well as through land use planning and widespread erosion prevention.

497. Importance and priority will be placed in the effective use of water resources through saving water within a comprehensive mechanism, which is rearranged to provide a strong and structural coordination among relevant institutions,

Achieving food security and safety and sustainable use of natural resources will be taken into account in creating an agricultural structure that is highly organized and competitive.

enabling the planning of activities for developing water resources basin-wise with an integrated approach, and providing flexibility in meeting the changing consumption demands.

498. In such a way as to directly contribute to the competitiveness of agricultural production, irrigation investments will be expanded with the aim of increasing the production of those agricultural products with high production value in a cost effective manner, and land consolidation investments will be expanded against the mitigation of land fragmentation observed in agricultural holdings.

499. Agriculture support policies, the framework of which is determined with the Agriculture Law, will be enhanced through new implementation elements for increasing productivity.

500. With the aim of increasing competitiveness in exports of agricultural product, export supports will be directed to tradable products and those that are trade-marked.

501. Along with increasing the scale of agricultural enterprises, modernization efforts of agricultural, food enterprises, primarily the improvement of production techniques and production conditions, will be supported within the framework of the determined priorities by utilizing

the Pre-Accession Supports of the EU, as well. Furthermore, agriculture-industry integration will be encouraged.

502. By providing agricultural credit subsidies and support payments to producers through various channels, financial services for the agricultural sector will be diversified.

503. Enterprises of General Directorate of Agricultural Enterprises (TİGEM) will be directed towards areas where limited or no private sector activities are performed and idle enterprises will be handed over to the private sector.

504. Problems related to the quality and quantity of agricultural statistical data will be eliminated through the consolidation of different information collecting and processing systems, which are based on this data, and in a structure similar to the Integrated Administrative and Control System used in the EU. In addition, activities related to the completion and digitalization of cadastral information, which enables the operation of land markets in the agricultural sector and constitutes an infrastructure for the administration and control of agricultural policies, will be finalized.

505. With the aim of increasing productivity and producer incomes in a stable way, training and extension services in various subjects, mainly the use of pesticides, fertilizers, and quality seeds, and also irrigation, plant and animal health and food hygiene, will be increased in agricultural production and marketing stages towards ensuring food safety from the farm to the table. Emphasis will be placed on carrying out these services in a way to include young and women farmers by producer organizations with strengthened structures.

506. As far as activities in the area of ani-

mal husbandry, where products with relatively high value-added are obtained, are concerned; increasing the competitiveness prior to EU accession will be aimed by placing emphasis on animal breeding, fighting against animal diseases and pests, organizing the rehabilitation and use of pastures, increasing qualitative fodder plant production and dissemination services. Illegal animal movements at borders in Turkey will be prevented.

507. The main principles to be adhered in fisheries policies include determination of fisheries policies on the basis of establishing resource utilization balance in fishery production by conducting stock assessment studies in line with the EU acquis, ensuring environmental sustainability in agriculture activities in parallel with the increasing demand and the recently provided supports, and establishing the required administrative structure in compliance with these goals.

508. Effective protection of the natural ecosystem of forests against various factors, primarily fires and pests and its management in a multipurpose and efficient way will be aimed by considering the protection-utilization balance, biological diversity, gene sources, forest health, non-wood products and services and ecotourism development.

509. By taking desertification and public health as priority, it is of significance to conserve industrial and soil plantation in basins, to conduct rehabilitation work, to utilize lands better through urban and agro forestry, to develop private plantations and to create public awareness in this field.

510. Support will be given to producers to organize for various purposes in a way to increase their productivity and competitiveness in marketing by reviewing the legislation concerning producer organizations.

511. It will be ensured that the R&D activities performed by public institutions in the agricultural sector will be supportive for the activities of the relevant institutions.

512. Services provided by the public sector in the areas of phytosanitary, animal health and food safety will be carried out within an integrated framework. In line with the EU acquis, coordination among the relevant institutions will be ensured in order to increase efficiency in control and inspection activities and, to this end to realize the monitoring and interventions by a single authority.

7.1.10. Ensuring the Shift to High Value-Added Production Structure in Industry and Services

Industry

513. The main objective is to increase the production of high value-added goods with the aim of raising the competitiveness of the economy and obtaining a higher share from world exports.

514. The manufacturing industry is aimed to be the main sector to drive economic growth, within an outward oriented structure.

515. In order to prevent unfair competition, harmonization with the EU technical legislation will be accelerated and along with conformity assessment, market supervision and monitoring systems will be strengthened to prevent the supply and circulation of goods, which do not comply with the acquis, in the market.

516. To assure that producers effectively benefit from the trade policy measures for the prevention of unfair competition, the necessary infrastructure for rapid and easy access to detailed information, which is not of the commercial secret type and is on the basis of import transactions, will be established and transparency will be increased.

The main objective is to increase the production of high value-added goods with the aim of raising the competitiveness of the economy and obtaining a higher share from world exports.

517. In order to increase the competitiveness of enterprises, the certification system and the quality infrastructure will be improved and supported.

518. An advisory mechanism, which includes both public and private sector, will be developed in the manufacturing industry to determine sectoral development strategies and priority areas as well as perform sectoral monitoring and evaluation.

519. Sustainability of growth will be ensured by considering the consistency of the industrial and environmental policies. In industry, production will be in compliance with human health and environmental rules and importance will be given to social responsibility standards.

520. In traditional sectors, transformation to a structure, which will cope with international competition, will be supported by focusing on high value-added products and activities.

521. Multi-functional products that involve advanced technology will be developed and R&D activities will be encouraged in textiles, clothing and leather sectors. In these sectors, competitiveness will be sustained by following rapidly changing fashion trends, influencing fashion, and product differentiation through fashion design.

522. Activities targeted at designing original consumption goods in sectors such as textiles, clothing, leather, ceramics, glass, furniture, jewelry will be encouraged, qualified designers will be trained, creation of national and international trademarks will be supported, and efforts to support advertising and marketing will be improved to meet the needs of Turkish exporters.

523. In the iron and steel industry, R&D activities for the development of high quality and high value-added products, and protection of the environment will be supported.

524. It will be ensured that Turkey becomes one of the important production centers in medium and high technology sectors of automotive, white goods, machinery and electronics.

525. In the automotive industry, it is envisaged to create an industrial structure, which produces high value-added, has sustainable competitiveness, targets exporting primarily to developed markets, and has a developed R&D capacity.

526. In order to maintain sustainability of competitiveness in the automotive industry, the competence achieved in the area of production will be continued, capabilities in technology development and R&D areas will be improved, and collaboration between the main and supplier industries starting from concept and design stage will be developed.

527. Design, engineering and innovative capabilities of the machinery and white goods industries will be supported. Moreover, awareness will be created to prevent unfair competition faced by domestic producers in public procurements due to the purchases of foreign made products.

528. In the electronics industry, in order to ensure the creation of high value-added,

sub-sector of electronic components will be developed. Emphasis will be placed on both strengthening integrated circuit design and realization of a flat screen monitor facility through the collaborative investments of producers in order to sustain high competitiveness in consumer electronics and telecommunication equipments sectors. R&D in the sector will be encouraged prior to competition and the research infrastructure regarding laboratory capacity and imaging technologies will be developed.

529. In the electrical machinery industry, in order to achieve an increase in R&D activities as well as in production that are compatible with the legislation, a high voltage short circuit power laboratory will be established with the contribution of organizations in the sector.

530. Knowledge and technology intensive areas such as defense, aviation, space, chemicals, materials and plant genetics will be developed.

531. An organization that will provide coordination for the activities in aviation and space industries will be established.

532. The main target, in the defense industry is to develop a manufacturing structure that will be competitive, self sufficient, flexible, integrated with the domestic industry and that actively participates in international activities concerning joint production-design and R&D areas in order to meet the needs through domestic means in a reliable and stable manner, and to acquire the necessary infrastructure, technological and managerial capabilities.

533. With the aim of improving the national defense industry, a system and legislation which utilizes the existing infrastructure and technological capabilities to the maximum extent and which takes productivity, procurement based on R&D

and domestic technology and capability acquisition as basis will be developed.

534. In the chemical industry, importance will be given to production of new chemicals with high value-added and establishment of specialized organized industrial zones.

535. In medium and high technology sectors, priority will be given to R&D and innovation activities and the R&D infrastructure, and large-scale investments, joint investments and comprehensive R&D projects will also be supported.

536. Participation of the industry in the EU Programmes will be increased.

537. By increasing the Eximbank funds, maturities of loans will be extended primarily for the export project loans of sectors that produce investment goods. Priority will be given to the Middle East, African countries, Turkic Republics and non-EU countries of Europe as target markets. Demand for the Turkish industry will be created by giving country loans, provided that procurement is made from Turkey.

538. Opportunities for cooperation and development in areas, where EU is losing its competitiveness and displaying a tendency to shift production activity to other countries, will be sought.

539. In the Strategic Plan for Export, which will be revised, measures towards increasing the exports of medium and high technology products will be developed.

540. In order to increase the competitiveness of SMEs and entrepreneurs and to enable them to penetrate into new markets, training and consultancy services will be provided at business establishment and business development stages. With this aim, Business Development Centers (İŞGEM) and similar institutions will be spread and the necessary regulations will

In the services sector, the importance in the economy of which is continuously increasing and, which has become the driving force of the economy, the competition environment will be improved and the exports of services will be encouraged.

be undertaken in order to increase their efficiency.

541. Joint R&D, joint procurement and marketing activities of enterprises will be emphasized. Physical infrastructure requirements of enterprises will be met and network creation and clustering initiatives will be supported. Establishment of enterprises in predetermined industrial zones and shifting the existing ones to these zones as well will be encouraged.

542. In the transition to high value-added production structure, importance will be given to collaboration at national and international levels. Furthermore, foreign direct investments will be encouraged in order to facilitate the entry of enterprises to the global markets.

543. Skilled work force will be trained and activities towards improving the professional and technical qualifications of the employees in existing enterprises will be supported. Through training programs, a labor force that has technology creation capacity and R&D skills will be attained.

544. In the mining sector, compliance with the environmental legislation will be improved, the bureaucratic structure will

be made more efficient, studies on legal regulation regarding the subjects of geothermal energy and oil will be completed, enlargement of the scales of companies and enterprises will be encouraged, value-added will be increased through processing mining products domestically, and exploration activities and the development of boron-based products will be specially emphasized.

Services

545. In the services sector, the importance in the economy of which is continuously increasing and, which has become the driving force of the economy, the competition environment will be improved and the exports of services will be encouraged. The exports of the services will be supported through agreements for the reciprocal protection of investment and credit guarantee mechanisms.

546. Efforts will be made to transform İstanbul into an international financial center.

Tourism

547. Tourism sector will be directed towards reducing the imbalances of welfare and development within the country. Moreover, economic and social development will be realized by developing tourism in regions, which have tourism potential but have not been sufficiently addressed before.

548. Greatest care will be taken in ensuring that all investments in the sector are realized with an approach of protecting, preserving and developing the natural, historical and social environment.

549. Along with creating new capacity in the sector, development of the quality of the existing services will be emphasized and the duties of new actors regarding the areas of advertising, marketing, infra-

structure, tourism education and environment and the role of the state within the tourism sector will be redefined.

550. With the aim of improving the seasonal and geographical distribution of tourism and creating new potential areas by taking into account the changing consumer preferences in foreign markets, destination point management will be emphasized and directive activities towards golf, winter, mountain, thermal, yacht, and congress tourism and ecotourism will be continued.

551. Health services tourism will be supported considering Turkey's competitive advantage in terms of prices, service quality and geothermal resources.

552. Marketing, air transport and total quality improvement will be priorities in tourism incentives until the demand is met at profitable prices and occupancy rates with the existing capacities.

553. In regions where tourism activities are more concentrated, participation of local administrations and users in decisions related to tourism and in the financing of the physical infrastructure, which is to be realized by the state, will be ensured.

554. The Tourism Sector Master Plan will be prepared in order to achieve a long-term and sound development of the tourism sector. A certification system, which will enable standardization in tourism education and quality, improvement in productivity and job quality and identification of skill levels required for employment, will be introduced.

Construction, Engineering-Architecture, Technical Consultancy and Contracting Services

555. The areas with priority in the construction, engineering-architecture, technical consultancy and contracting services sector will be utilizing new technologies, increasing

financing power and diversifying models, providing qualified professional and technical education, certifying professional qualifications, establishing the responsibility-wage balance in technical services, improving quality consciousness, raising quality in construction material and production and increasing efficiency in public procurement.

556. Independent technical consultancy in public investments will be used and the responsibility insurance system required for effective building supervision will be established.

Information Technologies Services

557. Turkey will be positioned as a regional player in the field of software and services in the information technologies sector. In this context;

- With the aim of improving the competitiveness of information technologies, besides developing the domestic demand, a suitable environment for foreign direct investments will be created. In this manner, technology transfer on a sectoral basis will be achieved and measures to ensure that companies obtain international quality certifications and develop their capabilities to do business, and to facilitate access to financing will be carried out.
- The sector, in which the competitiveness is increased, will be directed towards exports and the focus in exports will be on project-oriented services and software products tailored for high value-added sectors, such as telecommunication, education, health and defense industries.
- In techno parks, a structure for specialization of software activities to support regional and prioritized industries will be established.

558. The legislation regarding the protection of intellectual property rights will be effectively implemented in the software sector.

Trade Services

559. In freight transportation, in order to increase efficiency in trade services, transition to combined transportation will be ensured through the use of logistic centers, which can be defined as the freight starting and ending points, where all the relevant parties are gathered during collection and distribution stages, storage and classification of containers and their transfer among transportation modes are realized, and bureaucratic transactions are resolved by being simplified at one point. Starting from the important ports, logistic centers will be established at selected centers.

560. Regarding the regulations towards the wholesale and retail trade services, the impact of the sector on the consumers, agriculture and manufacturing industry will be analyzed in a multi dimensional manner by taking input and output aspects into account. Policies to prevent informal economy in the sector, increase productivity and quality and ensure conformance to hygiene, on the one hand, and to transform the structure of the trade focused on craftsmen and artisans into a modern structure through scale economies such as mergers, on the other, will be encouraged.

7.2. Increasing Employment

561. In the framework of an employment-focused sustainable growth, creating skilled human resources required by a competitive economy and information society, improving employment opportunities, reducing unemployment and making the labor market more efficient will be ensured. The employment dimension will be taken into consideration in the regula-

tions to be undertaken in the economic and social areas.

562. In preparing the National Employment Strategy, the issue of directing the labor force coming from agricultural sector due to the dissolution in this sector to non-agricultural sectors, will be emphasized. Development and encouragement of entrepreneurship, which is important for increasing employment, will be addressed with an integrated approach.

7.2.1. Improving the Labor Market

563. By evaluating flexibility and job security together, the labor market will be provided with a more flexible and active structure.

564. The burden on employment will be gradually reduced by taking actuarial balances into consideration as well, in such a way as to encourage the development of new employment opportunities, to increase the number of proper jobs and to reduce informal employment.

565. Wage policy based on basic wages, which will strengthen the wage-productivity relation, contribute to the flexibility of labor markets and support productive employment, will be followed.

566. Ability of enterprises and employers to manage the transformation in the labor market in a positive manner will be improved. Capacities of enterprises to adapt to this transformation will be enhanced through modernizing labor organizations

By evaluating flexibility and job security together, the labor market will be provided with a more flexible and active structure.

and supporting harmonization in enterprises, for the employees this adaptation will be ensured through providing them with the information and skills required by the new conditions.

567. The existing social dialogue mechanisms in Turkey will be strengthened. The social dialogue culture will be spread from enterprise to country level, and with this aim new mechanisms will be created.

568. Equal opportunities will be provided for the women, the young, and the long-term unemployed, the disabled and former convicts, who encounter difficulties in the labor market. With the aim of increasing the participation of women in the labor force and employment, their access to childcare and other similar services will be facilitated. Programs will be developed to provide the young with experience in the labor market.

569. In order for employment agencies to adapt to the changes in the labor market caused by globalization and technological advances, their capacities will be enhanced, service areas will be diversified, and target groups to which services are provided will be expanded considering the requirements at local level. In addition, communication with relevant organizations will be strengthened to ensure that the decisions taken at central level can also be efficiently implemented at local level.

7.2.2. *Increasing the Sensitivity of Education to Labor Demand*

570. A lifelong education strategy will be developed towards increasing the employment skills of individuals in line with the requirements of a changing and developing economy and labor market. In order to develop the skills and abilities of people, this strategy will cover mechanisms that will support increasing formal and non-formal education opportunities, strengthen the horizontal and vertical relationship

between the types of education, structure apprenticeship and public education towards these types of education as well as support the involvement of the private sector and NGOs in this area.

571. In order to develop the information systems related to the labor market, to provide the education and labor market with a more flexible structure, and to increase employment and labor productivity, work force will be trained in the areas demanded by the economy taking the life-long education strategy into consideration.

572. The necessary data including the education, employment and professions of households will be produced and compiled, and labor market requirement analyses will be conducted in order to determine the labor force supply and demand tendencies.

573. Transformation to a modular and flexible system in vocational and technical education will be realized. The vocational training at higher and secondary education will be transformed into a single structure that will take integration of programs as basis, and applied training techniques, which play an important role in educating a qualified labor force in vocational education, will be emphasized.

574. The vocational education system will bring up students, who possess the basic skills to work in groups, to take deci-

A lifelong education strategy will be developed towards increasing the employment skills of individuals in line with the requirements of a changing and developing economy and labor market.

The main purpose of the policies in the area of human development and social solidarity will be to raise the quality of life and welfare of the society by ensuring that all segments of the population benefit sufficiently from the basic public services as well as a multi-dimensional social protection network.

sions, to solve problems, and to undertake responsibilities as required by the labor market.

575. In order to meet the intermediary personnel requirement of the economy, mechanisms that will ensure the broadening of vocational education activities in organized industrial zones, which creates an environment for clustering, will be strengthened through effective collaboration with the relevant service institutions and the private sector.

576. Activities of enterprises and non-governmental organizations towards training skilled labor force will be supported.

577. Activities concerning the National Professional Qualification System, which covers such fundamental functions as the development and certification of qualifications based on professional standards and accreditation of organizations providing certificates and training, will be completed and a vocational education structure that is sensitive to this system will be developed.

7.2.3. Developing Active Labor Policies

578. Qualifications and skill levels of the unemployed, disadvantaged groups vis-à-vis the labor market and labor force leaving the agricultural sector will be improved through active labor programs based on the needs of the labor market and resources appropriated to these programs will be increased.

579. Employment services will be provided for a larger number of people and their quality will be raised. Active labor market policies will be spread through labor force training and vocational training courses, primarily entrepreneurship and employment guaranteed programs, professional consultancy and guidance services, and training seminars in the industry. Active labor programs will be organized in line with the analyses of labor market requirements.

580. Micro scaled projects aimed at creating employment will be provided with financial support.

7.3. Strengthening Human Development and Social Solidarity

581. The main purpose of the policies in the area of human development and social solidarity will be to raise the quality of life and welfare of the society by ensuring that all segments of the population benefit sufficiently from the basic public services as well as a multi-dimensional social protection network. While the main policies of priority are education and health for the provision of basic public services; as for the development of social protection network, they will be setting up policies for an inclusive and sustainable health and social security system, increasing efficiency of social services, improving income distribution, social inclusion and fighting poverty, protecting and strengthening culture, and developing social dialogue.

7.3.1. *Enhancing the Educational System*

582. To ensure social development, productive and creative individuals who are of the information age with advanced thinking, perception and problem solving abilities, who are loyal to Atatürk's principles, believe in democracy and freedom and have absorbed national and spiritual values, open to new ideas, with sense of responsibility, able to contribute to civilization, familiar with scientific and technological usage and production, appreciation for the arts, and have high level of skills will be brought up.

583. The education system will be handled with the integrated approach by taking lifelong education into consideration to support the development of human resources. The structure of the system, which is based on efficiency, accessibility and equal opportunities, will be strengthened.

584. With the aim of expanding pre-school education, teacher and physical infrastructure requirements will be met, education services will be diversified, the public awareness level will be raised, and trainings towards early childhood and parents will be increased.

585. Necessary measures, which primarily target the rural areas and girls, will be taken in order to reduce the school drop outs and rates of transition to secondary education will be increased.

586. University quotas will be increased in order for the teacher requirements to be met in areas where there are not enough teachers. Balanced distribution of teachers among regions and settlement areas will be ensured and differentiation in their employment rights, according to the place they work, and their working conditions, will be enabled.

587. Along with the central administration, contributions of local administrations, voluntary organizations and the

private sector in disseminating education will be increased.

588. The secondary education will be provided with a flexible structure, which will take the type of program as the basis, allow for horizontal and vertical transfers, and include an efficient guidance and orientation service. Programs will be broad based and designed on a modular principle.

589. With the aim of increasing quality in education, curricula based on innovativeness and research will be extended throughout the country, and students will be encouraged for scientific research as well as entrepreneurship.

590. Number of students in the crowded classrooms will be decreased and the practice of double shift education will be reduced. Standards and shared utilization opportunities will be developed to efficiently use educational facilities. Information and communication technologies infrastructure of schools, primarily the education software, will be strengthened, and suitable environment and hardware required by the renewed curricula will be provided.

591. Teacher qualifications will be continuously developed considering the changes in curriculum programs and education methods and in order to provide the teachers with the necessary qualifications, effective methods will be used prior to service and in service training for teachers.

592. University instructor training programs will be continued both at home and abroad to meet the instructor requirements especially in newly established universities.

593. Teaching foreign languages will be made more effective in order to educate the labor force required in the transition process to the information society and methods that will allow for the informa-

tion and communication technologies to be used in the classroom will be developed and disseminated.

594. With the aim of ensuring the lifelong education approach to be adopted by the society, opportunities in non-formal education, including e-learning, will be developed, individuals beyond the education age will be encouraged to benefit from open education programs, and activities related to acquiring skills and a profession will be increased.

595. In the education of children with special needs, the merging method will be the priority and physical conditions of existing schools will be improved.

596. Financial resources in higher education institutions will be improved and diversified and regulations to increase the ratio of student contributions in financing their higher education will be increased, on the condition that the successful students without financial means are provided with scholarships and loans.

597. Special funds allocated for education will be directed towards providing equal opportunities in education. The share of the private sector will be increased at all levels of education and public funds will be directed to segments that are deeply in need. Establishment of private higher education institutions will be permitted provided that an efficient quality assessment and supervision system is set up.

598. The examination-focused structure of the education system will be alleviated to increase the effectiveness of the system, to use resources allocated for education more efficiently, and to relieve the financial, social and psychological burdens on the students and their families. The entrance system to higher education will be provided with a structure, which will inform the students adequately about the programs, evaluate their interests and skills through

a multi-dimensional process during the course of secondary education, be based on the success in school, and be more harmonized with the curriculum programs.

599. Incentives will be provided for transforming the private educational institutions, which prepare the students for the secondary and higher education entrance examinations, into private schools.

600. In the central organization of the Ministry of National Education, a restructuring based on the principle of service will be undertaken, institutional capacity will be strengthened, and authority and responsibility will be delegated to the provincial branches and education institutions.

601. The Higher Education Board will be restructured to be responsible for setting standards, coordination and planning. By ensuring administrative and financial autonomy of higher education institutions in line with the principles of transparency and accountability, and by ensuring their specialization in line with the local characteristics, attainment of a competitive structure will be supported.

602. With the aim of spreading opportunities of good quality education, quality assurance systems will be set up in education institutions, quality standards will be determined and made widespread, authorities and institutional capacities of educational institutions will be increased, and a model based on performance measurement will be developed.

7.3.2. Making the Health System Effective

603. In order to improve accessibility to health services, the infrastructure and health personnel needs will be met and their distribution around the country will be balanced. The universal health insurance system will be implemented to facilitate access to health services.

604. In order to eliminate the shortage of health personnel, quotas of education programs will be increased. Quality of health education will be improved so as to increase the skills of students in basic health services and will be provided with a structure that is compatible with the country requirements and international standards. Furthermore, in-service training programs will be increased with the aim of improving the qualifications of health personnel.

605. A patient oriented health system will be created and legal regulations will be set up to prevent malpractice in medicine. In addition, the awareness of citizens and health personnel about patient rights will be increased, units dealing with patient rights will be established in health institutions and this practice will be spread.

606. Quality of health services, particularly in primary level health services, will be improved by enhancing the qualifications of the personnel and the infrastructure. The family medicine service model will be spread to all provinces by the end of 2008.

607. In order to make the operation of hospitals more efficient and improve the quality of their services, hospitals will be gradually made autonomous in financial and administrative terms.

608. With the aim of increasing service quality, national standards concerning service provision and personnel will be determined and the system for the accreditation of health institutions will be established.

609. The planning, regulatory and supervisory role of the Ministry of Health will be strengthened.

610. The private sector investments in the area of health will be encouraged.

611. Following the principle of prevention

before treatment, preventive healthcare services, targeted at preventable diseases, primarily communicable diseases and diseases related to maternal and infant health, as well as in the areas of food, consumer and environmental health will have priority in the allocation of resources.

612. With the efficient operation of the referral system and widespread use of information systems, provision of services at hospitals will be facilitated and monitoring of health expenditures will be ensured.

613. Health personnel and the people will be made more conscious about the rational use of medicine. Mechanisms will be established to control the quality and use of pharmaceuticals and medical devices as well as the effectiveness of these expenditures.

614. The number and qualifications of personnel working in preventive healthcare services will be increased. The infrastructure requirements will be met and public awareness about preventive healthcare services and healthy lifestyle will be raised.

615. A health database compatible with international criteria will be set up.

7.3.3. Improving Income Distribution, Social Inclusion and Fight Against Poverty

616. Poverty and inequality in income distribution will be reduced permanently through sustainable growth and policies regarding employment, education, health and working life. Individuals and groups, who are under the risk of poverty and social exclusion, will be included in the economic and social life and their life quality will be improved.

617. Transfer policies will be made more efficient by ensuring the redistribution of income in favor of the poor. In this scope, the social security system will be made capable of improving income distribution by providing security against social risks for all segments of the society.

Poverty and inequality in income distribution will be reduced permanently through sustainable growth and policies regarding employment, education, health and working life.

618. Services to reduce poverty will be in a manner of preventing the emergence of a poverty culture and encouraging the poor to become producers.

619. Necessary measures will be taken for the poor, who work in the informal sector, to be covered by social security system and to be employed in proper jobs.

620. Income-generating projects will be supported in a way to diversify the economic activities targeting the poor. In particular, entrepreneurship in rural areas and underdeveloped regions will be encouraged.

621. In order to increase the participation of women in the economic and social life, employability of women will be increased by improving vocational education opportunities targeting the women.

622. With the aim of preventing violence against women, the social awareness in this subject will be increased.

623. Support will be given for meeting education needs, particularly of girls in rural areas, the handicapped and children coming from low-income households, and access of these social segments to education will be facilitated. Furthermore, measures to prevent child labor will be taken and effectively implemented.

624. Educational programs for families, which constitute the ideal environment for childcare and raising children, will be made widespread.

625. Home care services for the old will be supported, and with regard to institutional care, the number and quality of retirement homes will be increased.

626. Social and physical environmental conditions will be improved to increase the participation of the disabled in the economic and social life. In this regard, special education opportunities and protective work places, where the working environment is organized accordingly, will be developed.

627. Active employment policies will be developed in order to reduce the unemployment risk for the unskilled and the poor who have migrated to the cities as a result of structural transformation in agriculture.

628. Collaboration of all segments, including primarily the central administration, local administrations and non-governmental organizations, will be ensured in the implementation of policies targeting the prevention of poverty and social exclusion as well as in the provision of services such as education, accommodation and employment for those under the risk of poverty and social exclusion.

7.3.4. Increasing Effectiveness of the Social Security System

629. The social security system will be provided with a structure, which will cover the entire population, can meet the changing needs of the society, have financial sustainability, and provide good quality services.

630. The social insurance system will be extended in a way to cover the entire working population and informal employment will be prevented.

631. Financial sustainability of the social security system will be achieved considering the actuarial balances. A structure, which will prevent loss of rights and repeated benefits and provide effective, accessible and sustainable services, will be established through transition to full automation in the information processing infrastructure of the social security system.

632. With the aim of efficient and harmonized implementation of social security programs, communication and collaboration among institutions will be ensured.

633. The principles of equality, social justice, efficiency and effectiveness will be the basis of the social services and assistance system. A common database will be set up in order to determine the individuals that will benefit from the system, and an objectively operating detection mechanism will be established.

634. The shortage of qualified personnel in the area of social services and assistance will be eliminated and the qualifications of the existing personnel will be improved.

635. Activities of local administrations and non-governmental organizations in the area of social services and assistance will be supported.

7.3.5. *Protecting and Improving Culture and Strengthening Social Dialogue*

636. During the process of social transformation, the foundation of cultural policies will be to protect, to develop and to transfer the cultural wealth and diversity to future generations.

637. It will be ensured that our culture will be open for development while its authentic structure and richness is maintained. In addition, its contribution to the universal culture will be ensured. Efforts towards creating an inventory of the country's cultural heritage, protecting and restoring this heritage will be continued on a planned

basis. Moreover, the public awareness will be raised to protect this heritage through widespread education programs.

638. Inclusion of the cultural dimension in social and economic policies and active participation of local administrations and non-governmental organizations in the implementation of cultural policies will be ensured. Easy access to cultural activities by all segments of the society will be attained.

639. Suitable environments to develop and promote visual, aural and stage arts will be prepared.

640. In the context of the efforts to develop and spread cultural tourism, support will be provided to increase the number of regional examples, which are protected with their authentic characteristics and opened for tourism.

641. Our tangible cultural products, primarily the traditional handicrafts, will be transformed into export products.

642. Production of cultural products such as movies and documentary films will be encouraged and the share of the cultural sector in the national income and the exports will be increased.

643. The correct and effective use of the Turkish language, especially in science,

The social security system will be provided with a structure, which will cover the entire population, can meet the changing needs of the society, have financial sustainability and provide good quality service.

Regional development policies will contribute to national development, competitiveness and employment by increasing productivity of regions on the one hand, and they will serve the basic objective of reducing regional and rural-urban disparities on other hand.

education, training and broadcasting institutions, will be emphasized.

644. The duties and responsibilities of the relevant ministry will be redefined to set up effective policies to protect, develop and present the original structure of the country's cultural identity and ensure the necessary coordination among relevant institutions.

645. Measures will be taken to alleviate the socio-cultural adaptation problems arising from intensive migration and unplanned urbanization.

646. In order to increase social integration and solidarity, priority will be given to policies that foster tolerance, social dialogue and cooperative culture.

647. Measures will be taken to ensure better communication of the young people with their families and the society, to develop their self-confidence, to increase their sense of belonging to the society and sensitivity towards the society they live in, and to ensure their participation in the decision making processes.

648. In order to ensure democratic participation and transparency in public policy making and to improve social dialogue, works will be undertaken to set up mechanisms that will allow NGOs to participate in the decision making processes.

649. Measures will be taken to provide the Economic and Social Council with a more effective and functional structure.

7.4. Ensuring Regional Development

650. Regional development policies will contribute to national development, competitiveness and employment by increasing productivity of regions on the one hand, and they will serve the basic objective of reducing regional and rural-urban disparities on the other hand.

651. In this context; emphasis will be placed on activities towards increasing the consistency and effectiveness of policies at the central level, creating a development environment based on local dynamics and internal potential, increasing institutional capacity at the local level and accelerating rural development.

7.4.1. Making Regional Development Policy Effective at the Central Level

652. The planning tools and standards at the national, regional and local levels of planning hierarchy will be identified and the consistency of plans will be ensured. An integrated system for the management and supervision of plans, including the physical plans, taking the management on the spot principle as the basis will be formed.

653. A regional development strategy at national level will be prepared to provide coordination in regional development and to constitute a general framework for sub-level plans and strategies to be prepared.

654. The duties, authorities and responsibilities of local and central agencies related to regional and rural development will be

defined and an effective coordination and supervision mechanism will be created.

655. The coordination and collaboration among central agencies in the resource allocation in conformity with created policies and implementation stages will be strengthened, and the programming, project preparation, implementation, monitoring and evaluation capacities of institutions and agents will be increased.

656. Regional development plans will be prepared to determine strategies and priorities towards triggering local dynamics and internal potentials and they will be flexible, dynamic, participatory and feasible. Development strategies and plans of all regions will be completed in collaboration with development agencies and they will be provided with sufficient financing.

657. Spatial prioritizing and focusing will be ensured in public investment and service provision in order to increase job opportunities and quality of life in the regions and to increase both inter-regional and intra-regional interactions through improving accessibility.

658. Attraction centers with a high potential to grow and provide services to surrounding areas will be determined, particularly in less developed regions and firstly the accessibility of these centers will be improved and their physical and social infrastructure will be strengthened.

659. Main problems of cities under intense migration pressure will be identified and along with activities towards social adaptation, physical and social infrastructure will be improved in mostly affected areas.

660. In the framework of an integrated development strategy, creation of a business and living environment, which will highlight the metropolitan cities of Turkey in global competition, will be supported.

661. Support policies of the public sector regarding local and regional development will be reviewed by taking the regional development levels and potentials into consideration.

662. The investment environment in the regions will be enhanced; financing opportunities for entrepreneurs will be improved and diversified. New instruments such as venture capital, micro credit applications and differentiated input costing that will encourage investment, production and employment will be developed.

663. Innovative, competitive and dynamic pioneering sectors, which can create high value-added, will be selected and supported in the regions. With the more selective and spatially oriented state aid system based on regional and sectoral priorities, necessary mechanisms will be established for monitoring implementation and evaluating outcomes.

7.4.2. Ensuring Development Based on Local Dynamics and Internal Potential

664. Particularly in underdeveloped regions, human resources and social capital will be developed in such a way as to support specialization at the local scale, and labor force training programs considering regional potentials and labor market characteristics will be implemented.

665. Special training programs to develop entrepreneurship will be supported with the collaboration of public institutions and organizations, the private sector, universities and NGOs within the approach of development based on local dynamics and internal potential.

666. Universities will focus on education, research and service activities on local specialization areas in interaction with the society and the business world. In this framework, sectoral organized industrial

zones will be implemented in appropriate regions in order to support manufacturing based on university-industry cooperation and local specialization.

667. In order to create regional trademark, original, historical and natural heritage will be protected and developed, and will be transformed into economic value. Capital inflows to the regions will be accelerated through effective promotion of their business and investment opportunities at the national and international levels.

668. Implementation of differentiated SME policies will be started in order to ensure regional convergence and competitiveness. In this context, special emphasis will be placed on creating the required skilled labor force, increasing financial resources and diversifying financial instruments, and facilitating access to the market and technology.

669. Support for clustering under the leadership of driving sectors will be ensured within a strengthened social network. In this framework, creation of mechanisms, which will support local clusters, increase collaboration among the agents included in these clusters and ensure their integration with global markets, will be encouraged.

670. Primarily in centers with high development potential, access to innovations and information about new technologies will be facilitated, technology exchange and transfer systems will be improved and an efficient regional R&D infrastructure will be established. To establish a commercial regional innovation infrastructure, instruments and initiatives such as technoparks, innovation transfer centers, and enterprise incubators will be supported.

7.4.3. Increasing Institutional Capacity at the Local Level

671. Cooperation and partnerships among

public institutions and organizations, private sector and the NGOs will be supported and information exchange will be encouraged by setting up cooperation networks.

672. Support will be given for having a sufficient number of qualified technical personnel and equipment in local organizations, primarily in local administrations. Project preparation, implementation, monitoring and evaluation capacities of institutions and agents having a role in the development process will be increased. Efficiency in resource utilization will be ensured.

673. On the spot principle will be taken as the basis in regional and local development practices. Participation will be increased and increasing the synergy, support and awareness towards implementation will be ensured through the creation of a partnership culture among the key stakeholders of development. Starting with underdeveloped regions, contribution of non-governmental organizations to local and regional development efforts will be encouraged.

7.4.4. Ensuring Development in the Rural Areas

674. The Rural Development Plan will be prepared and implemented in line with the National Rural Development Strategy.

675. The organization capacity of rural areas will be developed and producer organizations will be strengthened. Functions of different organizations will be rearranged within the framework of integration with the EU agricultural markets. The incentives provided to producer organizations will be made more effective.

676. It will be ensured that the operation and management of irrigation infrastructure is realized with participatory mechanisms, programs targeting producers will be implemented for efficient and sustainable utiliza-

tion of soil and water resources.

677. In rural areas, the promotion and marketing of agricultural, forestry and food products will be developed and tourism and recreation, handicrafts, agricultural industry and other alternative production activities will be enhanced by also using e-commerce.

678. Human resources for agricultural and non-agricultural economic activities will be enhanced in rural areas.

679. In order to accelerate development in rural areas, efficient use of resources will be ensured by giving priority to district centers, village municipalities and other central settlements with a potential to develop and provide services to surrounding areas. Moreover, this practice will be extended throughout the country.

680. Basic infrastructure needs will be met in rural areas, primarily in central settlements. Priority will be given to these settlements in projects and supports for economic and social development as well as in the provision of education and health services.

681. Principles and criteria for rural settlement planning will be determined according to the characteristics of rural areas and needs of the rural society. Developing central settlement units, tourism regions, protected areas and regions under high disaster risk will be prioritized in planning.

682. Projects which improve collaboration among agents at the local level, strengthen development initiatives addressing local needs with a bottom-up approach, and take participation and cost sharing as the basis will initially be implemented as pilot projects followed by dissemination of good practices.

683. Appropriate financing instruments addressing resource needs of rural areas

will be developed and made widespread.

684. The technical, financial and institutional capacities of local administrations and unions, primarily of special provincial administrations, will be strengthened in order to increase their efficiency in the field of rural development.

685. Necessary institutional framework will be created for harmonization with the EU rural development policies and the administrative capacity will be improved to manage and use rural development funds effectively.

7.5. Increasing Quality and Effectiveness in Public Services

686. With the aim of increasing quality and effectiveness in public services; duties, powers and functions of public institutions and organizations will be revised and conflicts in this area will be eliminated, policy formation, cost accounting and implementation capacities of institutions and organizations will be increased, human resources will be improved, information and communication technologies will be efficiently utilized in the provision of public services to citizens and effective provision of justice and security systems will be ensured.

7.5.1. Rationalizing Powers and Responsibilities Between Institutions

687. The public administration system will be restructured in the framework of good governance approach. Laws on the establishment of public institutions and organizations will be revised in a way to prevent duty and authority conflicts. In order for

The public administration system will be restructured in the framework of good governance approach.

Transition to strategic management in public institutions and organizations will be completed with the transformation management approach during the Plan period.

all public institutions and organizations to be able to perform their principal duties, consistency of their duties and responsibilities with organization structures will be ensured.

688. Legal regulations regarding the procedures and principles, with which public institutions and organizations need to be in compliance in their transactions and actions, will be put in place.

689. Delegation of powers and duties from the central government to the local administrations will be realized in accordance with the principles laid down by the European Charter of Local Autonomy. However, before the transfer of authorities and duties, measures to strengthen local administrations in administrative and financial terms will be taken.

690. Establishment of municipalities will be based on objective criteria. Only those settlements that meet these criteria will be accepted as municipalities.

691. Minimum service standards will be determined at national level for the services provided by local administrations and the supervision of compliance with these standards will be made by the central administration.

7.5.2. Increasing Policy Making and Implementation Capacity

692. Transition to strategic management

in public institutions and organizations will be completed with the transformation management approach during the Plan period.

693. With the aim of strengthening harmonization among the reforms towards increasing policy formation and implementation capacity in public administration, a common sense and vision will be developed with regard to the implementation of the reform and the transition period will be planned. Functionality of higher policy texts will be increased as the basic reference framework during policy formation and implementation as required by the plan hierarchy. Harmonization and relationship between development plans, and national, regional and sectoral plans, programs and strategies will be strengthened and interaction and connection will be ensured between the strategic plans of public administrations and higher policy texts.

694. All public administrations will prepare and implement their strategic plans during the Plan period in order to ensure that management decisions are formed with a medium to long-term perspective for the improvement of management quality in public administrations; a result-oriented management understanding and budgeting based on purposes and objectives is developed; sensitivity towards the demands of the beneficiaries is increased in supplying public services; and participation and accountability is established. This process will be scheduled for each institution.

695. In order to rationalize the policy formation process and to ensure that the policies are based on data and information, a qualitative and quantitative data management system will be developed. Numerical, fictional and analytical methods will be utilized in both policy formation and

costing processes.

696. The structure of the budget will be transformed to display the costs of the policies to be implemented and the performance of public administrations, by considering the cost of the policies to be implemented by public administrations, the groups affected by these policies and their opportunity costs. Public resources will be allocated according to performance programs. In the framework of creating a performance culture in public administrations, measuring, monitoring and evaluation processes will be improved.

697. The existing administrative and human capacity in public administrations will be developed in terms of both quality and quantity, in line with the strategic management approach, and programs targeting the harmonization of the management culture with the new structure will be organized.

7.5.3. *Developing Human Resources in Public Sector*

698. Unbalanced distribution of the public personnel among institutions, organizations, and regions will be prevented and with this aim, it will be ensured that the required number of personnel with the necessary qualifications is employed by implementation of the norm cadre system.

699. An effective human resource planning will be made in public institutions and organizations to enable all employees to reach a level of competence and capacity to adapt to changing conditions. With the programs to be prepared within this scope, employees will be exposed to a continuous process of education, training and development, and they will be provided with the necessary information and skills, which will enable them to perform their jobs in a productive manner.

700. The personnel performance appraisal system will be revised and standards,

Harmonization and relationship between development plans, and national, regional and sectoral plans, programs and strategies will be strengthened and interaction and connection will be ensured between the strategic plans of public administrations and higher policy texts.

which will help measure performance of the personnel in an objective and transparent manner, will be developed and implemented by also considering the characteristics of the duties.

701. Detailed legal regulations regarding the professional ethic rules for the civil servants will be made.

702. Awareness and competence of public personnel with regard to information and communication technologies will be improved.

703. With the aim of increasing efficiency and productivity by benefiting from the knowledge and experience of the experts in public sector, flexible work models, which will permit their appointment to different institutions and organizations, will be adopted and the relevant legislative regulations will be enacted.

7.5.4. *Ensuring the Dissemination and Effectiveness of e-Government Applications*

704. Public services will be provided in an effective, transparent, continuous, secure and integrated manner from a single portal and on different platforms by rede-

signing the work processes in line with the requirements of the citizens and the businesses and benefiting from information and communication technologies to the maximum extent.

705. e-Government will be used as an effective tool in the restructuring of the public sector and support will be given to creation of a public administration structure, including local administrations, which can provide flexible, good quality, effective, fast and inter-operable services and where good governance principles are adopted. In this context, the existing institutional structures will be evaluated in terms of their appropriateness for e-government applications and they will be strengthened accordingly.

706. Establishment of basic data infrastructures will be ensured in provision of public services. In this context, address and real estate information systems based on a single unique number will also be developed for legal entities just as for real persons. Basic information about real persons and legal entities will be shared effectively in the electronic environment among relevant public organizations through common databases within certain authority and responsibilities. Confidentiality of personal information will be the basic principle in the data sharing among institutions required for the e-government services.

707. Priority will be given to e-government investments for services, which are frequently used and have a high rate of return. Overlapping investments will be prevented and efficient use of public resources will be ensured through common service provision via setting common standards in public information technology investments and the opportunities brought by these technologies in information sharing. Common transactions such as identity authentication, electronic pay-

ment and etc. will be carried out from a single portal, facilitating access to services and accelerating work processes.

708. Legal framework for ensuring information security will be established, a secure public network will be created and a disaster recovery center will be set up.

709. Use of e-signature will be extended in the public sector.

710. Services provided by local administrations in electronic environment will be improved, standards concerning these services will be set up, and data sharing will be provided. Synergy opportunities will be created in the provision of these services, and an environment for the efficient participation of the people in administration will be ensured by means of information and communication technologies.

711. Programs and initiatives of the EU regarding the development of electronic provision of public services will be monitored closely and necessary measures will be taken towards harmonization with the objectives set forth.

7.5.5. Improving the Justice System

712. Efforts towards increasing the quality of judging process and main components of this process will be continued; legal and institutional regulations, which will ensure the fast, fair, reliable and proper operation of the judging process, in the framework of the rule of law and state of law requirements, will be realized.

713. With the aim of accelerating economic, social, and cultural development, the appropriate legal environment will be provided.

714. With the aim of resolving disputes in a fast, simple and effective manner with low costs and reducing the workload of judicial authorities as a result, it will be

ensured that alternative dispute resolution methods are put in place in Turkish legal system in an effective manner.

715. Legal regulations regarding the professional ethics rules, with which the judicial system personnel should comply, will be made.

716. Law education and training will be restructured to provide the students with methodological and analytical thinking skills.

717. Arrangements that will protect the rights of those unjustly treated in the framework of contemporary criteria will be put in place and judicial assistance services will be increased to a sufficient level.

718. The system of execution of sentences and its institutions will be brought up to international standards.

719. The rules in administrative judging procedures will be ensured to be in conformity with the operation of the administrative judicial system.

720. With the aim of accelerating the judging process, the number of judges and assistant judicial personnel will be increased.

721. Efficient use of judicial services will be ensured by accelerating the judicial process achieved through the transfer of services into the electronic environment and sharing information among judicial institutions and other public organizations.

722. Activities to establish new specialized courts, where required, will be carried out.

7.5.6. Making Security Services Effective

723. A legal and institutional infrastruc-

ture required for the provision of public order service, which focuses on the satisfaction of individuals, preserves the sensitive balance between freedom and security, and is supported by the society will be established.

724. In order to provide effective public order services, priority will be given to preventive and protective public security services and coordination will be ensured and necessary action will be taken to create a common database between relevant units.

725. The required criminal infrastructure within the scope of reaching the suspect from an evidence approach will be spread throughout the country.

726. In the framework of the National Action Plan on the Integrated Border Management, activities aimed at establishing a legal and institutional infrastructure for professional border guarding administration will be continued.

727. An independent Immigration and Asylum Organization will be established with the aim of fighting in an effective way against illegal immigration and asylum movements and the legal and institutional regulations related to the construction of shelters and send-back centers on the borders will be made.

728. The legal and institutional regulations, which take into account international dimension as well as national dimension, will be made in fighting against terrorism and its financing.

729. The National Drug Abuse Strategy will be amended to harmonize with the EU acquis and an effective coordination will be established among the police, gendarme, coast security and customs security organizations.

8 - *Implementation, Monitoring, Evaluation and Coordination*

730. The success of the Plan will depend on the full adoption of the main development axes and priorities of the Plan by organizations taking part in the implementation, their taking these development axes and priorities as basic reference in their activities, and the implementations being in harmony with each other and in close collaboration and coordination at the central and local levels in the integrity of the Plan. Therefore, institutionalization and development of the coordination process to be established in conformity with the development axes and strategic objectives of the Plan will constitute one of the fundamental determining factors in the success of implementation.

731. Medium Term Programs will be prepared in a way to support and take these axes and priorities as the basis. Besides, it will be clearly set forth which development axes and priorities are to be served by the investments, and institutional and legal regulations to be made by public organizations. It will be ensured that they also constitute a basis for allocation of appropriations.

732. In order to allow efficient implementation of the Plan, a coordination and

monitoring system will be set up to coordinate the implementation of the Plan and to help in taking timely measures by observing the developments closely.

733. With this system which will ensure coordination, monitoring and evaluation of the Plan activities; on the one hand, it will be ensured that the objectives, policies and targets of the Plan are taken into consideration during implementation and the necessary steering with the relevant organizations is realized in a timely manner, on the other hand an important step in harmonizing Turkey's monitoring and evaluation activities with the EU norms will have been taken. Within this system to be created, transparency will be provided with the published reports to inform the public about the developments.

734. A Plan Monitoring and Steering Committee will be formed to monitor and evaluate the implementation of the Ninth Development Plan. This Committee will consist of high-level executives of relevant Ministries and will be headed by the Undersecretary of the State Planning Organization. This Committee, the secretarial services of which will be carried out by the SPO Undersecretariat, will convene

at least once a year, in harmony with the programming and budgeting work.

735. This Committee will be responsible for evaluating Plan implementation, monitoring developments regarding objectives, steering programming and budgeting activities, preparing Annual Plan Progress Reports and submitting them to the Council of Ministers as well as preparing Plan Evaluation Reports at three-year intervals.

736. A reliable communication infrastructure will be established under the coordination of the Undersecretariat of the SPO to ensure regular information flow among institutions. In this scope, the principle will be for each institution and organization to show the necessary sensitivity in establishing the communication infrastructure and ensuring its functioning.

737. Timely preparation of the reporting, which constitutes the most important factor of communication within the system, at determined standards, and in a way to include complete and correct information, will be the prioritized duty of each institution.

738. Undersecretariat of SPO will determine working procedures and principles of the Plan Monitoring and Steering Committee, reporting standards for institutions and the Committee, relations of monitoring and evaluation activities of the Plan with the Medium Term Program and other programming activities, and procedures and principles regarding the establishment and operation of sub-committees to be set up if necessary, and notify the institutions.

The Strategy of Ninth Development Plan (2007-2013)

I - Structure of the Ninth Development Plan and Implementation Approach

In today's world where change is multi-dimensional and rapid, competition is intense and uncertainties develop, the act of planning has become more important and necessary than it used to be in the past. In this environment, plans are entitled to focus on setting up strategies and perspectives rather than formulating each area in detail. The structure and implementation approach of the Ninth Development Plan have been determined in regards with such circumstances and necessities. In this context:

- The Ninth Development Plan will be prepared for a period of seven years (2007-2013).
- The Ninth Development Plan, which will take the balance between the principal objectives and targets along with the means and resources into consideration will concentrate on consistent and feasible priorities.
- The Plan will form a set of policies, which will increase predictability, reduce uncertainties and have in-

ternal consistency.

- The Plan will be prepared on the basis of development axes to achieve integrity between various policy fields and strategic objectives.
- Sectoral policies will be covered within the development axes.

The Plan will be the basic reference document in programming, budgeting, project design and implementation stages.

- Public agencies are responsible for developing sub-policies and measures falling in the areas of their competence in the context of the vision, principles, development axes and policies of the Plan.
- The functionality of the Plan will be increased via medium-term programmes, strategic plans of the agencies, regional development plans and sectoral strategies while the objectives and priorities of the Plan will constitute the basic framework for allocating resources in the budgetary process.
- As a requirement of result-oriented and axis-based new approach, public agencies will establish and

ensure the permanence of cooperation and coordination mechanisms with the other agencies in the field of their competence.

- A strong monitoring and evaluation mechanism, which would lay the basis of accountability and performance measurement of the main objectives, will be established.

II. Vision of the Ninth Development Plan

The Ninth Development Plan, which will cover the period of 2007-2013, will be prepared in compliance with the vision of “Turkey, a country of information society, growing in stability, sharing more equitably, globally competitive and fully completed her coherence with the European Union”.

III. Basic Principles

In achieving this vision, the following principles will be taken as bases:

- An integrated approach is the basis in economic, social and cultural areas.
- Societal contribution and ownership are to be ensured by strengthening social dialogue and participation.
- A human-focused development and management approach is the basis.
- In the development process, a competitive market, effective public administration and democratic civil society will function as the institutions complementing each other.
- Transparency, accountability, participation, efficiency and citizen satisfaction will be the main criteria in providing public services.
- The government will withdraw from production of commercial

goods and services and strengthen its policymaking, regulating and supervising functions.

- In policy formulation, prioritization will be carried out by taking resource constraints into account.
- The subsidiarity principle will be followed.
- The social cohesion and structure will be strengthened in the framework of common heritage and shared values.
- Natural resources, cultural assets and the environment will be protected considering the future generations, as well.

IV. Development Axes

In the framework of the main principles indicated above, the following strategic objectives have been determined as development axes to realize the vision of the Ninth Development Plan:

- Increasing Competitiveness
- Increasing Employment
- Strengthening Human Development and Social Solidarity
- Ensuring Regional Development
- Increasing Quality and Effectiveness in Public Services

By achieving these objectives, not only the institutional and legal harmonization will be achieved with the EU but also convergence to the EU averages in social and economic indicators will be ensured.

IV.1. Increasing Competitiveness

Making Macroeconomic Stability Permanent

Macroeconomic stability will be maintained in order to increase the competitiveness of the economy and to achieve sustainability of high economic growth.

Fiscal, monetary and incomes policies will continue to be implemented in a coherent

and corroborative way.

During the Plan period, fiscal discipline will be maintained in a way that would continue the downward trend in the ratio of public debt to the national income. For this purpose, tax revenues will be increased by expanding the tax base and registering the unregistered economy, and efficiency in public expenditures will be ensured.

The incomes policy will be implemented in compliance with the inflation targets.

The policy of explicit inflation targeting will be continued to ensure the price stability.

In the framework of floating exchange rates regime, the exchange rate will continue to be determined by the supply and demand in the market.

Structural reforms, which will secure the macroeconomic stability and provide an effective, flexible and productive economic structure, will be continued.

For a current account deficit, which is sustainable and financed by sound resources, it will be ensured that structural reforms will continue, the share of high value-added products in exports will increase and the increase in exports will be persistent.

Improving the Business Environment

In order to improve the business environment, a taxation system, which encourages working and entrepreneurship, easy access to financial resources, effectiveness in product and input markets, developed physical infrastructure and effective judicial and public services will be provided.

The taxes and burden on the earnings and transactions of business enterprises as well as on employment will be structured in a way that will not adversely affect competitiveness.

Efforts to improve corporate governance in enterprises, particularly in SMEs, will be supported.

Access of SMEs to diversified financing resources under affordable conditions will be facilitated.

In order to increase effectiveness in the product and input markets, importance will be assigned to preventing unfair competition, protecting intellectual and industrial property rights, raising the education level of the labor force, developing R&D activities and to reducing input costs.

Physical infrastructure such as energy, transport and information and communication technologies for enterprises will be improved and appropriate investment locations, particularly within the territory of the organized industry zones and small industry estates, will be provided.

In order to ensure efficiency in the provision of public services to investors and enterprises; transparent and objective rules will be introduced, a well-functioning judiciary system will be created, bureaucracy related to permissions, approvals and operations will be reduced, state aid policies will be implemented in compliance with the EU acquis, maximum use of information and communication technologies will be made and effective publicity of existing potential will be ensured at national and regional levels.

Reducing Informality in the Economy

In the framework of a comprehensive strategy to be prepared by the participation of all segments of the society for reducing informality in the economy with strong social and political will, it will be ensured that financial burdens on the business and working life will be reduced, regulations and transactions will be simplified, regulations regarding amnesty of the financial obligations to the public will

not be repeated, an effective supervision and sanction system will be developed, technological infrastructure of administrations will be strengthened, and society will be made conscious of the hazards of the informal activities.

Improving the Financial System

It will be ensured that a financial sector, which operates at a competitive scale, has a diversity of instruments and financial depth to direct resources into investment, is regulated and supervised in compliance with the international standards, and where intermediation costs are minimized, will be developed.

Implementation of corporate governance principles will be ensured in the financial markets and the real sector, which obtains funds from the financial markets.

It will be ensured that the real sector, particularly SMEs, will benefit more from the financial system to meet their financing needs.

Regulations ensuring the implementation of risk management in all financial institutions will be realized.

Factors deteriorating the competition among various agencies and instruments in the financial system will be eliminated.

It will be ensured that regulation and supervision will cover all areas in the financial system.

Improving the Energy and Transportation Infrastructure

Giving priority to energy and transportation investments, the quality of infrastructure for production of goods and services will be improved, better access will be provided and the share of infrastructure services in production costs will be reduced. In this context, the leading role in infrastructure investments and their operation will be given to the private sector.

It is essential that energy is to be supplied in a continuous and secure manner at minimum cost. Main factors of the energy policy are ensuring the security of supply taking the alternative energy sources including nuclear energy into consideration, keeping the environmental effects at the minimum level, contributing to the international competitiveness of the national industry through a competitive energy industry structure and furthering the transit position between producer and consumer countries.

Regarding the security of energy supply; it is aimed to guarantee the access to primary energy resources, minimize the dependency on imported resources, make electricity generation, transmission and distribution investments in a timely manner and sustain the adequacy of refinery capacity, and petroleum and gas storage facilities.

It will be ensured that the energy sector will be opened to competition, private sector will make the necessary investments without extra burden on the public finances, state will focus on the security of supply by effectively executing activities of supervision and monitoring, and publicly-owned facilities will be privatized.

It is the basic objective that transportation services will be provided in a sustainable competitive environment, which meets the needs of economic and social life, promotes traffic safety above all, where there will be a balance and complementarity between modes of transportation and which is compatible with modern technology and international rules.

In highway transportation, dual carriage highway construction projects aiming to increase capacity and driving quality, will be continued on the main axes at which heavy vehicle traffic is concentrated, as well as goods transportation will be shifted to railways and the ports will be

converted into logistics centers enabling multi-modal transport.

In line with the objective that an environment will be created to build ships with higher domestic value-added at Turkish shipyards and that the Turkish maritime fleet, particularly the coaster fleet will be renewed, new shipyards will be established considering the results of the Turkish Shipyards Master Plan.

It is aimed that an economically viable; financially and environmentally sustainable urban transportation structure that is coherent with land use and transportation plans; takes into account specific and original features of cities, utilizes different modes of transport and gives utmost priority to people will be established in our cities.

Arteries connecting Turkey to EU, Caucasian, Central Asian and Middle East countries will be strengthened.

Protecting the Environment and Improving the Urban Infrastructure

While environmental protection is counted as a cost item in the short run, it enhances competitiveness and makes it sustainable in the long run. In this context, it will be ensured that the environmental infrastructure will be completed in a well-planned time horizon and guaranteeing cost-effectiveness as a requirement of the harmonization process with the international standards, including mainly those set by the EU.

It will be ensured that the urban infrastructure, especially the environmental infrastructure, will be completed with an integrated approach in a manner to increase the quality of work and life and to support competitiveness.

Technical and administrative capacities of local administrations will be increased and their financial means will be enhanced to

realize effectively the additional investments in the EU harmonization process.

It is essential to develop and extend production processes and technologies, which are productive and environmentally friendly, in order to increase our competitiveness and to ensure sustainable development in the context of directing consumer preferences to environmentally friendly goods and services.

Improving R&D and Innovation

It will be ensured that R&D activities will be designed as to produce innovations and to be market oriented. In this context, measures will be taken to increase both the share of R&D expenditures in GNP and the share of the private sector in the expenditures.

Science and technology awareness in the society and the number of qualified researchers will be increased and research infrastructure will be enhanced.

Venture capital and similar instruments will be utilized in transforming R&D activities into innovation and product.

Research infrastructure of universities, research institutions and other institutions and organizations will be improved based on priority areas.

Disseminating Information and Communication Technologies

Competition will be increased in the electronic communication sector, widespread, fast, secure and effective access to information at affordable cost will be provided by offering alternative infrastructure and services. The information technologies sector will be positioned as a regional and global player in software and services areas. It will be ensured that there will be widespread use of information and communication technologies at enterprises to increase productivity in the economy.

Audiovisual broadcasting infrastructure, which is extensively used in access to information, will be enhanced.

The high tax burden on electronic communication services will be gradually drawn back to reasonable levels in order to accelerate the process of transformation to information society. Broadband communication infrastructures will be disseminated.

In order to increase competitiveness in the information technologies sector, a favorable environment for foreign direct investments will be created and by this way technology transfer will be realized. It will be ensured that technoparks will be specialized in the fields of software and services sector to support regional and priority industries.

Improving Efficiency of the Agricultural Structure

Achieving food security and safety and sustainable use of natural resources will be taken into account in creating an agricultural structure that is highly organized and competitive.

Efforts will be concentrated on practices for increasing productivity in a stable manner, increasing the income level of producers, making the organization of the public and producer side effective, improving forest, soil and water resources, together with protecting their quality and quantity and utilizing them effectively. Furthermore, the pressure of migration and employment resulting from the transformation in the agricultural structure will be alleviated by rural development policies.

Increasing scales in agricultural enterprises and spreading modern agricultural enterprises will be supported, and agricultural sector will be developed in integrity with

the environment and income generating activities in rural areas, also considering the EU harmonization process.

Ensuring the Shift to High Value-Added Production Structure in Industry and Services

The facts that international trade has been further liberalized, world trade has rapidly gone up in information and technology intensive products, competitive advantage in labor-intensive goods has been overtaken by certain countries, necessitates our country's positioning in upper and higher value-added fields of world industrial production value chain and thus transformation of the industrial production structure. In this context, in order to increase competitiveness of the economy and obtain a larger share from world exports, increasing the production of high value-added goods is aimed.

The manufacturing industry will be the basic sector to meet the technical standards in compliance with the EU criteria, to increase productivity, to produce products based on high technologies and with high value-added and to drive economic growth in a highly competitive and outward oriented structure.

In the manufacturing industry, the transformation of firms into a structure, which has high entrepreneurial power, is able to create original design and trademarks, develop technology and is innovative and institutionalized, will be encouraged.

In labor intensive traditional sectors, such as textiles, clothing and leather, transformation into an internationally competitive structure by giving importance to high value-added products and activities, will be supported. It is aimed that Turkey becomes one of the important production centers in medium and high technology sectors of automotive, white goods, ma-

chinery and electronic and increase its share in the world. Importance will be given to R&D infrastructure, R&D and innovation activities in order to develop production of high technology products in the domestic economy.

It is aimed to export mining products after being processed domestically.

Necessary measures will be undertaken to educate qualified human resources required for shifting to a high-value added production structure.

In order to maintain productivity increases in industry, scale expansion through mergers will be supported and foreign direct investments will be utilized for transition to a technology intensive structure.

It is aimed to support transition to high value-added areas in the services sector and increase quality and effectiveness. In this context, it will be ensured that the contribution of tourism, contracting and technical consulting services abroad to economy will be increased; development of new fields in higher education, logistic centers, finance, information and communication technologies will be provided.

The tourism sector will be handled in an approach, which aims to create new capacity and increase service quality, diversify marketing channels, protect cultural assets, make natural capital sustainable and bring forth tourism varieties in compliance with comparative advantages.

Support will continue to be provided to technical consulting and contracting services abroad, which makes significant contribution to new job creation and to increasing demand for industrial products. Special importance and priority will be given to educating intermediate manpower certified with internationally valid certificates and using technical consulting services in public investments in the do-

mestic market.

High value-added logistic activities in the services sectors especially in air transport and maritime sectors will be supported and Turkey's becoming a logistic center in various service fields will be realized.

Efforts will be made to transform İstanbul into an international financial center.

IV.2. Increasing Employment

Improving the Labor Market

The labor market will be made to acquire a structure where a balance is held between flexibility and job security, burdens on employment are gradually reduced, all individuals are given equal employment opportunities and social dialogue is strengthened.

By establishing a balance between flexibility and job security in the labor market, adaptation capacities of enterprises and employees to change will be enhanced.

A wage system, which is based on basic wages, will take into account competitiveness of the economy, strengthen the relation between wages and productivity, contribute to flexibility of labor markets and support productive employment, will be created.

Social dialogue mechanisms will be strengthened and spread at all fields ranging from country level to enterprise level.

Increasing the Sensitivity of Education to Labor Demand

Interaction between education and labor market will be strengthened to raise the qualified labor force required by the market. Existing education programmes in vocational education and higher education will be revised and new education programmes will be determined according to manpower requirements.

Transformation to a modular and flexible system in vocational and technical education will be realized.

A professional qualification system will be established based on professional standards, examination and certification and a vocational education structure will be developed based on this system.

Division of work and cooperation will be ensured based on programme integrity between vocational colleges and vocational and technical secondary schools. Applied training held by these institutions with the industry will be strengthened and spread.

Developing Active Labor Policies

Qualities and skill levels of the unemployed, disadvantaged groups vis-à-vis the labor market and labor force leaving the agricultural sector will be improved through active labor programmes according to the needs of the labor market.

The quality of employment services will be improved and resources allocated to active labor programmes will be increased. Active labor policies will be spread thorough entrepreneurship training, employment guaranteed programmes, professional consultancy and guidance services, labor training and vocational training courses and industrial training seminars.

IV.3. Strengthening Human Development and Social Solidarity

Enhancing the Educational System

To ensure social development, productive and creative individuals who are of the information age with advanced thinking, perception and problem solving abilities, who are loyal to Atatürk's principles, believe in democracy and freedom and have absorbed national and spiritual values, open to new ideas, with sense of responsibility, able to contribute to civilization, familiar with scientific and technological usage and produc-

tion, appreciation for the arts, and have high level of skills will be brought up.

The education system will be handled with the holistic approach by taking lifelong education into consideration to support the development of human resources. The structure of the system, which is based on efficiency, accessibility and equal opportunities, will be strengthened.

In order to increase quality in education, curricula based on development of innovativeness and research interest will be extended across the country, an effective guidance and counseling system will be established, the qualities of educators and physical premises and information technology infrastructure will be strengthened.

The administration of higher education will be revised with an understanding of transparency, participation, accountability and sustainable quality and its administrative and financial autonomy will be extended, and a competitive structure, which takes into account local characteristics and is open to private sector investments, will be developed.

Making the Health System Effective

A health system, which regards patient rights and satisfaction, is accessible, is of high quality, prioritizes preventive health services, is cost effective and sustainable, will be established.

In order to facilitate citizen's utilization of health services, the universal health insurance system will be implemented.

Standards will be established for the provision of good quality services, necessary physical and legal infrastructure will be developed and quality and quantity of labor force in the health sector will be increased.

An effective referral system will be established; cost effective service provision, rational medicine use and utilization of health information systems will be spread.

While the regulatory and supervisory role of the state is strengthened in the health sector, the share of the private sector will be increased in the provision of service.

Improving Income Distribution, Social Inclusion and Fight Against Poverty

Inequality in income distribution and poverty will be reduced permanently by a multi-dimensional approach along with sustainable growth and employment, education, health and working life policies. Individuals and groups, which are experiencing or under the risk of confronting with poverty or social exclusion, will be included in economic and social life and their quality of life will be increased.

It will be ensured that groups, particularly the handicapped, elderly, women, children and migrants, that are subject to poverty and social exclusion, will actively participate in economic, social and political life, and violence against and exploitation of such groups will be prevented. In this context, priority will be given to the access of disadvantaged groups to education, health, housing, social services and employment services. Services ensuring the prevention of poverty culture and enabling the poor to acquire producer's position will be provided.

Increasing Effectiveness of the Social Security System

The social security system will be provided with a structure, which will cover the entire population, meet changing needs of the society, have financial sustainability and an effective audit mechanism, and provide good quality services.

A common database will be established to identify persons, who will benefit from social services and benefits, and a detection mechanism operating on objective criteria will be established, and communication and cooperation will be ensured among the agencies in the system. Shortage of qualified personnel in social services and benefits will be eliminated and service quality will be improved.

Protecting and Improving Culture and Strengthening Social Dialogue

During the process of social transformation, the foundation of cultural policies will be to protect, to develop and to transfer the cultural wealth and diversity to future generations.

It will be ensured that social and economic policies and cultural policies support each other and effective participation of local administrations and non-governmental organizations will be endured in the implementation of these policies.

Social affinity of the youth, sensitivity and self-confidence will be developed in a manner to foster their confidence in the future.

In order to increase social integration and solidarity, priority will be given to policies that foster tolerance, social dialogue and cooperative culture.

VI.4. Ensuring Regional Development Making Regional Development Policy Effective at the Central Level

Regional development policies will contribute to national development, competitiveness and employment by increasing productivity of regions on the one hand, they will serve the main objective of reducing interregional development disparities, and ensure that domestic migration will become compatible and stable with respect to social, economic and urban develop-

ment, and spatial balances of development will be established and prosperity will be expanded in a balance manner across the country, on the other.

The regional and spatial development framework will be developed at national level, regional development strategies and plans will be prepared in cooperation with development agencies and the scope of sub-scaled plans and strategies will be identified together with principles and standards.

Spatial prioritizing and focusing will be ensured in public investment and service provision in order to increase job opportunities and quality of life in the regions and to increase both inter-regional and intra-regional interactions through improving accessibility.

Support policies of the public sector regarding local and regional development will be reviewed considering regional development levels and potentials; new instruments fostering investment, production and employment such as venture capital, micro-credit agencies, differentiated minimum wage practice and input costing in addition to more selective and spatial-focused state subsidies will be developed.

Ensuring Development Based on Local Dynamics and Internal Potential

Regional development policies and practices will primarily be based on local dynamics, and internal potential will be differentiated for relatively underdeveloped regions and centers with high development potential and they will be equipped with innovative, multi-dimensional and diversified instruments. Strategic interventions will be supported by effective coordination mechanisms at the local and the central level, particularly development agencies, with adequate financing.

Regional and local economy will be taken as the basis of economic structuring and development, and human resources will be developed so as to support specialization at the local level particularly in underdeveloped regions, entrepreneurship will be spread, and measures will be taken to accelerate local employment and capital accumulation.

Development agencies will be instrumental in identifying, supporting and coordinating region-specific, innovative policies and self-supporting development financing will be initiated particularly in regions with high potential.

An appropriate investment environment towards differentiated SME policies will be created for inter-regional convergence and competition purposes. In this context, special importance will be given to increasing the financing resources and diversifying financing instruments, facilitating market access, supporting clusters in strengthened social networks under the leadership of driving sectors.

An environment will be created to enable the cooperation of companies and universities primarily in cities having high development potential, and support will be given to activities that aim to facilitate access to new technologies and information, develop technological transformation and transfer systems, create an effective regional innovation infrastructure with commercial nature.

Increasing Institutional Capacity at the Local Level

In the implementation of regional development policies, specialization level, project design, implementation, monitoring, evaluation and coordination capacities and human resources of institutions and actors which have a role in regional development at local level including mainly the local administrations will be improved.

Support will be given to cooperation and

partnerships among local administration, private sector and non-governmental organizations, and creation of cooperative networks and information exchange including particularly the best practices through such networks, will be encouraged.

Ensuring Development in the Rural Areas

The basic objective in rural development is to utilize local potential and resources while considering protection of the natural and cultural assets, to develop new, high value-added economic activities, and thus to enhance the working and living conditions of those living in rural areas relative to those prevalent in the urban areas as well as to ensure the sustainability of these conditions.

Rural development policies will be implemented in a manner to alleviate socio-economic adversities such as unemployment and migration arising in the rural transformation process and be complementary with agricultural policies giving priority to diversification of revenue sources. In this context, priority will be given to strengthening producers' organizations, effective use of soil and water resources, and strengthening the competitive power of agricultural enterprises.

Necessary institutional framework will be created for harmonization with the EU rural development policies and the administrative capacity will be improved to manage and use rural development funds effectively.

IV.5. Increasing Quality and Effectiveness in Public Services

Rationalizing Powers and Responsibilities Between Institutions

Conflicts of duties and powers will be eliminated by the review of the duties, authorities and functions of all public ad-

ministrations; and re-authorization and restructuring will be made according to the areas of duty.

Delegation of powers and duties from the central government to local administrations will be realized in accordance with the principles laid down by the European Charter of Local Autonomy and in parallel with administrative and financial strengthening of local administrations.

Increasing Policy Making and Implementation Capacity

Quality will be increased in the processes of policy making, costing, implementation, monitoring and evaluation in public administrations. For this purpose, a strategic management approach, which gives priority to citizens, is participative, transparent, accountable, based on performance and result-oriented, will be followed.

It will be ensured that the managerial decisions in the public administrations will be made under a medium to long run perspective based on strategic plans. Resources will be allocated within the framework of performance programmes in order to ensure effectiveness and efficiency in their use. Measurement, monitoring and evaluation processes will be developed in the framework of performance culture in public administrations.

Developing Human Resources in the Public Sector

Public agencies and organizations will be supplied with an adequate number of personnel with adequate quality to perform their functions and responsibilities efficiently and effectively, competences of this staff will be continuously upgraded in order to ensure their adaptation to the rapidly changing circumstances and the employment conditions will be harmonized with the EU acquis.

Ensuring the Dissemination and Effectiveness of e-Government Applications

The information and communication technologies will be used at the maximum level in the provision of public services to citizens in a fast, continuous and widely available manner. In this context, an effective, interoperable, integrated and secure e-government structure will be created and basic public services will be provided in the electronic environment.

Information systems will be created for real and legal persons based on a unique ID number, and an integrated e-government structure will be constructed to allow sharing of information in the digital environment.

In provision of electronic public services, business processes will be redesigned according to the user needs in order to ensure effective service provision, and frequently used and high return services will be given priority and provided from a single portal.

Improving Justice System

It is essential that justice and judicial services are to be provided fairly, fast and effectively and in accordance with the universal principles of law.

Quality will be increased in the functioning and structural elements of the judiciary, and efforts will continue to make the system to adapt to modern standards. In this context, while the regulations to accelerate the judicial system are being introduced, care will be taken not to weaken the legal rights provided to individuals.

Legal rules will be employed as instruments of safeguarding the social order as well as improving and enhancing the social order.

Making Security Services Effective

Public security services, which will respect human rights and liberties considering the sensitive balance between liberty and security, and ensure life and job security, will be provided.

Effective fight will be undertaken against terrorism and its financing, organized crime, drug trafficking, illegal migration, refugee movements and human trafficking.

In order to provide effective public order services, priority will be given to preventive and protective public security services and coordination will be ensured and necessary action will be taken to create a common database between relevant units.

Annex: List of Ad-hoc Committees

1. Foreign Trade and Free Movements of Goods
2. Liberalization of Services Trade
3. Competition Law and Policies
4. Intellectual Property Rights
5. State Aids
6. Financial Services (Financial Markets, Financial Institutions, Banking, Insurance)
7. Improving Public Expenditure and Control Systems, Public Procurements
8. Good Public Governance
9. Tax
10. Labor Market
11. Social Security
12. Income Distribution and Combat with Poverty
13. Industrial Policies (Including Entrepreneurship, Innovation, Technology, Quality and Productivity)
14. Small and Medium-Sized Enterprises
15. Regional Development
 - 15.1. *Basic Tools and Coordination in Regional Development*
 - 15.2. *Regional Development Policies and Economic-Social Cohesion to EU*
 - 15.3. *Provincial Development Strategies and Policies*
16. Rural Development
 - 16.1. *Cooperation and Organization in Rural Areas*
 - 16.2. *Rural Development Policies*
17. Settlement and Urbanization
18. Information and Communication Technologies
 - 18.1. *Information Technologies*
 - 18.2. *Telecommunication*
 - 18.3. *Postal Services*
 - 18.4. *Broadcasting*
19. Science and Technology
20. Judicial Services and Security
 - 20.1. *Justice*
 - 20.2. *Security*
21. Energy
22. Environment
23. Food Safety, Veterinary and Phytosanitary
24. Food Industry
25. Use and Management of Land and Water Resources
26. Plant Production
27. Animal Husbandry
28. Forestry
29. Fishery
30. Railway Transportation
31. Maritime Transportation
32. Air Transportation
33. Road Transportation
34. Urban Transportation
35. Automotive Industry
36. Manufacturing Industries of Air, Sea and Railway Vehicles
 - 36.1. *Shipbuilding Industry*
 - 36.2. *Railway Vehicles Industry*
 - 36.3. *Aircraft Industry*
37. Basic Metals Industry
38. Machinery and Fabricated Metal Products Industry
39. Electronics and Electrical Machinery Industry
40. Defense Industry
41. Mining
42. Textile, Leather and Clothing Industry
43. Alcoholic Beverages, Tobacco and Tobacco Products Industry
44. Chemical Industry
45. Pharmaceutical Industry
46. Petroleum and Petroleum Products Industry
47. Nonmetallic Minerals Industry
48. Culture
49. Tourism
50. Education (Preschool, Primary and Secondary Education)
51. Higher Education
52. Health
53. Children and the Young
54. Technical Cooperation
55. Foreign Economic Relations
56. Construction, Engineering-Architecture, Technical Consultancy and Contracting Services
57. Wood Products and Furniture Industry