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THE SOCIAL DIMENSION IN SELECTED CANDIDATE COUNTRIES IN THE BALKANS: COUNTRY REPORT ON TURKEY

**FIKRET ADAMAN
ALI CARKOGLU
REFIK ERZAN
ALPAY FILIZTEKIN
BEGUM OZKAYNAK
SERDAR SAYAN
SINAN ULGEN**

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The Social Dimension in Selected Candidate Countries in the Balkans: Country Report on Turkey

Fikret Adaman, Ali Carkoglu, Refik Erzan, Alpay Filiztekin,
Begum Ozkaynak, Serdar Sayan and Sinan Ulgen*

Abstract

Turkey has shown that it can achieve very high growth rates on a sustainable basis, provided there is political stability. In this regard, the prospect of becoming a full member of the EU is the strongest anchor for political, and hence economic, stability.

Currently, Turkey's young population offers a window of opportunity for building up its socio-economic infrastructure. But the low level of labour force participation, particularly among urban women, is a major constraint. Participation rates in Turkey are highly correlated with the level of education, in which women have been at a disadvantage.

Compared with most EU countries, Turkey is characterised by a greater degree of inequality and a higher risk of poverty, yet the existing structures to promote social inclusion are widely dispersed. Notably, one-third of the population lives in rural areas, while the share of agriculture in GDP is about a third of that level. The pace and pattern of urbanisation will shape Turkey's future economic and geographical landscape. Against this background, the expansion of off-farm employment and income generation in rural areas would help to reduce migration to the cities.

Sectoral and microeconomic factors also restrain Turkey's economic growth. Deregulation and privatisation efforts are taking place, however, in core sectors such as energy, telecommunications and transport. Further attention needs to be given to improving the competitiveness of SMEs, particularly through less burdensome business regulations and increased opportunities for SMEs to access capital. Payroll taxes and severance payments are significantly above the average for OECD countries. These costs, together with stiff labour legislation, account for a very sizable informal sector.

Turkey's social security system is going through a major overhaul, geared towards institutional reform, the restoration of actuarial balances and health-care reform to improve access to medical care. In addition to structural reform, the greatest challenge that Turkey faces is 'good governance'. In these and other areas, the EU provides the blueprint.

* Fikret Adaman is Prof. of Economics, Bogazici University, Istanbul (adaman@boun.edu.tr); Ali Carkoglu is Prof. of Political Science, Sabanci University, Istanbul (alicarkoglu@sabanciuniv.edu); Refik Erzan is Prof. of Economics, Bogazici University, Istanbul (erzan@boun.edu.tr); Alpay Filiztekin is Prof. of Economics, Sabanci University, Istanbul (alpayf@sabanciuniv.edu); Begum Ozkaynak is Assistant Prof. of Economics, Bogazici University, Istanbul, (begum.ozkaynak@boun.edu.tr); Serdar Sayan is Prof. of Economics, TOBB University, Ankara (serdar.sayan@etu.edu.tr); and Sinan Ulgen, is Managing Partner, Istanbul Economics, Istanbul (sulgen@istanbul-ekonomi.com). The authors are also associates of the Centre for Economics and Econometrics (CEE), Bogazici University.

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Executive Summary

Particularly since 2002, Turkey has demonstrated that it can achieve very high growth rates on a sustainable basis, provided there is political stability. The prospect of becoming a full member of the EU is the strongest anchor for political, and hence economic, stability.

Turkey's young population offers a window of opportunity for building up its socio-economic infrastructure. To exploit this opportunity, Turkey has to achieve high levels of economic growth and employment. Very low levels of labour force participation are a major problem in this respect, especially among women, whose labour market participation in urban areas is much poorer (at half the level) compared with that of women in rural areas.

Participation rates are highly (positively) correlated with the level of education and that is where the women are at a disadvantage. While the gender divide in schooling among youth has narrowed considerably, the difference persists in the population of working age. In urban areas while 7 out of 10 women with tertiary degrees participate in the labour market, fewer than 1 in 10 women with less than secondary education join the labour force.

Despite the fact that Turkey has experienced relatively high growth rates in the last few years, the per capita income is still very low compared with EU levels. This, coupled with a highly skewed income distribution that prevails in the country compared with the EU-25 averages, makes the poverty problem a significant one. Turkey is characterised by a greater degree of inequality and a higher risk of poverty than any of the EU-25 countries are, and the existing structures to promote social inclusion are widely dispersed.

Living conditions are not only determined by a household's income position but also depend on access to some material living standards, work/life balance, housing conditions and the local environment. The analysis, in this context, reveals that efforts are still needed to create a better city infrastructure – especially concerning access to gas, piped water and sewerage – and to improve the telecommunications penetration across the country. In addition, spatial conditions in Turkey are reported to be substantially worse than in the EU-15. Along with the problems related to housing conditions, the inhabitants of Turkey complain about local environmental concerns, such as a lack of green space, air pollution, water quality and noise. Of course, the work/life balance is also an important aspect of quality of life. Working hours in Turkey are the highest among European countries for which data are available and the citizens of Turkey have much more difficulty in reconciling work and family life than the populations of the EU-25.

Another major challenge is the transformation of agriculture. About one-third of the population lives in rural areas, while the share of agriculture in GDP is well below half that level. The pace and pattern of urbanisation will shape Turkey's economic and geographical landscape. The expansion of off-farm employment and income generation in rural areas would help to reduce migration to the cities.

Sectoral and microeconomic factors pose major difficulties for the sustainability of economic growth. Gains in productivity in hitherto protected sectors where the state has remained an active player emerge as the critical issue. Deregulation and privatisation efforts are underway in core sectors such as energy, telecommunications and transport. The EU provides a blueprint for the regulatory path in these areas.

The dual structure of the Turkish economy, where outward-oriented and competitive modern firms co-exist with traditional, family-owned, small and medium-sized enterprises (SMEs) has to converge. Turkey needs to improve the competitiveness of its significant SME segment. Less burdensome business regulations and increased opportunities for SMEs to access capital are urgently needed.

More than half of all employment is in the informal sector. In terms of manufacturing labour costs per unit of value added, Turkish labour costs are considerably lower than in Eastern European countries such as Poland and Hungary. On the other hand, payroll taxes and severance payments are significantly above the average for OECD countries. These costs, together with stiff labour legislation, account for a very sizable informal sector. The legislation has to shift from protecting jobs to protecting workers.

Currently, the social security system in Turkey is going through a major overhaul. The legislative changes that are near completion mainly have three goals:

- i) institutional reform to restructure the organisationally fractured system by creating an umbrella agency for coordinating the public provision of all social insurance and social assistance services, while harmonising the eligibility conditions and the calculation of benefits provided by individual agencies;
- ii) reform of the parameters to restore actuarial balances so as to help curb the rapidly growing deficits of the publicly managed social-security system; and
- iii) health care reform to improve access to medical care by all segments of society.

Against this background, if we set aside minor issues that require continued structural reform, the greatest challenge that Turkey faces is of a political rather than economic nature. The issue is 'good governance'. There is widespread agreement in academia and in business and local government circles, that Turkey's economy and society have reached a level at which it can no longer be centrally managed from Ankara. In fact, the style of political governance in the country is in the process of transformation, from a paternalistic, top-down and patronage-based modality to a form of transparent and efficient government that is responsive to citizens' demands, that acknowledges its citizens as stakeholders in decision-making and that allows for stakeholder participation in the decision-making process. There is no doubt that without an effective functioning of the principle of good governance, Turkey's efforts to catch up with the EU in terms of democratisation, growth and development will be severely hindered.

1. Introduction

Turkey is situated at a regional crossroads of strategic importance for Europe and is a regional power in terms of population, economic and geographical size. Its territory is located mainly in the Anatolian peninsula in south-western Asia, with a portion in the Balkan region of south-eastern Europe. It is roughly rectangular in shape and is 1,660 kilometres wide. Turkey's area inclusive of lakes is 814,578 square kilometres. With its population of about 70 million, Turkey is broadly equivalent to the 10 new member states taken together and accounts for 15.5% of the EU-25 population. The classification of the regions in the country used to be totally based on administrative divisions, which involved 7 regions and 81 provinces. Turkey adopted European statistical classification of region (NUTS) in September 2002 and is now divided, for statistical and regional development purposes, into 12 NUTS I, 26 NUTS II and 81 NUTS III regions.

The Republic of Turkey is a democratic, secular, constitutional republic, whose political system was established in 1923. Turkey is a member of international organisations such as the United Nations, OSCE, the Council of Europe, NATO, the OECD and the Stability Pact for South-East Europe, the Economic Cooperation Organisation and the Islamic Conference Organisation. It is starting membership negotiations with the European Union.

The capital city of Turkey is Ankara, but the historic capital Istanbul remains the financial, economic and cultural centre of the country. Two-thirds of the total Turkish population lives in Istanbul, Ankara, Izmir and other large cities such as Bursa, Adana, Trabzon, Malatya, Gaziantep, Erzurum, Kayseri, Izmit (Kocaeli), Konya, Mersin, Eskisehir, Diyarbakir, Antalya and Samsun. Over 80% of the total value added is generated in these cities, which have experienced high levels of migration from rural areas over the last few decades.

Turkey's young population offers a window of opportunity for building up its socio-economic infrastructure. To exploit this opportunity, Turkey has to achieve high levels of employment and economic growth. Very low levels of labour force participation are a major problem in this respect, particularly for women. Participation rates are highly correlated with level of education and that is where women are at a disadvantage.

The second major task is the transformation of agriculture. About one-third of the population lives in rural areas while the share of agriculture in GDP is considerably less than half that. The pace and pattern of urbanisation will shape Turkey's economic and geographical landscape. The expansion of off-farm employment and income generation in rural areas would help to reduce migration to the cities.

Against this background, if we set aside minor issues that require continued structural reform, the greatest challenge that Turkey faces is of a political rather than economic nature. The political cohesion and the governing majority have been riding on a popular consensus around EU membership. Political obstacles on this road slow down the momentum of the country directly and indirectly by reducing the pace of reforms and by increasing risks, and thus lowering investment. Some of these political obstacles have domestic origins while others stem from problems within the EU or the EU member states. The role of the military, the minorities and the Cyprus issues are major items in this list.

As regards structural reforms, Turkey constitutes an interesting case study. The devastating financial and economic crisis of 2001 brought to the fore the need for structural reforms. As a result, a number of important structural reforms were undertaken, such as the consolidation of the banking sector, the establishment of new or strengthening of existing independent regulatory authorities and fiscal reform aimed at containing public sector deficits. The EU regulatory framework has provided a blueprint for these reforms.

Since 2002, Turkey has demonstrated that it can achieve very high growth rates on a sustainable basis, provided there is political stability. The prospect of becoming a full member of the EU is the strongest anchor for political, and hence economic, stability. The availability of long-term capital, particularly FDI flows, is contingent on this prospect. Challenges remain, however. The path to long-term sustained growth will depend on the ability of Turkish authorities to continue with these reforms.

The sub-sections of this report cover issues related to macroeconomic policies, labour market and demographic trends, social protection, taxation, living conditions and governance in further detail.

2. General economic trends

2.1 Macroeconomic developments

2.1.1 Main trends

Turkey has a significant capacity to achieve annual economic growth rates in the range of 6-10%.¹ The 1990s were a lost period owing to political business cycles under weak coalition governments, culminating in the 2001 crisis. Thanks to the major structural reform called forth by the crisis – which has been maintained with the help of the International Monetary Fund (IMF) and EU anchors, and a majority government since 2002 that has adhered to fiscal discipline – this high growth potential has once again been realised. The source of growth has been investment and exports as well as consumer demand. These developments have been very healthy because they have been driven by the private sector, in terms of both consumption and investment. Regarding sector shares, manufacturing and services have accounted for most of the growth while agriculture and mining have lagged behind. Recent years have seen the revival of the construction sector as the economy has stabilised. In 2005, construction grew by nearly 20%.

Export growth was particularly strong in the early years of the rapid recovery. Lately, there has been a slowdown in the growth of exports, partly stemming from the appreciation of the Turkish currency. Major increases in labour productivity have partially compensated for currency appreciation. Exports are predominantly manufactured goods. Traditionally, the engine has been textiles and clothing. Currently, the most dynamic export sector is automobiles and auto parts. Thanks to the customs union with the EU, Turkey had been exempt from textile quotas while its major rivals had been constrained by them. The abolition of quotas in 2005 by the World Trade Organisation removed the disadvantage of the competitors and hence contributed to the slowing down of Turkish textile exports. Competition from China and India is accelerating the change in Turkey's comparative advantage. Turkish exporters are forced to seek higher value-added items.

Turkey's customs union with the EU, which took effect in 1996, has considerably increased import penetration in Turkey. The main effect has been trade creation; hence, the share of imports from the EU has not increased much. The customs union implied drastic liberalisation in imports of final goods. Also, many producers have started using more imported inputs instead of domestic ones. This trend has been having an important impact, especially at times when the Turkish currency has appreciated in real terms. With the current structure of the economy and the customs union, high rates of economic growth yield large trade deficits. Increased revenues from tourism partially compensate for this development. Nevertheless, in 2005, the current account deficit surpassed 6% of GDP.

¹ Turkey's economic record reveals its high growth capacity. Projections for growth also corroborate this view (Dervis et al., 2004).

The current account deficit is not simply a consequence of high growth. Capital inflows, both short and long term, finance growth and lead to currency appreciation, which in turn contributes to the deterioration of the current account. This situation increases the vulnerability of the economy to external shocks. In May 2006, as the global liquidity condition deteriorated after the further rise in the US Federal Reserve rate, the Turkish lira was the most affected currency among emerging markets.

The long-term solution for sustainable high growth with reduced vulnerability is a higher savings rate and a higher share of foreign direct investment (FDI) in external capital flows. The latter is happening. The inflow of FDI, which barely reached \$1 billion per year in the 1990s, has shifted to a new level of around \$5 billion as the economy has emerged from the recent crisis with the help of major structural reforms. Privatisation has also played a significant role in this development. In 2006, FDI is expected to shift to a higher level and reach \$20 billion.

There is a large unregistered economy estimated at between 30% and 50% of the official GDP (Zenginobuz, 2005). This is on the higher end for developing countries, which average 40%, and is considerably above the 17% estimate of the OECD average. A key factor in this phenomenon is the incentive structure embedded in the taxation system. Weaknesses in the rule of law and corruption control are recognised as other important, contributory factors. Reform proposals are being considered to lower the tax rates and expand the tax base. The share of the overall tax burden in GDP is reaching average OECD levels and there is an excessive tax wedge on labour, which puts Turkey at the top of the OECD countries. The World Bank has produced a number of valuable studies on the Turkish tax system and guidelines for reform.

2.1.2 Prices and money

Turkey has had high (double-digit) and chronic inflation since the early 1970s. In 2000, a serious disinflation programme was launched using the exchange rate as an anchor. In 2001, the programme failed as a banking crisis erupted. Following the crisis, together with major reforms of the financial and fiscal systems, a new programme was launched that pulled the inflation rate down to single digits.

The central bank has attained a fully autonomous status and begun targeting inflation. The target for 2006 is 5% with a plus/minus band of 2%. After the currency realignment in May–June 2006, given that the Turkish lira has depreciated considerably, the expected pass through to prices will require a revision of the inflation target. The good news in this respect is that, as the turmoil in international financial markets has subsided, the exchange rate for the Turkish lira has largely moved back (as of August). The central bank uses its overnight lending and borrowing rate and open market operations as its main instruments. It also intervenes in the foreign exchange market but does not have a declared target for the exchange rate.

As the fiscal stance of the government and the public sector has improved and crowding out has reduced, banks have been trying to expand the credit they offer to the private sector, including consumer credit and home loans. There was major expansion in the latter as interest rates came down considerably prior to the May 2006 disturbance in the markets.

Maturity mismatch remains a pressing concern in Turkish banking. Long-term loans are mainly financed by short-term deposits. Legislation regulating home loans is underway. The proposed mortgage system would contribute to longer-term funding by opening ways for asset securitisation.

2.1.3 General fiscal trends

Government tax and other revenues showed a rapid increase in the 1990s, from below 20% of GDP to above 30%. Expenditures surpassed this increase and resulted in a huge public sector

borrowing requirement, which reached 15% during the 2001 crisis. With the IMF-sponsored stabilisation programme, a 6.5% primary budget surplus was achieved in 2002. Including the interest payments, the overall fiscal deficit was brought below 3% of GDP by 2005.

The sustainability of public debt has improved considerably thanks to high GDP growth, low interest rates and risk spread, and favourable exchange-rate developments. In the first quarter of 2006, the total public debt/GDP ratio gave signals that by 2007 it would fall below 60% (the EU benchmark). Yet tightening in the international liquidity conditions may change the outlook concerning interest rates, the exchange rate and GDP growth. Consequently, the debt dynamics may not be as comfortable.

2.1.4 Regional economic characteristics

Existing literature shows that there is no absolute convergence in either GDP per capita or in productivity levels among provinces. There are significant differences in the sectoral structure of regions. The less developed eastern and south-eastern regions mostly specialise in agricultural production, whereas in the west and the north-west manufacturing is dominant. The western and southern regions also benefit from the tourism industry. Regional imbalances along the east–west axis are among the top challenges for Turkey. Table 1 presents the sectoral shares of production and employment across the regions and reveals the disparities.²

Table 1. Sectoral distribution of production and employment across regions, 2000 (in %)

Production							
	Turkey	Marmara	Aegean	Mediterranean	Black Sea	Central	Eastern
Agriculture	14.0	5.7	16.6	19.6	24.0	14.4	27.9
Mining	1.4	0.3	3.0	0.9	1.7	1.7	3.6
Manufacturing	24.8	34.0	24.7	19.3	21.2	15.7	11.8
Energy	3.3	3.3	4.6	2.7	2.7	2.4	4.4
Construction	5.2	4.0	4.6	5.1	4.8	9.0	5.7
Commerce	23.3	26.2	22.1	25.1	18.1	22.3	17.0
Transportation	13.7	12.2	12.2	15.2	16.3	16.4	13.4
Banking	7.5	8.7	6.5	5.7	4.3	10.0	5.1
Other services	6.7	5.6	5.8	6.5	6.9	8.0	11.1
Employment							
	Turkey	Marmara	Aegean	Mediterranean	Black Sea	Central	Eastern
Agriculture	48.4	25.3	50.5	55.0	66.1	46.8	64.0
Mining	0.4	0.2	0.6	0.1	0.8	0.4	0.1
Manufacturing	12.6	25.1	12.8	8.3	6.2	9.6	4.6
Energy	0.4	0.4	0.4	0.4	0.3	0.5	0.3
Construction	4.6	5.8	4.2	4.5	4.1	4.8	3.4
Commerce	9.7	14.3	10.1	10.5	6.0	8.9	5.3
Transportation	3.3	4.8	3.0	3.0	2.2	3.4	2.2
Banking	3.1	5.4	2.6	2.3	1.4	4.0	1.1
Other services	17.6	18.8	15.7	16.0	12.9	21.5	18.9

Source: National Account Statistics and Population Census, TURKSTAT.

² Data on the regional distribution of employment come from the population census and the latest available ones pertain to 2000. These data are not in full conformity with the quarterly household surveys on which labour market statistics are based.

2.2 Labour market trends and main issues

2.2.1 Main trends

High population growth rates for many decades coupled with urbanisation are straining the labour market. Between 1990 and 2004, the population of working age increased by 39.2%, while in the same period the labour force and employment increased by 21.6% and 17.5%, respectively. As a result, the employment rate (the percentage of the adult population that is employed) is one of the lowest in the world. In 2004, it was only 43.7%. Most countries have employment rates above 50% (World Bank, 2006).³

A major problem of the Turkish labour market is the low level of labour force participation (LFP), especially among women in urban areas. The overall LFP rate is about 49%, with 72% for men and 25% for women. A significant number of women who are not working are in fact not looking for employment, mostly owing to their lack of skills and education. As Turkey has urbanised and families have moved out of agriculture, the employment rates for women have fallen significantly because their low average skill levels have not been suitable for employment in urban services or industries. Consequently, women of prime working age are employed at less than half the rate in the EU-25. In Turkey, the LFP rate for urban women has remained under 20% for the last 15 years. The importance of education and skills in this respect is illustrated by the fact that university-educated young women have participation rates that are close to those of men.

The LFP of men increases significantly with a tertiary degree in both urban and rural areas. For men, secondary or less than secondary education makes little difference in terms of LFP. Only 11% of women in urban areas with less than a secondary degree participate in the labour market. This figure nearly triples with a secondary degree and reaches 70% with a tertiary degree.

At present, the Turkish labour market is one of the most regulated markets in Europe according to the recent World Bank study (2006). There is a very large informal sector, however. Its presence partly stems from high payroll taxes, severance payments and restrictions on temporary work, and partly from the weak rule of law.

Unregistered employment (defined as employed persons who are not registered with any social security institution) accounts for 52% of total employment. Within the agricultural sector, 90% is unregistered. This figure is 34% in the non-agricultural sectors and 41% among wage earners in the private sector.

In the next decade, job creation in Turkey is crucial, which requires solid and persistent growth. It is estimated that an annual GDP growth of at least 6% is required to keep unemployment at bay, as higher growth rates increase participation rates as well as job creation (TUSIAD, 2002 and 2004).

Having a young population represents an opportunity for Turkey. Yet, exploiting this opportunity requires increasing labour market participation and employment rates.

After the 2001 crisis, total employment fell in both 2002 and 2003. In 2004, employment increased by about 650,000 – roughly equal to the increase in the labour force. While the rate of the population increase is flattening, reductions in employment in the agricultural sector are putting a greater emphasis on job creation in non-agricultural sectors.

³ The World Bank (2006) provides an excellent survey of the Turkish labour market and critical issues.

2.2.2 *Structure of employment and wages*

The share of agriculture in total employment is very high. One-third of the population is still employed in agriculture, but this share is expected to halve in the coming two decades. The rapid mechanisation of production, improved seed quality and other technical advances augment labour productivity. These changes combined with reduced government subsidies to the agricultural sector will surely accelerate the detachment from agriculture.

Industry accounts for about one-fifth of employment, while the rest is in the services sector. Wholesale and retail trade, restaurants and hotels have been the engine of employment growth in the services sector. Tourism appears to be an important area that could offer significant employment opportunities, and its development will surely play a primary role in employment generation. A rapid surge has also taken place in finance, insurance, real estate and business services.

Data on employment by firm size are available for the manufacturing sector until 1999. In the 1980s, the share of small enterprises with 10 to 24 persons engaged accounted for about 14% of all firms. These surveys excluded micro firms with up to 9 persons. The share of medium-sized firms with 25-99 persons was about 25% and it was about 60% for larger firms with more than 100 persons engaged. By the end of the 1990s, the share of small firms providing employment shrank significantly to 6% while the large firms' share approached 70%. The medium-sized firms retained their share.

In terms of manufacturing labour costs per unit of value added, Turkish labour costs (0.27) are lower than are those of Eastern European countries such as Poland (0.61) and Hungary (0.54). On the other hand, payroll taxes are considerably above the average for OECD countries. High payroll taxes, severance payments and stiff labour legislation together fuel the informal sector.

During the high inflation period, nominal wage hikes only temporarily lifted real wages. Following crises, the burden of macroeconomic adjustment was mostly on real wages. As a result, while output has fluctuated considerably, employment has been relatively stable (World Bank, 2006). As inflation has recently been brought under control, real wage adjustments may become more difficult. Eventual jumps in nominal wages will not be eroded by inflation. Therefore, excessive wage increases may affect Turkey's competitiveness.

2.2.3 *Structure of unemployment*

In Turkey, aggregate figures of unemployment reveal relatively low levels of unemployment compared with several EU countries. Nevertheless, as also mentioned by the Economic Research Forum & Institut de la Méditerranée (2005) and the World Bank (2006), aggregate unemployment rates conceal an important structural problem in unemployment and can be misleading. The share of agriculture in total employment is very high, and self-employed and unpaid family workers constitute the bulk of employment in this sector. By definition, unpaid family members working in agriculture are not considered unemployed and therefore low levels of unemployment in agriculture artificially decrease total unemployment rates. Put differently, the hidden unemployment in agriculture is a large labour reservoir with prospects of major outflows.

The unemployment rate is especially high among the young population. A recent phenomenon in Turkey is increasing unemployment among the more educated segments of society. Here, both demand and supply factors are likely to matter. The higher rate of unemployment among the educated labour force is not only brought about by the deficiencies of the education system, but also caused by the failure of sufficient job creation to absorb skilled labour (World Bank, 2006).

The Turkish Employment Organisation (ISKUR) was reorganised in 2000 in line with the European employment strategy. Still, it lacks resources for active labour market programmes that are effective. Unemployment insurance has recently been introduced and major funds have been accumulating in this account because of very limited eligibility requirements.

2.2.4 Regional and ethnic dimensions

The regional characteristics of labour market conditions follow the level of industrialisation depicted in the section on regional economic characteristics (section 2.1.4.).

Labour market statistics in Turkey are based on quarterly household surveys on the labour force. Data from these surveys do not allow for regional decomposition. The latest information on regional labour market conditions is from the 2000 population census. The unemployment and LFP rates (Tables 2 and 3) based on the census do not entirely reveal the major disparities among the regions. These data are not fully compatible with the labour market survey data. That being stated, labour market characteristics are largely determined by the urban–rural, gender and educational divides. No data are available on the ethnic dimension in the labour market.

Table 2. Unemployment by region, 2000 (in %)

	Unemployment rates		
	Total	Men	Women
Turkey	8.9	9.9	7.2
Marmara	10.1	9.6	11.1
Aegean	6.8	7.0	6.5
Mediterranean	9.4	10.7	7.3
Black Sea	6.6	8.1	4.5
Central	8.5	9.2	7.2
Eastern	11.0	14.2	5.5

Source: 2000 population census, TURKSTAT.

Table 3. Labour force participation rates by region, 2000 (in %)

	Labour force participation rates		
	Total	Men	Women
Turkey	65.3	83.0	47.1
Marmara	62.0	84.1	38.7
Aegean	69.8	85.7	53.4
Mediterranean	65.3	81.2	49.3
Black Sea	72.3	85.0	59.9
Central	61.4	80.6	42.1
Eastern	66.0	81.8	49.4

Source: 2000 population census, TURKSTAT.

2.3 Structural reforms – Level, current pace and plans

2.3.1 Identification of the main structural problems and challenges

For a very long time, the economy was characterised by macroeconomic instability. Therefore, public policies were focused on its containment. The economic environment changed considerably after the financial crisis 2001, when a stabilisation programme was introduced and successfully implemented.

Apart from the all-encompassing issues such as political and economic stability along with education, sectoral and micro-economic factors pose major difficulties for the sustainability of economic growth. In this context, the structural problems facing the Turkish economy in the medium term are essentially twofold. The first relates to gains in productivity in hitherto protected sectors where the state has remained an active player. Deregulation and privatisation efforts are underway in core sectors such as energy, telecommunications and transport. The EU provides a blueprint for the regulatory path in these areas.

The second concern in this context is linked to the dual structure of the Turkish economy, where outward-oriented and competitive modern firms co-exist with traditional, family-owned SMEs. Turkey needs to improve the competitiveness of its substantial SME segment. Less burdensome business regulations and increased opportunities for SMEs to access capital are urgently needed.

2.3.2 Ownership structure and privatisation

Turkey has traditionally had a development policy based on private ownership. The state's interference in the economy was considerable, however. As such, state economic enterprises were prevalent in the industrial sector as well as in services and were predominant in utilities. Privatisation efforts that were initiated in the early 1980s stalled because of political and legal uncertainties over a long period. It was only after the establishment of macroeconomic and political stability a few years ago that the privatisation process gained a new impetus. Privatisation proceeds in 2005 reached a record of \$20 billion.⁴

As a result, state involvement in the manufacturing industry is now limited to a few companies slated for privatisation. It should nonetheless be highlighted that among these, Petkim is the largest petrochemicals company in the country and Tekel is still among the top players in the tobacco industry. Other state-owned companies operate in the textiles, mining, iron and steel, and sugar industries.

2.3.3 Institutional and legal reforms

In parallel with efforts to prepare the Turkish economy for EU accession, a string of liberalisation and deregulation measures have been implemented in the services industries and in particular as regards state-owned utilities. An electricity law and a gas market law both adopted in 2001 aim at gradually opening these markets to full competition. Energy production has traditionally been open to private investment. Now state-owned power facilities as well as the state-owned transmission operator have been slated for privatisation in 2007. In the meantime, the tendering of concession rights for regional electricity distribution will occur.

The liberalisation of the natural gas market was also foreseen and the tendering of regional distribution rights to private companies is continuing. Yet the process is hindered by the state-owned Petroleum Pipeline Corporation's (BOTAS) de facto monopoly of imports. Furthermore, the transmission infrastructure is also held by BOTAS.

In telecommunications, the incumbent Turkish Telecom was successfully privatised in 2005. In all these areas, Turkey established independent regulatory authorities to monitor the transition to full competition.

In the area of competition policy, Turkey is generally considered a success story by the OECD. A competition law, based on the principles of EU competition law, was adopted in 1994 and entered into force with the establishment of the competition authority in 1997. Since then, the Turkish competition authority has established itself at both the domestic and the international

⁴ Privatisation also partially accounts for the higher levels of FDI.

level as a highly competent, independent and credible institution. The implementation of competition rules in Turkey proceeded swiftly and it can now be contended that awareness about competition rules and the culture of competition are well ingrained in the business community.

There are two structural issues, however, limiting the effectiveness of the Turkish competition authority. The first one relates to the difficulties of judicial review, where a lack of pertinent competence at the higher administrative court (Danistay) undermines the good and timely implementation of the competition authority's decisions. The second shortcoming relates to the limited scope of competition law, which exempts state aids from its ambit. Although Turkey is under the obligation through its customs union with the EU to establish a state-aid monitoring authority and to adopt a state-aid regime in line with EU practices, there has been no progress on this front.

Banking. The Turkish banking sector has undergone a series of reforms since the early 2000s. The severe economic crisis of 2001 necessitated banking reforms. The economic stabilisation package introduced as a response to the crisis had a focus on the banking sector. It addressed the structural deficiencies of Turkish banking. It enhanced the prudential monitoring of banks, strengthened capital adequacy requirements and increased the transparency of non-performing loans. It also led to the closure or merger of the weaker banks and the re-capitalisation of most of the remaining banks. In short, the banking reforms of 2001 sanitised the banking industry and paved the way for a more sustainable and less crisis-prone development of the banking sector in Turkey.

The costs of the banking reforms were significant, even from a comparative perspective. It has been estimated that the costs of these reforms reached 36% of GDP.

The second wave of structural change related to Turkish banking is the internationalisation of the domestic banking scene. Although Turkey has traditionally maintained a liberal policy for capital flows, stemming from chronic macroeconomic instability, the share of foreign banks in the domestic market remained limited. Foreign banks, with the exception of a few, restricted their exposure to the Turkish market and refrained from entering the retail business, focusing instead on either corporate or investment banking activities. This strategy has begun to change in earnest in recent years. A wave of acquisitions and mergers, reaching a peak in 2005–06, led to a significantly higher share of international banks in Turkey. This share, which was 3% in 2002, exceeded 15% in 2005.

The remaining issues for the banking sector in Turkey are twofold. The state-owned banks have been scheduled for privatisation. Owing to the high share of these banks in the total assets of the banking sector, the privatisation of the remaining state-held banks will be important as regards the future health and dynamics of the Turkish banking industry. The second concern is the growth of its bankable domestic customer base and especially the SME market. As Turkey will adopt the Basel II principles, Turkish SMEs that have not achieved a certain level of financial transparency and accountability will find it more difficult or at least more costly to deal with domestic banks. The transformation of Turkish SMEs will contribute to the future growth of Turkish banks. The faster local SMEs transform themselves and comply with international standards in the area of transparency and accountability, the more sustainable will be the growth performance of Turkish banks facing the twin challenges of internationalisation and increased competition.

Business regulation. From an international and comparative perspective, business regulation in Turkey is an area where concrete progress is needed. Turkish business regulation is generally burdensome, complex, non-transparent and unpredictable in nature. These structural impediments are among the root causes of the significant size of the informal economy in the

country. According to the OECD (2004), “to create a rules-based, transparent and non-discriminatory institutional environment for the business sector that contributes to enhanced economic efficiency” is one of the key structural changes needed in Turkey.

2.3.4 Education

The education system in Turkey is among the key ingredients of the policy mix aiming at building social cohesion, reducing regional and gender disparities and improving the average qualification level, and thus helping to increase the alarmingly low LFP and employment rates. The analysis of employment data by region, gender and education confirms that education can play a very important role in this respect. In order to achieve these objectives, the quality of educational provision needs to improve.

In 2000, the average number of years of school attendance for the working-age population (15-64) in Turkey was 7.3 years,⁵ which was much lower than the European average. The share of the population that had less than five years of education (low skilled) was 62% and the share of tertiary school graduates was just 7%. Educational attainment, however, varies by gender and region. Women typically have less education, particularly in the eastern regions. More than 80% of women have less than five years of education. There are also significant regional disparities. The number of years spent in school drops to around five in the poorer eastern regions. In these provinces, the gender differential also rises, reaching a ratio of one to two years (see Table 4).

Table 4. Regional and gender disparities in educational attainment

	Years of schooling			Share of population that has less than five years of education (%)			Share of population that has college education (%)		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
Istanbul	8.1	8.7	7.5	56.2	50.8	69.4	9.8	11.1	8.4
Western Marmara	7.5	8.1	6.8	63.6	56.7	82.5	6.5	7.9	5.0
Aegean	7.4	8.1	6.7	64.5	57.8	81.9	7.4	8.7	6.0
Eastern Marmara	7.6	8.4	6.8	60.8	51.8	81.7	6.5	8.1	4.8
West Anatolia	8.3	9.1	7.5	53.5	44.4	73.6	10.9	12.8	8.9
Mediterranean	7.3	8.2	6.4	62.1	54.1	82.4	6.9	8.6	5.1
Central Anatolia	7.1	8.2	5.9	64.3	52.8	86.9	5.2	7.2	3.2
Western Black Sea	6.8	7.8	5.7	68.8	58.3	88.6	5.1	6.9	3.3
Eastern Black Sea	7.1	8.3	5.9	62.4	51.6	86.2	5.5	7.5	3.4
North-east Anatolia	6.4	7.9	4.9	66.5	53.7	89.7	4.6	6.6	2.5
Central east Anatolia	6.1	7.8	4.5	66.0	52.8	89.5	4.8	6.8	2.7
South-east Anatolia	5.4	7.1	3.8	72.9	61.3	92.0	3.7	5.5	2.0
Turkey	7.3	8.2	6.3	62.4	53.7	82.1	7.0	8.7	5.3

Source: TURKSTAT.

⁵ Among this average of 7.3 years, literate persons who have not attended school are counted as persons having had one year of education. When this modification is not performed, the average goes down to 6.4 years.

Until recently, five years of elementary school had been the only compulsory education in Turkey. In 1996, mandatory education increased to 8 years, and in 2004 to 12 years. In this respect, there has been considerable progress on the educational front, with significant increases in enrolment rates. The enrolment rate for the 5-14 age group reached 82% in 2003. Lower enrolment rates in the eastern regions are a consequence of the low level of participation by girls. The increases in mandatory schooling and better enforcement, accompanied by civil projects, are effective at improving the situation.

For many years, Turkey was unable to provide the necessary infrastructure to serve the high school-age population. Class sizes were typically above the average in Europe and other developed countries. Turkey's public spending on education grew significantly after 1998, in both real terms and as a percentage of GDP. Nevertheless, Turkey's public spending on education relative to GDP was still slightly lower than (but comparable to) that of lower-middle-income countries. Total spending on education increased from 2.35% of GDP in 1995 to 3.82% in 2002 (TUSIAD, 2006). A recent development in the education sector is increased private-sector spending. The estimated share of private spending was over 10% in 2002.

The share of the youngest group (aged less than 15) in the population is declining (see also section 3.1 on population). As a result, Turkey will be able to divert resources from primary education to secondary and tertiary education in the future.

Turkey also faces qualitative problems in education. Turkey participated in the PISA study conducted by the OECD. Turkish students' performance was one of the worst in the sample. More than half of the students performed unsatisfactorily in the analytical and mathematical section of the test. One interesting result of the PISA study was that the variation of results among Turkish students was one of the highest of all participating countries. This finding implies marked inequalities in the Turkish education system.⁶

3. Demography

3.1 Trends in the population structure and fertility

Turkey experienced high rates of population growth in the last century. The total population of Turkey was 40.3 million in 1975, 67.8 million in 2000 and was estimated at 71.8 million in 2004. Turkey is expected to reach a steady state of population at around 95 million in three to four decades.

The Turkish population is relatively young. The share of the working-age population (aged 15-64) is at its peak at around 67%. The share has been at this level for about two decades and will stay roughly there for another two before it declines. As noted earlier, this presents Turkey with a particular opportunity to build up its socio-economic infrastructure. Tables 5 and 6 show population growth rates and shares for the various age groups. Current trends imply that the shares held by different age groups in the population will change substantially in the next few decades and that the population is ageing.

⁶ There is a clustering of students in certain schools. Intra-school variation, thus, is not very significant. Limited data indicates that inter-provincial variation is less than intra-provincial variation.

Table 5. Population growth (annualised rates in %)

	Total	Younger than 15	15-64	65+	Younger than 25	25-64
1975–80	0.34	-1.39	0.72	1.67	-0.29	0.49
1980–85	0.22	-1.77	1.00	-0.26	-0.69	1.06
1985–90	0.29	-1.13	0.41	1.79	-1.08	0.87
1990–95	0.42	-0.34	0.36	1.63	-1.04	1.02
1995–2000	0.27	-0.62	0.24	1.41	-0.91	0.63
2000–05	0.21	-0.47	0.12	1.32	-0.48	0.26
2005–10	0.17	-0.59	0.08	1.23	-0.52	0.20

Sources: General population censuses; figures for 2005 and 2010 are Eurostat projections.

Table 6. Demographic structure of population (% share in total)

	0-14	15-64	65+
1975	40.47	54.74	4.59
1980	38.97	55.93	4.72
1985	37.52	58.09	4.20
1990	34.96	60.68	4.28
2000	29.82	64.45	5.69
2005	28.44	65.66	5.90
2010	26.56	67.17	6.27

Source: General population censuses. Figures for 2005 and 2010 are TUIK projections.

Both population growth and fertility rates are higher in the less developed and less educated eastern and south-eastern regions. Tables 7 and 8 show the regional differences in 1975 and 2000. Despite declining fertility rates and the ageing of society in all the regions, the differences in the structure of the population across regions have been quite persistent in the last quarter of a century. Although there was some decline during the period from 1975 to 2000, it should be noted that approximately two-thirds of the population in the less developed south-eastern region was younger than 25.⁷

Table 7. Regional population differentials in 1975 (in %)

	Share in total population		Share within region			
			0-15	15-24	25-54	55-64
Istanbul	9.68	32.88	21.65	37.12	4.77	3.58
Western Marmara	5.17	33.19	20.80	33.56	5.69	6.76
Aegean	13.38	35.22	19.45	34.00	5.48	5.85
Eastern Marmara	7.43	35.48	19.38	34.07	5.37	5.70
West Anatolia	9.93	38.88	20.86	32.19	4.29	3.78
Mediterranean	11.29	42.69	19.78	29.30	4.02	4.21
Central Anatolia	7.10	45.75	17.75	27.77	4.62	4.12
Western Black Sea	10.37	41.50	17.45	30.69	5.16	5.19
Eastern Black Sea	6.70	44.15	18.59	27.19	4.41	5.65
North-east Anatolia	5.13	46.55	19.10	27.24	3.71	3.40
Central east Anatolia	5.86	48.58	18.71	25.72	3.42	3.56
South-east Anatolia	7.96	48.77	18.23	26.32	3.49	3.19

Source: TURKSTAT.

⁷ A similar pattern holds for all poorer (eastern) regions.

Table 8. Regional population differentials in 2000 (in %)

	Share in total population	Share within region				
		0-15	15-24	25-54	55-64	65+
Istanbul	14.78	26.34	20.99	43.04	4.97	4.66
Western Marmara	4.27	21.94	18.88	42.13	8.02	9.03
Aegean	13.18	25.14	19.23	41.48	6.97	7.18
Eastern Marmara	8.47	25.60	19.80	41.61	6.50	6.49
West Anatolia	9.50	27.65	21.07	40.47	5.55	5.26
Mediterranean	12.84	30.55	20.30	38.83	5.35	4.97
Central Anatolia	6.18	31.28	20.74	36.24	5.88	5.86
Western Black Sea	7.22	28.41	19.03	37.41	7.31	7.84
Eastern Black Sea	4.62	28.42	19.80	37.16	6.91	7.72
North-east Anatolia	3.70	36.62	22.60	30.86	5.05	4.87
Central east Anatolia	5.50	39.22	22.60	30.16	4.15	3.87
South-east Anatolia	9.75	42.72	21.85	28.67	3.59	3.16

Source: TURKSTAT.

Table 9 shows some projections on certain demographic variables by TURKSTAT. Life expectancy is currently at 70 and is expected to increase to 73.5 in the next 20 years. The crude mortality rate will also increase slightly because of population ageing.

The infant mortality rate is still high in Turkey (24 per 1,000). In the poorer eastern regions, this figure is 55 per 1,000 – more than twice the country average. This is a priority area for the state and civil society, with the goal of halving this number in the next 20 years.

Table 9. Life expectancy at birth (years)

	2000	2005	2010	2020
Total	70.4	71.3	72.0	73.5
Men	68.1	68.9	69.6	71.0
Women	72.8	73.8	74.5	76.1
Crude mortality rate (‰)	6.2	6.2	6.5	7.0
Infant mortality rate (‰)	28.9	23.6	20.0	14.7

Source: TURKSTAT.

3.2 Ethnic origins

There are no official statistics on the ethnic composition of the population. There are two alternative measurements of population estimates for ethnic groups in the country. One is based on the interpolation of census data on mother tongue, which was last collected back in 1965. The other is obtained by survey research drawn from several questions related to ethnic origin with respect to languages spoken at the time of the survey as well as during respondents' childhoods.

3.2.1 Mother tongue in census data

Servet Mutlu (1996) provides a detailed analysis of the 1965 census data and extrapolates the Kurdish population data in the Turkish provinces for 1990. His analyses for the Kurdish population unfortunately are not generated for other ethnic groups. In order to set a reference range for other ethnic groups we generated population their shares (Table 10). We assumed that

all other non-Turkish ethnicities remained at their 1965 shares and only the Turkish and Kurdish shares changed from 1965 to 1990. This is obviously an unrealistic assumption as Mutlu also notes that the rising Kurdish share is primarily attributable to a higher-than-average population rise for the Kurdish group. So, as the Kurdish group increased the other groups also increased but at a lower rate; thus, their shares should have declined as a result. We assumed that other non-Turkish and non-Kurdish groups declined by 10% compared with their 1965 shares and we took the Turkish group as the residual of the rest. As a result, we see that less than 15% of the population is of non-Turkish ethnic origin as defined by mother tongue. Most likely, the situation is such that besides the Kurdish and Arabic group no other ethnicity constitutes more than 1% of the total population. Since the Arabic group forms about 1%, the largest group by far is made up of Kurds, representing about 12-13% of the population.

Table 10. Ethnic structure of the population (as a % of total population)

	1965		1990		
	Number	%	Number	%*	%**
Turkish	28,289,680	90.1	–	85.1	85.4
Arabic	365,340	1.2	–	1.2	1.08
Circassian	58,339	0.2	–	0.2	0.18
Kurdish	2,370,233	7.6	7,046,250	12.5	12.5
Lazgi	26,007	0.1	–	0.1	0.09
Other	28,822	0.9	–	0.9	0.81
Total	31,391,421	100.0	56,475,000	100.0	100.0

* Mutlu's estimate for the Kurdish population is taken and all other non-Turkish ethnic origins are assumed to have remained at their 1965 shares. Turkish ethnicity is taken to be the residual of the other ethnic groups.

** Mutlu's estimate for the Kurdish population is taken and all other non-Turkish ethnic origins are assumed to have lost 10% of their 1965 shares. Turkish ethnicity is taken to be the residual of the other ethnic groups.

Source: Mutlu (1996).

It is clearly very important to determine where the Kurdish group resides in the country. The Arabic group is concentrated in a few border provinces in the south-eastern Anatolia region. Yet, because of internal migration, the Kurdish population may be dispersed across a number of other regions. Mutlu (1996) offers estimates of the Kurdish population by province, thus giving a regional depiction. Table 11 shows that in 1990 the Kurdish population primarily resided in the eastern and south-eastern Anatolia regions, which were home to about 65% of the total Kurdish group. Only about 25% of the total Kurdish population could be found in the migration-attracting Marmara, Aegean and Mediterranean regions. In each of these latter regions, less than 9% of the regional population was of Kurdish origin. The share of Kurds in the regional populations of central Anatolia and the Black Sea region was also less than 9%, with Kurds representing less than 6% in central Anatolia and less than 1% in the Black Sea region.

One deficiency of these data is that they do not reflect the problematic 1990s, during which ethnic conflict pushed many thousands out of their villages and into the cities. This period also saw thousands of refugees of Kurdish origin flee to Turkey after the first Gulf War. Both of these developments will have altered the number of persons of Kurdish origin in Turkey but the picture in terms of population shares is more likely to have remained more or less the same.

Table 11. Estimated Kurdish population by region

Region	1965		1990		
	Number (in thousands)	% of Total population	Number (in thousands)	% of Total regional population	% of Total Kurdish population
Marmara	72.65	1.24	810.13	6.09	11.5
Aegean	15.77	0.36	296.99	3.93	4.2
Mediterranean	190.22	4.98	726.55	8.95	10.3
Central Anatolia	262.64	4.13	579.38	5.53	8.2
Black Sea	28.72	0.51	37.88	0.50	0.5
Eastern	1,369.65	38.87	2,230.29	41.96	31.7
South-eastern	1,192.73	64.24	2,365.04	64.98	33.6
Country total	3,132.38	9.98	7,046.26	12.60	100.0

Source: Mutlu (1996).

We have unreliable data on these forced migrations and do not especially know the extent to which they were directed towards regions other than the east and south-east. In all likelihood Mutlu's (1996) data should be read as a baseline. Further migrations of the Kurdish population to the cities have altered the ethnic population shares in the rural and urban settlements. While some provinces have lost their Kurdish-origin populations, others have gained ethnic Kurdish populations, most intensively in their shantytown neighbourhoods. These developments may have pushed the share of the Kurdish ethnic group above the baseline estimates of Mutlu for 1990. Realistically, however, we should not expect to find most of the Kurdish segment outside the eastern and south-eastern regions. So, the overall picture depicted in Mutlu (1996) will probably have not altered significantly over the last decade.

3.2.2 Mother tongue in survey data

The most recent academic survey available to us is the one on social preferences in Turkey by Carkoglu & Kalaycioglu (2006), from which data on ethnic background on the basis of languages spoken can be obtained for the voting-age population (Table 12). The first question was posed in an open-ended format as to the languages spoken with parents during the respondent's childhood. To this question, about 10% reported that they spoke Kurdish or Zaza at home during their childhood. A considerably larger group of respondents reported that they are currently speaking Kurdish, Zaza or Kirmanc (14.5%). Obviously, while a number of persons tend to forget their mother-tongue Kurdish, considerably more individuals learn Kurdish dialects after childhood. When we join these two findings, 15% either spoke Kurdish during their childhood or are currently speaking Kurdish. We clearly do not know how well these individuals can speak Kurdish. Although this survey evidence is patently an overestimate of the number of persons of Kurdish ethnic origin, it nonetheless comes close to Mutlu's (1996) estimate based on census data. In summary, it is safe to argue that the share of the population of Kurdish ethnic origin in Turkey is between 13% and 15% – most likely not less but not more than this level either.

Table 12. Languages spoken (in %)

Languages spoken at home with parents	
Turkish	87.9
Kurdish	9.0
Zaza	0.9
Arabic	0.8
Other	1.4
Total	100.0
Languages presently spoken	
Kurdish/Zaza/Kırmanc	14.5
<i>Kurdish origin</i>	
Either speaks Kurdish or Zaza presently or reports to have spoken these with their parents during childhood	15.0

Source: Carkoglu & Kalaycioglu (2006).

3.3 Migration

Turkey has been undergoing a rapid process of urbanisation since the mid-20th century. The pace has accelerated in the last three decades. In 2000, the rural population constituted one-third of the population, down from 58% in 1975. The move to cities also reduced household size from 5.8 in 1975 to 4.5 in 2000. As the share of agriculture continues to shrink, urbanisation is expected to increase and consequently household size will decline further. There are no available data on internal migration.⁸

In the last few decades, there have been five main types of emigration of Turkish citizens: family reunion and family formation, asylum-seeking, irregular emigration, contract-related (low-skill) and professional (high-skilled) emigration. There are no reliable data sources on international migration,⁹ although the Euro-Mediterranean Consortium for Applied Research on International Migration (CARIM) compiles data from various national and international sources and presents them on its website (www.carim.org).

There are about 3 million immigrants originating from Turkey in EU countries.¹⁰ Nearly three-fourths of them are in Germany. Because of strict restrictions on labour mobility, the largest migratory flow is currently family-related emigration of Turks to the EU, which amounts to 50,000 persons (gross) annually. There is some return migration – especially among retired Turks – and an increasing trickle of retirees of EU origin settling in Turkey. Hence, net migration to the EU is probably half of the gross outflow from Turkey.

Speculations concerning the probable magnitude of future emigration from Turkey to the EU differ widely. Serious estimations put the figure at around 1-2 million in the coming two to three decades – even if restrictions on labour mobility are removed (Erzan et al., 2006).

⁸ Rough computations for internal migration can be made based on the differences between actual changes in the population of geographical centres and projections under ‘no-migration’ scenarios. There are no generally accepted estimates, however.

⁹ There are major shortcomings in data on international migration, such as that reported by the OECD. Analysts prefer using changes in the shares of immigrants (reported by the host countries) rather than flows. Nevertheless, naturalisation and the newborn children of the immigrants distort these data as well.

¹⁰ This estimate is based on host-country statistics and only to some extent includes naturalised immigrants (Erzan et al., 2006).

Officially, there are a quarter million migrants from other countries living in Turkey. Two-thirds of them are legal immigrants. Turkey is a major transit destination for asylum seekers and irregular migrants. During the 1979 Iranian Revolution and the 1991 Gulf War, hundreds of thousands of refugees flooded into Turkey. Turkey is also becoming an important final destination. In small sub-segments of the labour market, such as childcare and housework, irregular migrants have a growing impact. The number of high-level foreign professionals is also rising together with increased FDI flows.

4. Living conditions: Key developments and dynamics

4.1 Income distribution

Despite the fact that Turkey has experienced relatively high growth rates in the last few years, the per capita income is still very low compared with EU levels. According to 2003 data, the mean equivalised (according to Eurostat methodology) disposable income is €5,416, a figure well below the EU-25 average of €15,913 (both figures are adjusted according to purchasing power parity, PPP). This level of disposable income, coupled with the highly skewed income distribution that prevails in the country as reflected in the Gini coefficient (based on income) of 0.40 in 2004 (compared with the EU-25 average of 0.29) and the S80/S20 ratio of 7.7 in 2004 (compared with the EU-25 average of 4.6), makes the poverty problem an important one.

The Gini coefficient based on income has decreased (comparing the values of 0.49 in 1994, 0.44 in 2002 and 0.40 in 2004). The Gini coefficient based on consumption (total expenditures) has shown a slight increase (comparing the values of 0.42 in 1994 with 0.43 in 2002) and the Gini coefficient based on the Eurostat scale of per adult equivalent consumption has remained the same over the period 1994–2002 (at 0.38). The 1994 financial crisis might be behind this declining income inequality and increasing consumption inequality (Duygan & Guner, 2006; see also Gursel et al., 2000).

Although it is true that the percentages of the population under the food poverty line¹¹ and with less than \$2.15 per capita per day are very close to zero (1.29% and 2.49% in 2004, respectively), the risk-of-poverty rate¹² has escalated to as high as 25.6% (in 2003). The geographical unevenness of income distribution makes the picture more disturbing. Roughly speaking, the average per capita income in the eastern regions is less than half that of the western regions. Life expectancy for the west of the country is around the European average at 72 years, whereas it falls to around 60 years for the south-eastern region. The literacy rate is above 90% in the west and around 65% in the south-east. Moreover, there are persistent inequalities in access to health services across the different regions. For instance, the number of nurses and doctors per 10,000 persons varies greatly among regions. The south-eastern parts of the country and rural areas in general have fewer nurses and doctors per unit of population: there are only 6 nurses and 6 doctors per 10,000 persons in south-eastern Anatolia whereas in western Anatolia these figures are as high as 16.5 and 22, respectively (the national averages are 11.6 and 13.8, respectively). The percentages of health centres without doctors, of village health centres without midwives and of births unattended by health staff, are as high as 20%, 90% and 20%, respectively, in the eastern and south-eastern regions (the national averages are 13%, 75%

¹¹ This index has been developed by using the actual quantities of the most popular 80 products consumed by the 3rd and 4th deciles of the population, priced according to the average survey prices for the country. This index has recently been updated by the World Bank.

¹² This rate corresponds to the share of persons with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income (after social transfers).

and 6%). Similarly, infant and child mortality rates show a high level of variance across the country: they are substantially below the average figures in urban areas and in western parts, whereas they are almost 40% above the averages in rural areas and in the eastern and south-eastern parts of the country (TURKSTAT & World Bank, 2005, pp. 72–74).

In fact, owing to the existence of a high degree of informality as well as unemployment in the country, the health system – based on a formal employment requirement – leaves many citizens without any health coverage. The ‘green card’ scheme, aimed at offering coverage to the poorest cohort, only partially deals with inequalities in access to health care. Still, a significant number of citizens (some put the figure as high as 30% of the total population) are left to their own devices with respect to accessing health services (Adaman, 2003).

Table 13, reproduced from the UNDP’s *Human Development Report* on Turkey (2004, pp. 64–67) provides detailed information by comparing the top three cities with the lowest six ones in terms of human and gender-related development (see also World Bank, 2001; Yalman et al., 2004 and UNDP, 2005).

Table 13. Cities in terms of human and gender-related development

	Highest human development			Lowest human development				
<i>Human development index</i>	<i>Kocaeli</i>	<i>Yalova</i>	<i>Istanbul</i>	<i>Bingol</i>	<i>Bitlis</i>	<i>Mus</i>	<i>Agri</i>	<i>Sirnak</i>
Life expectancy at birth (years)	73.8	72.4	72.4	59.5	59.9	62	60.4	57.7
Adult literacy rate (% among age 15 and older)	91.8	92.9	93.2	72.4	71.8	67.3	67.4	62.3
Combined 1 st , 2 nd gross enrolment ratio (%)	99.2	100.3	100.3	65.5	53.1	58.3	57.6	70.6
GDP per capita (PPP US\$)	16,536	10,209	9,664	2,331	1,932	1,587	1,803	1,816
Life expectancy index	0.813	0.789	0.791	0.575	0.581	0.617	0.591	0.545
Education index	0.942	0.954	0.956	0.701	0.656	0.643	0.642	0.651
GDP index	0.853	0.772	0.763	0.526	0.494	0.461	0.483	0.484
HDI value	0.869	0.838	0.837	0.601	0.577	0.574	0.572	0.560
GDP per capita (PPP US\$) rank minus HDI rank	0	1	1	-1	0	2	0	-2
<i>Gender-related development index</i>	<i>Kocaeli</i>	<i>Yalova</i>	<i>Istanbul</i>	<i>Bingol</i>	<i>Bitlis</i>	<i>Mus</i>	<i>Agri</i>	<i>Sirnak</i>
GDI rank	1	2	3	76	78	80	79	81
GDI value	0.839	0.812	0.810	0.593	0.568	0.556	0.558	0.543
Life expectancy at birth, women (years)	75.7	74.2	74.2	60.5	61.1	63.2	61.3	58.9
Life expectancy at birth, men (years)	70.2	69.0	69.0	56.8	57	59.1	57.8	55
Adult literacy rate, women (% aged 15 and older)	85.9	87.9	88.7	57	55	48.3	48.4	35.8
Adult literacy rate, men (% aged 15 and older)	97.2	97.3	97.7	87.1	86.9	85.5	85.7	82.6
Combined 1 st , 2 nd gross enrolment ratio, women (%)	94.6	96.9	98.9	52.7	40.6	44.8	43.8	55.2
Combined 1 st , 2 nd gross enrolment ratio, men (%)	103.6	103.5	101.6	77	63.8	70.1	70.2	84.6

Estimated earned income, women (PPP US\$)	14,594	9,068	10,304	1,873	1,854	1,369	1,626	1,580
Estimated earned income, men (PPP US\$)	18,339	11,236	9,044	2,757	2,002	1,787	1,968	2,012
HDI rank minus GDI rank	0	0	0	1	0	-1	1	0

Source: UNDP (2004).

Regional developmental disparities remain an important problem in the country, with geographical poverty continually a key item on the agenda of the Kurdish separatist movements.

Four interrelated factors are claimed to be behind the skewed income distribution and its inevitable result of high levels of poverty.

- 1) The existence of the informal sector has two implications in this regard: i) it makes tax collection through earnings very difficult (as discussed in more detail below), and ii) it mostly uses low-skilled workers who are unable to insure themselves. There are rough estimates that the informal sector controls 30% of total production (Ozar, 1996; Carkoglu & Eder, 2004; Zenginobuz, 2005). Furthermore, significant portions of the population who are employed in the informal sector are still unable to distance themselves from the poverty line – becoming a sort of ‘working poor’. It is notable that the risk-of-poverty rate among those employed is 23% (three times higher than the EU-25 average), which is not much different from the overall average rate in Turkey. The corollary to this is that working in the informal sector is not enough for the economic wellbeing of the individual, as informality in most cases comes to mean irregular jobs and irregular income (either the employer does not pay regularly or it is necessary to change jobs often).
- 2) The high rates of unemployment and low rates of labour force participation are indicators of the lack of earning for a large number of people, most of whom are poorly educated. The economic growth that the country has enjoyed in recent years has so far had a small effect on employment. More alarming, there are only a few structural interventions with a long-term view for dealing with the unemployment problem. To that one should also add the concern that the lack of employment opportunities may worsen with the flow towards the cities of an expected excess supply of labour from the shrinking agricultural sector (which currently employs about one-third of the total labour force, creating a value added of one-sixth (Izmen et al., 2005)). Recalling that those living in rural areas are on the average less educated than their urban counterparts are, the future migration waves are to bring about thousands of potential job seekers with very low levels of human capital. One should also acknowledge the fact that the forced migration that the country experienced in the 1990s,¹³ stemming from armed conflicts between Kurdish insurgents and the military, exacerbated the poverty problem especially in metropolitan cities. The low levels of human capital in metropolitan cities, together with the absence of social safety nets, made thousands of internally-displaced persons vulnerable to extreme poverty and social exclusion.
- 3) The tax system in the country relies heavily on indirect mechanisms, which aggravate the distribution and poverty problems, as indirect taxes are generally speaking less redistributive than direct ones (Zenginobuz, 2005). The reliance on indirect mechanisms is mainly rooted in the presence of the large informal economy – which results in a relatively low direct tax base and thus the government finds no other solution than to collect the bulk of its revenues through consumption channels. The government, seeking to increase the share of direct taxes, has imposed high direct tax rates, but this step has

¹³ The total figure might well be as high as 1 million (see, for instance, Ayata & Yukseker, 2005).

made citizens more inclined to use informal means. Furthermore, the high debt burden of the country necessitates that a significant portion of the tax revenue is spent on repaying the debt.

- 4) Social programmes are underfunded, given the high prevalence of poverty. In addition, the social assistance system seems to suffer from administrative and organisational problems. On the one hand, the system in general is too scattered, thus making an overall efficiency–effectiveness assessment almost impossible; on the other hand, the system lacks transparency and accountability and the fear is that local patronage networks may well play a role in the distribution of help. Moreover, as some of the transfers are based on formal employment, a significant number of people are unable to benefit fully from social programmes.¹⁴ The risk-of-poverty rates before and after transfers – a clear indication of the effects of social transfers on the redistribution of income – are the lowest when compared with the EU-25. The risk-of-poverty rates before and after transfer incomes (excluding pensions and survivors’ benefits) are respectively 25% and 16% in the EU-25 and 30% and 26% in Turkey. Also, as a series of household surveys have captured, Turkey’s education, health and pension schemes currently provide low quality and inadequate services except to the privileged few at the top of the income and status scale who can obtain private services. There are also signs of the decreasing power of the family and other social networks that have traditionally compensated at least partly for the lack of social security (Bugra & Keyder, 2003). Anecdotal observations are persuasive that, although they have increased in the last few years, the contributions of local governments and non-governmental organisations (NGOs) (including religious organisations) in assisting the poor have not amounted to significant levels either.

The consequences of the skewed income distribution, widespread poverty as well as serious regional disparities are multi-dimensional and some seem to be self-perpetuating.

- 5) Despite the important positive actions that have been undertaken in the last few years, grave problems persist regarding the treatment of the Kurds (who are not treated as a minority owing to the fact that the 1923 Lausanne Treaty reserved the status of minority only to religious groups (other than Islam)). Most of the difficulties relate in a direct or indirect way to the socio-economic conditions of the Kurdish population. The eastern and especially the south-eastern parts of Turkey are largely populated by the Kurds and the fact that there are severe developmental disparities between these regions and the rest of Turkey is seen as one of the main motives behind the Kurds’ demands for more effective regional policy. Therefore, there is a pressing need to create opportunities to actively involve the Kurds in these less developed parts of Turkey in the economic and social development of their region.
- 6) Although the fertility rate in Turkey in general is decreasing over time, the average household size is still above four persons. The chief reason behind this is that most poor parents who have no social security coverage perceive a larger family size as the main method of achieving security for themselves and their children. This perception, in return, brings about a relatively high population increase and an excess labour supply when compared with Europe. The poverty rate is positively related to household size: the poverty rate of 1-2 person households is 14.5% and of 3-4 person households is 13.7%, whereas it climbs to 51% for households of 7 or more persons. This is a clear indication of a vicious-circle in having more children and falling into the poverty trap. Furthermore,

¹⁴ Although according to official figures the coverage rate is quite high, it is very likely that these figures are upwardly biased because of double counting – as otherwise the high prevalence rate of informality and the high number of green cards (relating to social assistance for the poor, enabling them to benefit from health services) would not make sense.

one should also add the existence of cultural/religious barriers in effectively implementing birth control policy – a not insignificant number of people, mostly living in poor and rural areas, refrain from using birth control.

- 7) Poverty brings about a set of problems in accessing the most basic levels of services in the areas of health, education and housing. The main consequence is that the younger generations of poor families cannot obtain the kind of education they would like. On the one hand, parents sometimes find education costs unbearable: while public education up to university level is free of charge, transport to and from school may be costly; also, the directors of underfunded schools approach parents to help with financing the most basic needs of schools (such as fuel for heating). On the other hand, poverty may require that parents withdraw their children from schools and instead send them to work in order to contribute to the household income (TURKSTAT & World Bank, 2005). Because of the paucity of social assistance in general (for the elderly, the very young and the disabled), older children may be forced to stop school to look after those members of the family in need. Poor housing conditions and lack of library facilities are additional factors that prevent poor children from receiving a better education. This situation in turn brings about low human capital, which is one of the underlying reasons for persistent poverty. The risk-of-poverty rate decreases as the level of education rises. The risk of poverty for person aged 6 and older by education level is 45.1% for the illiterate, 33.7% for the literate with no diploma, 8.3% for secondary school graduates and 1.3% for university graduates.

In addition, according to the 1999 Child Labour Survey (the latest available) conducted by TURKSTAT, 4.2% of children in the 6-14 age group and 28% of those in the 14-17 age group are employed (either on a part-time or full-time basis). The bulk of these children are from families who live in the slum (*gecekond*) areas of metropolitan cities (Istanbul, Ankara, Izmir, Adana, Ankara and Diyarbakir being the most obvious ones). The fear is that these figures may well be underestimated given that many children are employed as unpaid family labour in small, family-run ateliers, while many others are used as seasonal labour in the agricultural sector. Overall, working children not only lose their opportunity to obtain an education, but they are also menaced by risks to their physical security (drug addiction, criminality, etc.), which is especially the case for those working on the street, as discussed below.

- 8) A relatively recent application of the ‘conditional income transfer’ programme for students should be noted. These transfers were first adopted under the Social Risk Mitigation Project (funded by the World Bank), which was implemented in 2001. Under this programme, steps are taken towards the economic support of families who cannot send their children to school or must withdraw them from school. It also provides for regular health checks for their children at pre-school age and for pregnant women who, owing to poverty, cannot obtain regular health checks during their pregnancy or deliver their babies in a health institution. Initial assessments indicate the successes of these initiatives, yet the programme is still run by the World Bank.
- 9) The persistent poverty rate, the inappropriateness of the social security system, the low quality of public education as well as other social exclusion factors are all behind the ever-increasing problem of street children (especially in metropolitan cities) and child crime rates (see, for example Aksit et al., 2001, concerning children living and/or working on the streets).
- 10) Shanty towns in and around metropolitan cities are both the cause and the result of poverty. The bulk of the inhabitants are employed in the informal sector and therefore the overwhelming majority in these areas simply does not have any kind of social security or health care. The two companion studies by Keyder (2005a and 2005b) investigate the

marked difference in Istanbul in the treatment of immigrants who illegally occupy state-owned lands. Whereas in the past they were eventually given semi-official documents, which amounted to the legalisation of their land-holding status, they have recently met stricter legal enforcement and growing societal admonition. Keyder analyses this recasting of urban order in Istanbul as an inevitable consequence of Turkey's continued integration into global capitalism. The concomitant transformation in Istanbul's economic character has limited the hitherto unlimited opportunities the city presented to newly arriving, unskilled migrant labour.

- 11) Poverty, coupled with insufficient social services, especially affects the following subgroups: a) the elderly, b) the disabled and c) single parents. As a result, a significant portion of the country suffers from poverty, and the current level and quality of social services can only partly answer the needs of these population segments. Although local government and civil initiatives make important cash or in-kind contributions and there seems to be increased concern about poverty-related problems over the last few years at governmental levels, without long-term structural intervention, poverty cannot be dealt with appropriately.

4.2 Access to goods and services

As is well known, living conditions are not only determined by a household's income position but also depend on the development of infrastructure, which may restrict the poor from accessing many goods and services. Therefore, this section puts emphasis on some 'material' living standards – in terms of connection to basic infrastructure (electricity, gas, water and sewerage), access to basic services (food stores and pharmacies) and telecommunications penetration (telephone and the Internet). The 2002 Household Budget Survey (TURKSTAT, 2002) collected some information on these aspects of poverty and the information given below is mainly based on this survey.

As far as housing-related indicators are concerned, electricity is virtually universal in Turkey, since only 0.1% of the sample population reported that they lived without it (TURKSTAT, 2002). Yet, around 5% of households still lack access to a piped water system, which may be regarded as indicative of a low standard of living. Here, rural areas need specific consideration. For instance, according to the 2000 population census, while 98% of households in provincial centres and 93% of households in district centres live in housing units with piped water, 27 out of 100 households do not have piped water in their housing units in the villages.

It is also important to note that in Turkey only 9% of households report that they are connected to a gas pipe (an urban attribute) and only 7% indicate that they have central heating (TURKSTAT, 2002). In this context, 86% of the population in Turkey seems to have stoves as their heating source. Data concerning the centralised collection of garbage, the distance to a county administrative centre and the percentage of settlements without a pharmacy or food store need still to be collected.

In relation to school availability, the 2001 Household Consumption and Income Survey data revealed that 88% of households have a primary school in their residential area. In fact, it is possible to argue that primary school availability does not vary much by wealth, and if anything, the distribution of primary school availability is pro-poor (about 91% of the least wealthy households report the availability of a primary school compared with about 85% of the wealthiest households). This trend is primarily driven by urban versus rural residence: 87% of urban households reveal primary school availability in their neighbourhoods, while in rural areas this percentage increases to 95%. These statistics suggest that the school availability issue at the basic education level has been more or less resolved. The TURKSTAT & World Bank

(2005) study indicates that in urban areas, even if a primary school were not available in the immediate residential area, there would be one in an adjacent neighbourhood. For small rural villages, on the other hand, access to schooling is through government-subsidised transportation of children to nearby villages or towns. The mean distance to a primary school is higher in rural areas and for the poor, but the differences are not large. That being stated, long distances might sometimes be more significant in rural areas because of physical barriers such as streams, hills and poor road conditions.

On the telecommunications penetration front, more specifically telephone and Internet connections, more than two-thirds (86%) report owning a home telephone. Nevertheless, in Turkey, the percentage of houses with Internet access and Internet usage in general is still very low compared with the EU-15. Indicators that are more detailed also suggest a significant gender differential in Internet usage in the country.

4.3 Work/life balance

The European Quality of Life Survey (Eurofound, 2003) indicates that citizens of Turkey have much more difficulty in reconciling work and family life than the populations of the EU-25. Around one-third of workers in Turkey report that they have difficulties doing their household jobs as well as fulfilling family responsibilities. Moreover, Turkish employees report high degrees of social disturbance owing to demanding working conditions as well. Not surprisingly, women report problems reconciling work and family life much more often than do their counterparts in the EU-15 (the difference between men and women is above 5%), since they spend more time on domestic work and family tasks than men do (Eurofound, 2003).

At this point, the number of working hours and the extent of family responsibilities are worth highlighting as the most important factors influencing work/life balance. The World Bank (2006) reveals that working hours in Turkey are the highest of any country for which data are available. The figures from the Eurobarometer Survey (2002) also show that the ratio of employed persons working over 48 hours a week (as high as 45%) is highest in Turkey among all European countries.

Tunali (2003), by using data from the Household Labour Force Survey, reports that overall average weekly hours of work in Turkey went up from 48.8 in 1988 to 52.1 hours in 2001. The corresponding figures are 50.1 to 53.7 hours for working men and 41.2 to 44.7 hours for working women. In fact, the social-security payment calculations, which are based on the number of days worked rather than the number of hours, might give firms an incentive to use existing workers in overtime rather than hire new workers. Firms also find it more advantageous to use existing workers even by paying higher overtime rates rather than hire new ones given the severance requirements and favourable tax treatment of overtime work.¹⁵

Actual hours of work per week vary considerably when broken down by worker status (regular wage and salary workers, casual wage and salary workers, employers, self-employed and unpaid family workers). Casual workers, who do not have employment protection in general, work longer hours than do regular wage and salary workers throughout the period under examination. The Economic Research Forum & Institut de la Méditerranée (2005) also reports that the analysis of actual hours worked shows significant differences among sectors, with longer working hours in industry and services. Excessively long working hours in services are partly explained by the high level of self-employment in this sector.

¹⁵ Turkey has the highest hours of work in manufacturing per week, compared with selected EU and middle-income countries. In 2004, for instance, it is argued that if workers in Turkish manufacturing had worked 45 hours on average instead of 52, another 500,000 workers would have been needed.

Concerning gender differences, it should be noted that the lower participation rates of women in urban settings reflect social customs, whereby married women are expected to devote themselves to child rearing. Interestingly, young, unmarried women with greater financial needs and less onerous family responsibilities are three times more likely than married women are to be in the labour force (World Bank, 2006; Tunali, 2003). Moreover, an examination of the data on hours by marital status reveals that the share of married women decreases sharply as the length of the work week increases. Tunali (2003) indicates that the data on hours of work suggests that the labour market in Turkey does not offer the flexible working arrangements that have been credited for the dramatic rise in the proportion of women in the workforces of OECD countries. The overall picture reveals that part-time employment constitutes only a tiny fraction of total employment in non-agricultural activities (Eurofound, 2003).

In addition to perceived problems combining domestic work and family tasks, some workers in Turkey note that they have problems in concentrating at work because of family responsibilities. Turkey the only country where more than 8% of individuals report difficulties of this kind in the Eurofound study (2003).

4.4 Housing and local environment

Housing is one of the key dimensions of an individual's material position and quality of life, and housing conditions are closely related to the local environment as well. Local environment is defined here in terms of space, access to recreational areas, the levels of pollution and surrounding noise, as well as various social menaces such as crime.

Eurofound (2003) reveals that spatial conditions in Turkey are substantially worse than in the EU-15. Those living in Turkey have considerably less privacy than those residing in Western Europe. The Eurofound survey additionally revealed that Turkey is among those countries where more of the population complain about a shortage of space (33%) and other housing problems relating to rot (31%) or damp (31%), which are figures well above the EU-25 averages of 18%, 11% and 13%, respectively.

These findings are not surprising, given that in Turkey there are pronounced differences in the kinds of dwellings in which people live. The TURKSTAT & World Bank (2005) report indicates that about half the population lives in a house and another 27% lives in apartments. While individual houses are primarily in rural areas, they are also still prevalent in urban areas – particularly in *gecekondu* (slum) areas. Apartments are almost exclusively an urban phenomenon. The urban poor are clustered in the *gecekondu* areas and virtually all *gecekondu* dwellings are houses. The lack of an indoor flushing toilet is mostly associated with area of residence: while 96% the households in provincial centres live in a housing unit in which there is a toilet, this proportion is 87% in district centres and 61% in villages.

The question of ownership is particularly interesting in light of the development concerning *gecekondus*. According to the 2000 population census, 68% of households own their housing units in Turkey and this proportion varies by locality. While the proportion of households that own their housing units is 58% in provincial centres and 64% in district centres, this proportion increases to 87% in villages. Furthermore, accommodation provided rent-free, which is rare in Europe, is relatively more common in Turkey. Strikingly, according to the Household Budget Survey in 2002, 81% of households are either owner-occupier or rent-free and hence, the proportion of tenants is just 19%.

In relation to the perceived quality and safety of the neighbourhood and local environment, the inhabitants of Turkey complain most about a lack of green space (45%) and water quality (41%). There is also more concern about air pollution and noise (29% each) when compared with the average for these environment problems in the EU-15 (18%).

5. Tax and benefit systems, and policy approaches

5.1 Institutional system of social protection

The social protection system in Turkey consists of the social insurance system, and the social services and assistance system. The social insurance system aims at providing insurance to society at large, mainly in the form of health care services and pensions, with the principle of self-financing, whereas the social assistance seeks to alleviate poverty and provide social care for needy persons and groups. With regard to the organisational structure of the social protection system, broadly speaking, a functional division can be made between those institutions that provide social insurance and those that provide social services and assistance. Each is discussed in turn below (drawing from Adaman, 2003).

The history of legal arrangements to protect workers against various risks in Turkey goes back to the 1860s. The first major initiative during the Republican era (from 1923 onwards) was the introduction of the legal framework in 1946 for an insurance scheme against income losses stemming from employment-related injuries, occupational diseases and maternity. This was followed by the creation of three publicly run institutions. The Public Employees' Pension Fund (Emekli Sandigi or ES) was established in 1950 and covers active and retired white-collar workers employed by local and central governments or civil servants. Affiliates of the Social Insurance Institution (Sosyal Sigortalar Kurumu or SSK), established in 1964, are blue-collar public workers and all those working in private firms. Finally, the Social Insurance Institution for the Self-Employed (Bag-Kur, or BK), which was established in 1971, covers the self-employed, farmers, artisans, the voluntarily insured in agriculture and homemakers.

Today, protection against income loss owing to invalidity, old age, sickness and disability as well as maternity is provided mainly by these three agencies, the SSK, the ES and the Bag-Kur, which also provide survivors' benefits for dependents and coverage for medical care for workers and their dependents. Unemployment insurance was introduced in 2002, and the provision of coverage is managed by the Employment Agency (Is-Kur). Unemployment insurance is a compulsory scheme and mainly covers the wage earners registered with the SSK and to a much lesser extent some other types of employees defined by law (Economic Research Forum & Institut de la Méditerranée, 2005). Yet, to be able to benefit from unemployment insurance, the workers must satisfy strict eligibility conditions, which limit the scope of the unemployment insurance.¹⁶

Health and life insurance plans have long been available through private companies to those who want additional coverage but specially designed retirement accounts for funded provision of additional pension benefits were not available prior to 2003, except through a number of pension funds privately set up by some banks, companies, universities, etc., to provide optional coverage for their employees. After the legal and regulatory framework was drawn up to allow working individuals to voluntarily purchase additional coverage from private companies, many insurance companies began to offer individual retirement plans in 2003, essentially transforming the single-pillar pension system in Turkey into a two-pillar system.

Coverage is compulsory for all wage and salary earners as well as for self-employed individuals in principle; official figures show that the current system covers more than 90% of the population. Table 14 provides the basic information in this respect.

¹⁶ Workers who have paid premiums for at least 600 days in the last three years, including full contributions for the last 120 days prior to unemployment, and who have lost their job involuntarily or owing to no fault of their own, can benefit from unemployment insurance.

Table 14. Statistical data for the contributory system as of the end of 2005

Social security institutions	End of 2005 (in thousands)	End of 2005 (%)
The Pension Fund (ES)	9,284	14
Social Insurance Institution (SSK)	40,829	61
Social Security Organisation of Craftsmen, Tradesmen and Other Self-Employed (Bag-Kur)	16,036	24
Private funds in total	308	0
General total	66,458	100
The proportion of contributors, pensioners and dependents covered	–	91.2
The ratio of active insured to pensioners	1.81	–
Dependency ratio	3.97	–

Source: Office of the Secretary-General for EU Affairs (2006).

Yet, as noted by Adaman (2003, p. 32), it is feared that these figures are upwardly biased mainly because of double counting. Accordingly, double counting may occur for the following two reasons: “(i) the a priori estimation of the dependency ratio might be a realistic one if only one individual (the husband or the wife) works, but an unrealistic one if both the husband and the wife do work together. (ii) If one [person] insured changes [to another] system (say from Bag-Kur to ES) and fails to report this, he or she can be double counted.”

Therefore, it is possible to argue that actual coverage is far less comprehensive in reality. Low compliance with pension laws is a notable factor here. As mentioned in previous sections of this report, there is a large number of unregistered workers, partly because of the high rates of taxes collected from workers and employees as contributions towards pension coverage. Even for registered workers, enforcement problems lower actual contribution receipts significantly below potential levels. These problems include the tendency among employers to underreport payments to workers or to withhold the contributions collected rather than transferring them to pension fund administrations, and there are usually economic incentives for such violations of pension laws (such as low late transfer penalties relative to market interest rates) (see also section 5.4).

In addition to benefits provided to workers/self-employed persons and their families in return for premium contributions made by actively working individuals, there are social assistance and social service programmes providing needs-based, temporary benefits for the poor and the needy. These programmes are coordinated by various branches of the central government and local governments appointed by the central government or municipalities. At present, the following two institutions are considered the main arms of the social assistance scheme (Adaman, 2003): 1) the Social Aid and Solidarity Encouragement Fund (Sosyal Yardimlasma ve Dayanismayi Tesvik Fonu or SYDTF) and 2) the General Directorate of Social Services and Child Protection (Sosyal Hizmetler ve Cocuk Esirgeme Kurumu or SHCEK).

SYDTF, legally established in May 1986, has a mandate of assisting citizens in absolute poverty and need and other persons who have been admitted to or entered Turkey, to ensure a fair distribution of income by taking measures for strengthening social justice, and promoting social assistance and solidarity. SYDTF is resourced by an extra budgetary fund that is financed by earmarked taxes and it works in conjunction with regional Social Aid and Solidarity Associations (Sosyal Yardimlasma ve Dayanisma Vakiflari or SYDVs), which are given the task of implementation. Overall, resources are allocated at the beginning of each year on a regional basis with attention paid to population and socio-economic indicators (Adaman, 2003). There are two kinds of benefits: 1) in-kind benefits including food, clothing, fuel, medicine and

small productive projects (e.g. greenhouses); and 2) cash benefits in the form of grants and scholarship programmes, and emergency and after-disease assistance.

SYDVs apply individual criteria to define those in need; each SYDV is thus independent in the decision-making process in granting social assistance (SYDVs are chaired by governors or district governors and the rest of the running committee consists of the mayor, the provincial head of finance, the provincial director of social services, a health official and private citizens). The most systematic social assistance is through the green card programme, enacted in 1992 following a protocol between SYDTF and the Ministry of Health, providing free basic health care to the needy not covered under any social security scheme.

SHCEK, on the other hand, is a general directorate with a budget. It is a public legal entity, providing services, care and assistance to vulnerable groups, including children, the young, the disabled, women, the elderly and families in need of protection.

In addition to these institutions, the public/private institutions in Table 15 help to provide assistance. At the central level, there are bodies such as the Family Research Institution (Aile Arastirma Kurumu), the General Directorate on the Status and Problems of Women (Kadinin Statusu ve Sorunlari Genel Mudurlugu) and the General Directorate of Handicapped Persons (Ozurluler Idaresi Baskanligi), the main task of which is to help coordinate various activities in their fields.

At the civic engagement level, Adaman (2003) notes 73,000 associations and 4,000 trusts currently active in Turkey. Of the active associations, around 34% can be categorised under the headings of social assistance, charity (23%) and culture (29%). The majority of trusts fall under the headings of charity (31%) and education (22%). The 8th Five-year Development Plan points out that collaboration among public units, local administrators, and charity establishments and NGOs should be ensured since observations draw a rather unsuccessful picture today. Weak social assistance schemes result in families searching for protection elsewhere against risk situations. In fact, in Turkey, both family institutions and more extended family ties (kinship), along with other social networks (neighbourhood, localities, etc.) provide a wide range of social support (Bugra, 2001).

Table 15. Institutions and their activity areas in social assistance

Institutions/organisations	Activity area
Ministry of Health	Green card programme providing free health care to the needy not covered under any social security scheme
Public Employees' Pension Fund (ES)	Educational and material assistance to disabled children, payments to the elderly and disabled, etc.
Ministry of Youth and Sport	Youth centres, camps, sports activities
Ministry of Justice	Supportive activities for prisoners
General Directorate for Foundations	Payments to those in need, orphans and disabled persons and charitable services
Municipalities	Fuel, food, clothing, educational needs; nursing homes for the elderly; centres for children and the youth; centres for the disabled
Charity organisations and other NGOs working on social protection	Various assistance in cash and kind; nursing homes for the elderly; rehabilitation centres; centres and programmes for children and youth

Source: Office of the Secretary-General for EU Affairs (2006).

After the economic crisis of 2001, as noted in section 4.1, the World Bank also started to take part in the provision of social assistance, through the Social Risk Mitigation Project, a cash

transfer programme to poor families with the conditions that their children attend school and have health checks on a regular basis. The project is financed through a World Bank loan, and at the time of writing, it is not known whether it is to become permanent. Another social assistance mechanism is the newly introduced micro-finance programme in the south-eastern region. Again, however, far from being based on the idea that social assistance is a right, this initiative is grounded in the liberal view that social protection should be based on productive activity (Bugra & Keyder, 2006).

Overall, the bulk of services provided for social protection are centralised, with local governments having a less significant role in the social protection system. The ES is under the Ministry of Finance and the SSK and the Bag-Kur are under the Ministry of Labour and Social Security. Private institutions and NGOs exhibit either a centralised or a decentralised organisational structure. With regard to centralised public institutions, one should also note that the decisions regarding the ways in which some services are carried out and the eligibility conditions set for benefiting from these services can be left to the discretion of local units, though in the vast majority of cases, Ankara applies strict rules and regulations (Adaman, 2003).

In fact, the 2005 European Commission report notes that the government must pursue its ongoing efforts towards reforming the social security system, which suffers from a lack of financial stability, the presence of a large informal sector and administrative and management problems (European Commission, 2005). Differing definitions of persons in need of social assistance and services along with poor coordination among the social assistance institutions are other key weaknesses of the current system. The fact that social assistance has not been defined as a social right results in an inefficient use of scarce resources, leads to weak public consciousness and perceptions of assistance as a favour.

5.2 Recent and planned institutional reforms in social protection

The social security system in Turkey is going through a major overhaul. A draft reform package was prepared by the Ministry of Labour and Social Security to restructure the system. The legislative process that is near completion primarily has three goals to achieve after the new legal framework becomes effective on 1 January 2007. First, the reform seeks to separate fully the health and social assistance functions from retirement insurance. The three existing social security institutions are to be unified under a single organisation to increase the transparency and efficiency of the pension system while also harmonising eligibility conditions and the calculation of benefits provided by individual agencies. Second, parametric reform is to be introduced to restore actuarial balances and to help curb the rapidly growing deficits of the publicly managed social-security system. Finally, a crucial goal of the health reform agenda is to improve access to medical care by all segments of society. Each of these reform elements is discussed in turn below. Overall, the social security reform envisages establishing a new service-focused, citizen-oriented, equal, fair and standardised system and reducing the burden of the social security system on the economy.

Institutional reform. As explained in section 5.1, the traditional social security services in Turkey have largely been provided by three different agencies, the SSK, the ES and Bag-Kur, each covering different segments of the working population according to different eligibility conditions and different rules for the calculation of benefits. This organisationally fractured system has created a great deal of inefficiency and introduced wedges between contributions, benefits and eligibility conditions across social security agencies, particularly favouring ES beneficiaries over the others. The new law intends to remove these differences by centralising the institutional structure and by harmonising rules in such a way as to strengthen the links between contributions and benefits in social insurance programmes. Efficiency in the provision of services is expected to improve significantly following the completion of the establishment of

the Social Security Administration (Sosyal Guvenlik Kurumu, SGK), an umbrella agency for coordinating the public provision of all social insurance and social assistance services. Work is underway to enable the newly created SGK take over the responsibilities of the SSK, the ES and Bag-Kur and dissolve these agencies. An important aspect of this institutional restructuring is the separation of the health and other insurance functions traditionally carried out by each agency. In other words, under the new organisational structure, specialised departments within the SGK will be in charge of the provision health and other social insurance services, including those for old age, by a harmonised set of rules, rather than each agency offering all social insurance services according to its own rules. Likewise, a separate department within the SGK will supervise the provision of social assistance payments made as transfers (i.e. without the need for beneficiaries to have contributed prior to the receipt of social assistance).

Parametric reform. New parameters have been introduced to restore actuarial balances (within the old-age insurance operations in particular) to help curb the rapidly growing deficits of the publicly managed social-security system. Parametric reform, to become effective after 1 January 2007, is intended to complement the social security reform act of September 1999 (Law No. 4447). Law No. 4447 introduced a scheme to raise entitlement ages to 58 for women and 60 for men, immediately for new workers and gradually over a 10-year transition period until 2009 for existing workers to prevent social security deficits from reaching unmanageable proportions. Prior to the enactment of Law No. 4447, the link between a worker's age and the beginning of retirement benefits had been broken, practically allowing women and men to begin collecting benefits as early as ages 38-43, after paying contributions for 20 years. Despite some variation across social security agencies, the median retirement age was significantly lower than OECD averages, visibly contributing to a rapid growth in social security deficits (starting from the early 1990s) as low entitlement ages financially squeezed public pension funds by lowering both average contributions net of benefits per worker and worker-retiree ratios. Alongside the age increase, modifications introduced through Law No. 4447 included the extension of the indexation period for the calculation of pension benefits to the entire duration of employment and the linking of increases in pension incomes to consumer inflation, to curb the tendency of governments to make arbitrary adjustments to pensions received by retirees for political benefit.

Even then, the effectiveness of this most notable provision of Law No. 4447 was reduced by a decision that the Turkish Constitutional Court (the highest court in the country) took in response to an appeal by members of the opposition in the parliament. The Constitutional Court ruled in February 2001 that the law's (non-linear) scheme for gradual increases in the entitlement age for existing workers during the transition period violated the equality principle and ordered that this provision be reconsidered. Consequently, the transition period was extended to 20 years, during which entitlement ages will increase roughly by one every year until the ages of 58 and 60 are reached by women and men, respectively, by 2021. Furthermore, the replacement rates are reduced from 2.6% per year of work to 2.5% immediately and to 2.0% after 2016 to control the growth in total old-age benefit payments. As a result of this reform, the ratio of the deficit of the pension system to national income is targeted to decline from 4.5% in 2004 to 1% over the long term.

Health care reform. As mentioned earlier, the health system, which was based on a formal employment requirement, had left many citizens without any health coverage, partly because of the existence of high levels of informality and unemployment in the country. In December 2003, the Turkish government announced a comprehensive reform programme entitled "Transformation in Health", strengthening the role of Ministry of Health in the provision of health care, introducing universal health insurance, restructuring service delivery, and developing human resources in the health care industry and a national health information system. The related bill has just been approved by parliament. The health care reform, on the one hand, introduces universal health insurance (operationalised through a referral system,

starting with the family physician) and, on the other hand, creates a health insurance fund that integrates all functions and premium collections related to health within the existing insurance agencies of the SSK, the Bag-Kur and the ES. Therefore, at least in principle, all citizens in the country shall compulsorily contribute to the health insurance fund and in return shall be covered by universal health insurance, with the state making premium contributions on behalf of those who are unable to contribute (i.e. those currently under the green card programme).

Apart from this new framework, there is also a draft proposition prepared by the Turkish Employment Agency on the unemployment scheme, relaxing the eligibility conditions and increasing unemployment payments. Moreover, establishing a national database covering all of the population under the scope of general health insurance and implementing comprehensive information systems is expected to enable crosschecks among institutions and to help combat unregistered employment. Hence, the resulting improvements in governance and efficiency are expected to help improve both the access to medical care by all segments of society and the quality of services, which is low given the huge costs. The transfer of hospital networks previously run by the SSK and the Bag-Kur to the Ministry of Health has already been completed. Yet, this can be viewed as more of an act towards decentralisation, as hospitals will now have more autonomy than before.

These acts should be seen as the first stage of a larger reform to overhaul the system. Additional steps in the reform process include the spread of purchased pension schemes managed by the private sector as an optional second pillar, further improvement of the information infrastructure and records, increased compliance and operational efficiency and attempts to merge different coverage rules and regulations under each of the three pension institutions into a unified framework (TUSIAD, 2005). It is also important to strengthen coordination and cooperation among all public organisations and institutions in the field of social assistance as well as universities, local administrations and NGOs. The number of expert staff within social assistance and social service institutions is to increase and their institutional capacity should be strengthened. The number of the care and social rehabilitation centres, women's shelters, public and family counselling centres and solidarity centres for the elderly should also be increased.

5.3 Public social expenditure

In Turkey, while social insurance (including health services), is based on a contributory system, social services and social assistance are financed through taxes. The government does not contribute to social security premiums, if not acting as an employer, but is responsible for paying any deficits. Therefore, the main financing sources of the three social insurance institutions (the SSK, the ES and Bag-Kur) consist of premiums paid by their members, the state's contributions and the returns on their investments. Municipalities pay their expenses through their budgets, consisting of local taxes, local residents' voluntary contributions and the state's contributions. Central government institutions (such as SHCEK) are principally financed through the central government's budget, the advertisement revenues of the state television, traffic fines, taxes on petroleum and income taxes (Adaman, 2003).

Social security contributions paid by employees covered by the SSK (excluding unemployment insurance premiums) are 14% of gross wages, of which 5% is for health insurance and 9% is for retirement benefits. Employers' contributions to the SSK change with the occupational risk premium, and vary between 19.5% and 25% of gross wages. Excluding the risk premium, the composition of employers' contributions is around 6% for health insurance, 11% for pensions and 1% for maternity benefits. For the self-employed, the contribution rate is 40% over the registered income level (20% for health insurance and 20% for retirement benefits), all paid by the insured. For civil servants, contribution rates are 16% and 20% for the insured and the

public employer, respectively (see also the Economic Research Forum & Institut de la Méditerranée, 2005).

Over the last few years, social expenditures as a share of GNP has been increasing (as of 2005, it was around 19%) and the total shares of education and health expenditures have been fluctuating at around 4-5% each (Table 16).

Table 16. Share of social expenditures in GNP (in %)

	1998	1999	2000	2001	2002	2003	2004	2005
Education	4.08	4.61	4.0	4.27	4.48	4.18	4.12	4.17
Health	2.76	3.28	3.47	4.31	4.77	4.85	5.28	4.97
Social Protection	6.13	7.25	6.62	7.79	8.01	9.14	9.14	9.7
Total	12.97	15.14	14.08	16.37	17.26	18.18	18.54	18.83

Source: SPO.

In fact, as can be seen in Table 17, transfers from the government budget to social security institutions aimed at financing their deficit have increased steadily since the 1990s; lately, these have risen from 3.8% in 1999 to 4.6% in 2005 (Tables 17 and 18, and Figure 1). These transfers accounted for approximately 21% of tax revenues and 13.5% of public expenditures (Economic Research Forum & Institut de la Méditerranée, 2005).¹⁷

Table 17. Transfers out of the budget to social security agencies (in million TRY at current prices)

Year	SSK	Bag-Kur	ES	Total	Share in central government budget (%)	Share in GNP (%)
1999	1,111	796	1,035	2,942	10.5	3.8
2000	400	1,052	1,775	3,227	6.9	2.6
2001	1,108	1,740	2,675	5,523	6.9	3.1
2002	2,386	2,622	4,676	9,684	8.4	3.5
2003	4,809	4,930	6,145	15,884	11.3	4.5
2004	5,757	5,273	7,800	18,830	12.4	4.4
2005*	6,593	6,926	8,889	22,408	14.2	4.6

* Provisional Source: SSK website (retrieved from <http://www.ssk.gov.tr>).

Table 18. Transfers out of the budget to social security agencies (in €1,000 at current prices)

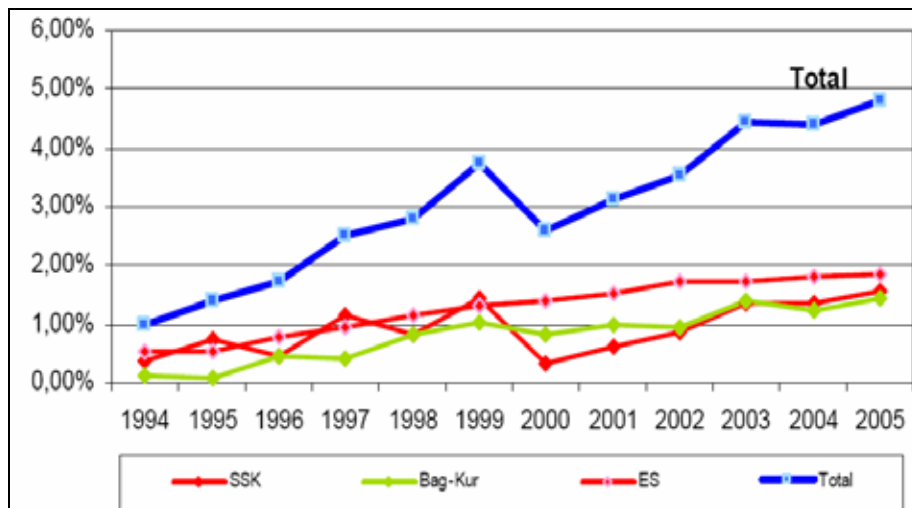
Years	SSK	Bag-Kur	ES	Total
1999	2,480,852.1	1,777,784.0	2,311,144.9	6,569,780.9
2000	693,589.5	1,823,204.0	3,077,803.4	5,594,596.9
2001	1,008,226.0	1,583,315.1	2,434,119.5	5,025,660.6
2002	1,660,796.6	1,825,066.4	3,254,771.5	6,740,634.5
2003	2,839,572.3	2,911,251.1	3,628,729.9	9,379,553.3
2004	3,241,170.8	2,968,680.5	4,391,372.6	10,601,224.0
2005*	3,930,042.5	4,128,541.5	5,298,851.3	13,357,435.4

* Provisional Source: SSK website (retrieved from <http://www.ssk.gov.tr>).

¹⁷ Turkey is not included in the ESSPROSS system yet. Further statistics on social protection will become available as part of the upgrade of the Turkish statistical system (a project that will start at the beginning of 2007 and is expected to finish at the end of 2008). Hence, the expected date for Turkey to be included in the ESSPROSS system is early 2009.

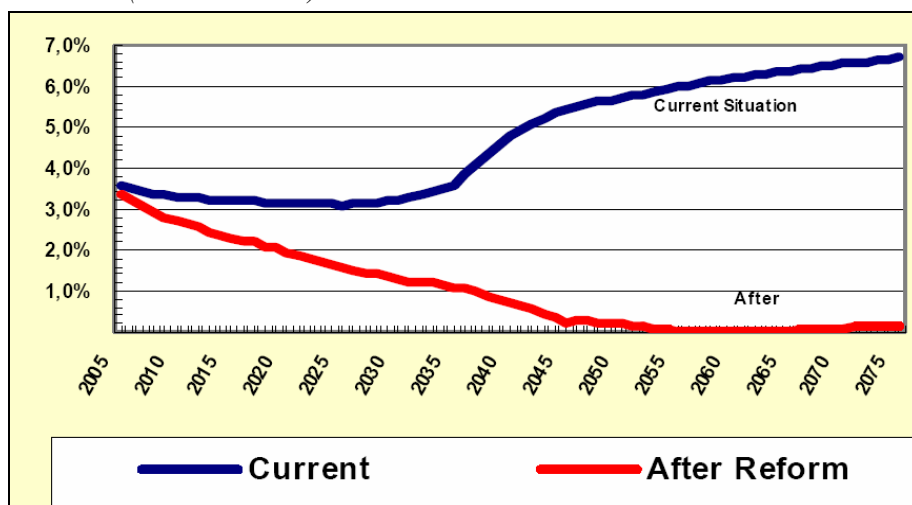
The deficits of the SSK, the ES and the Bag-Kur are the result of a number of factors that have exerted negative effects on their revenues and increased their expenditures. The financial difficulties of the pension system, for instance, cannot be explained by population ageing leading to a decreasing worker–retiree ratio, because Turkey still has a young population. Other factors previously noted, such as the low compliance with pension laws by employers and poor enforcement of this legislation by authorities as well as the informalisation of economic activity, tend to decrease the active–passive ratio. As mentioned in the study by the Economic Research Forum & Institut de la Méditerranée (2005), there are also problems with the collection of social security contributions and with the management of the funds, putting extra pressure on the system. Explanations on the expenditure side emphasise the low entitlement age for pension benefits. Projected shares of social security deficits and public health expenditures are provided in Figures 2 and 3.

Figure 1. Transfers out of the budget to social security agencies as a share of GNP



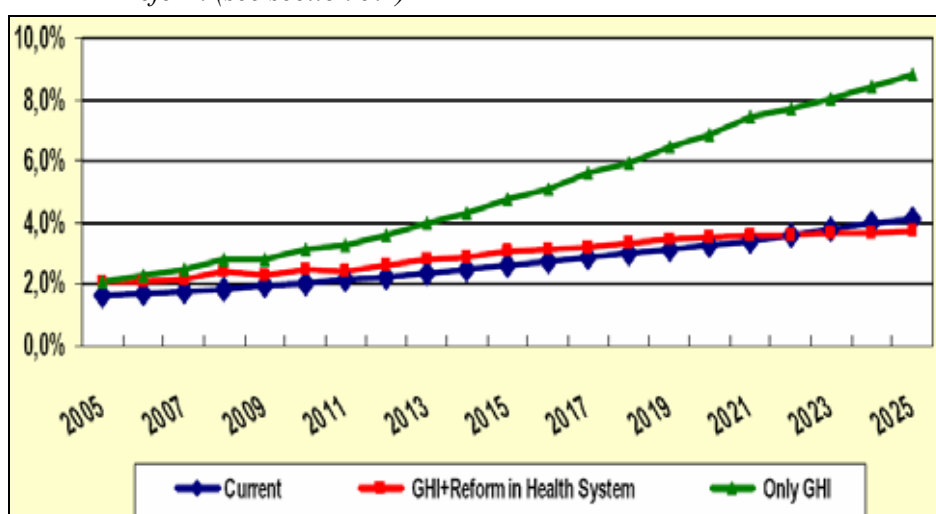
Source: Office of the Secretary General for EU Affairs (2006).

Figure 2. Projected shares of social security deficits to GNP before and after the current reform (see section 5.2)



Source: Office of the Secretary General for EU Affairs (2006).

Figure 3. Projected shares of public health expenditures to GNP before and after the current reform (see section 5.2)



Source: Office of the Secretary General for EU Affairs (2006).

5.4 Social protection provisions

To collect old-age pensions and other benefits for health care, sickness, maternity, invalidity, occupational injuries and diseases, and survivors through social insurance programmes, individuals (or providers in the case of dependents) must be a member of, and hence have contributed towards, the insurance institutions – the SSK, the ES and Bag-Kur described above. The public insurance system covers members as well as their dependents. A brief outline of the benefits is given below (see Adaman, 2003, for a more comprehensive overview).

- On the health care front, the system is comprehensive, given that 80% of health-related expenses such as consultations, examinations, operations, care, prostheses and drug expenses are largely covered by these institutions. The coverage goes up to 90% if members are retired.
- Sickness cash benefits paid out by the SSK amount to 50% of the average earnings during the last four months in the case of hospital treatment and to two-thirds of the average earnings in the case of outpatient treatment.
- The SSK provides maternity support and this includes health care during pregnancy and at birth, breastfeeding support, paid leave for insured women and, if required, sending the mother to a more suitable hospital within the country. An insured mother-to-be who has paid at least 90 days of maternity premiums or the wife of an insured man who has paid at least 120 days of maternity premiums will be eligible for maternity benefits.
- The social protection system in the country presently does not incorporate social elements such as family or child benefits in general. Only civil servants and workers registered with a trade union receive some family payments from a non-contributory system.
- A person who has been a member of the SSK, the ES or Bag-Kur for at least five years will be eligible for invalidity insurance if s/he suffers from an incurable illness or becomes unable to work because of a work-related accident.

- The payment ratio is 60% of the average yearly salary for the SSK and can go up to 70% if the person in question is in need of permanent care; the ratios are 65% or 75%, respectively, in the case of the Bag-Kur, and 75% in the case of the ES.
- Elderly persons receive retirement benefits if they are members of a public insurance institution, but there are differences in the retirement pension according to the working statute. There are two entitlement conditions for retirement: age and the number of premium days. For new workers in the SSK, women should be aged 58 or more and men aged 60 or more, and both women and men should have paid at least 5,000 days of premiums to be entitled to retirement benefits.
- Life insurance coverage is in the form of payments to widows, orphans and parents based on the salary of the insured. For all three institutions, there is a requirement of a five-year minimum work period. If the insured person dies because of a job-related accident, then the minimum work requirement is lifted. Boys are supported until they are 18 years old and this age limit goes up to 25 if the individual is enrolled in a university programme; girls are supported until they are married. The survivors' benefit will be halted if children start earning money.
- If a member of a public insurance institution becomes unable to work for a certain period, all the three institutions support the person in question by covering health-related expenses. Active civil servants under the coverage of the ES continue to receive their salaries and members of the SSK receive a payment based on their past salaries of three months.

In this vein, Tables 19 and 20 set out the types of social insurance currently provided by social security institutions and the assistance to be provided after the reform.

Table 19. Types of social insurance currently provided by social security agencies in Turkey under Law Nos. 506, 2925, 1479 and 5434

Insurance Branch	506 SSK Workers	2925 SSK Agricultural Workers	1479 Bag-Kur Self-Employed	2926 Bag-Kur Farmers	5434 Pension Fund Civil Servants
Old Age	+	+	+	+	+
Invalidity	+	+	+	+	+
Death	+	+	+	+	+
Work Accidents - Occupational Diseases	+	*	*	*	No reduction from salary
Maternity	+	**	**	**	** No reduction from salary
Health Care	+	+	+	+	+
Sickness – Cash Benefits	+				No reduction from salary
Unemployment	+				
Family Benefits	Civil Servants and workers registered in a trade union get some payments from non-contributory system				

* There is no payment for temporary incapacity.

** Health care expenditures are paid through the health care system.

Source: Office of the Secretary-General for EU Affairs (2006).

Table 20. Types of social insurance to be provided by the social security administration after the reforms take effect in 2007

	Workers with contracts		Agricultural workers		Self Employed		Farmers		Civil Servants	
	Current	Reform	Current	Reform	Current	Reform	Current	Reform	Current	Reform
Old Age	+	+	+	+	+	+	+	+	+	+
Invalidity	+	+	+	+	+	+	+	+	+	+
Death	+	+	+	+	+	+	+	+	+	+
Occupational Diseases – Work Accidents	+	+	*	+	*	+	*	+	+	+
Maternity	+	+	**	+	**	+	**	+	No reduction from salary	+
Health Care	+	+	+	+	+	+	+	+	+	+
Sickness – Cash Benefits	+	+		+		+		+	No reduction from salary	+
Unemployment	+	+								
Family Allowances	It will be provided in the context of non contributory system.									

* There is no payment for temporary incapacity.

** Health care expenditures are paid through the health care system.

Source: Office of the Secretary-General for EU Affairs (2006).

Although the total spending of social protection institutions including social assistance and social services as a share of GDP is quite high – 12.1% in 2005 – the existing system is not effective at preventing poverty. The problem with the social security system is that coverage by system requires having a job in the formal sector. Apart from voluntary social insurance plans offered by the Bag-Kur, the entire social security system (including the recently introduced unemployment insurance) provides benefits to individuals holding formal jobs, and hence excludes those who are not somehow connected to the formal labour market. This implies that households headed by unregistered workers or those in the informal sector face higher risks of poverty and unregistered workers have a rather high share in the labour force.

According to estimations by TURKSTAT, in the first four months of 2005 about 11 million workers were unregistered, representing half of the 22 million workers in the labour force. This estimate is also consistent with the recent household survey conducted by the World Bank, which reveals that more than one-third of the population is not covered by social insurance (Bugra & Keyder, 2006). The foremost groups not covered are unpaid family workers and casual, daily-waged and seasonal employees, who also constitute an important share of unregistered employment. Unregistered employment peaks in agriculture (90%) followed by daily-waged occupations, for instance in construction (Table 21). To add to this picture, to be able to benefit from the recently introduced unemployment insurance, one similarly has to have worked in the formal sector. In fact, only workers who have paid premiums for at least 600 days in the last three years, including full contributions for the last 120 days prior to unemployment, and who have lost their job involuntarily or through no fault of their own, can benefit from unemployment insurance.

Thus, Turkey's social protection system lacks mechanisms to target economically vulnerable groups and there are large gaps in the social safety net.

Table 21. *Employment status and registration with a social security institution (per 1,000 persons)*

	2004		2005	
	Total employment	Unregistered (%)	Total employment	Unregistered (%)
<i>Total</i>	21,117	52.0	21,413	49.1
Salary/wage earner	9,260	21.1	10,336	22.9
Daily-waged	1,786	91.6	1,582	92.2
Employer	977	22.1	1,085	24.2
Self-employed	4,944	64	5,012	63.6
Non-paid family worker	4,150	96.4	3,397	95.2
<i>Agricultural</i>	6,824	90.1	5,969	88.1
Salary/wage earner	99	49.2	116	52.3
Daily-waged	390	98.4	400	98.3
Employer	73	73.5	82	66.4
Self-employed	2,651	79.4	2,489	77.5
Non-paid family worker	3,611	98.4	2,881	97.9
<i>Non-agricultural</i>	14,293	33.8	15,444	34
Salary/wage earner	9,161	20.8	10,219	22.6
Seasonal worker	1,396	89.8	1,183	90.2
Employer	904	17.9	1,003	20.7
Self-employed	2,293	46.2	2,523	50.0
Non-paid family worker	539	83.2	516	80.1

Source: TUIK, Household Labour Force Surveys.

At this point, attention should be paid to the fact that women account for more than 60% of the working population who are unpaid. Hence, from a gender perspective, a significant difference exists between women and men covered by social insurance, with women more likely to be excluded from the system. According to the results of the Household Income and Consumption Survey in 2002, while 51% of men are under the coverage of social insurance, this rate decreases to 24% for women.¹⁸

Unfortunately, in the field of social assistance and services, Turkey does not yet have a comprehensive system at the national level, based on a single definition of poverty. Social assistance programmes cannot systematically reach all those in need because of the fractured nature of the social assistance system and limited funding available to these programmes. Cash transfers are almost non-existent. Social assistance is mostly limited to temporary transfers in-kind channelled through the local chapters of the General Directorate for Social Assistance and Solidarity, a number of programmes for the elderly and the disabled, and the institutional care of children and the elderly as administered by SHCEK.

5.5 Taxation

While tax structures and policies vary widely among countries, the Turkish tax system is noticeably complex, as it has been subjected to numerous changes without a coherent strategy

¹⁸ Dependants benefiting from sickness, widow's and orphan's pension rights are not included in this ratio.

for reforming the system. The system can be classified under three headings: 1) income taxes, 2) taxes on expenditures, and 3) taxes on wealth. Table 22, while showing the composition of tax revenues in Turkey, also illustrates the disturbing pattern of ever-increasing reliance on indirect taxes. In fact, as Zenginobuz (2005) rightly notes, the current tax system has significantly deviated from an optimal tax structure where the tax burden is distributed more evenly among tax instruments for reasons of economic efficiency as well as fairness.

Table 22. Composition of tax revenues (as a % of total tax revenues)

	2000	2001	2002	2003	2004
Taxes on Income	39.6	39.4	32.4	30.5	29
Corporate Tax	23.4	29.1	23	20.2	19.5
Taxes on Wealth	1.3	1.1	1.2	2.5	1.82
Motor Vehicles Tax	0.8	1	1.2	1.4	1.76
Inheritance and Gift Tax	0	0.1	0.1	0.1	0.06
Domestic Taxes on Goods and Services	42.9	45.6	50.4	52.1	52.1
Domestic VAT	16.9	18.3	19.4	18.3	18.5
Motor Vehicles Purchase Tax	1.6	0.8	0.8	0	0
Additional Tax	2	2.1	3.3	0	0
Special Consumption Tax	0	0	0	26.4	26
Petroleum Consumption Tax	12.3	14.2	18.7	0	0
Banking and Insurance Transaction Tax	3.2	3.8	1.7	1.4	1.4
Stamp Duty	2.7	2.1	2.2	2	1.9
Other Domestic Taxes on Goods and Services	4.1	4.2	4.4	4	4.3
Taxes on Foreign Trade	16.2	14	15.9	14.9	16.8
VAT on Import	14.7	13	14.9	13.8	15.5
Other Taxes on Foreign Trade	1.7	1.5	1	1.1	1.3

Source: Ministry of Finance as per Zenginobuz (2005).

A very sharp increase in revenues from consumption taxes of one sort or another has created a situation whereby indirect tax revenue now exceeds 70% of the total revenue collected (Zenginobuz, 2005). Despite recent reductions (planned to continue in the months ahead), taxes on capital are also quite high by international standards. With large reductions elsewhere, Turkey's corporate income tax rate (around 44%) is now one of the highest among OECD and EU countries. Table 23 shows the distribution of the tax burden on capital income for 2004 and 2005.

Table 23. Effective tax burden on capital income, 2004–05

	2004	2005
1) Gross profit	100	100
2) Corporate taxes paid = (1)x0.33	33	30
3) Gross dividends = (1)-(2)	67	70
4) Tax on dividends = (3)x0.10	7	7
5) Net dividends = (3)-(4)	60	63
6) Net capital income tax base	67	70
7) Exemptions = (6)x0.50	33	35
8) Taxable capital income = (6)-(7)	33	35
9) Capital income tax = (8)x0.45	15	14
10) Tax rebate	7	7
11) Capital income tax to be paid = (9)-(10)	8	7
12) Total tax burden = (2)+(4)+(11)	48	44

Source: Durmus (2006).

On the labour front, it is not possible to find a categorical tax wedge in a unified framework applying to all workers. Yet, recent studies on the issue (Zenginobuz, 2005; Economic Research Forum & Institut de la Méditerranée, 2005) indicate that Turkey's tax wedge on labour (composed of the income taxes and social security contributions (SSCs) of employers and employees on gross labour income) amounted to 41% in 2005 – the highest rate among OECD countries. This rate is around 25% in Ireland and 30% in the UK (Economic Research Forum & Institut de la Méditerranée, 2005). For the members of the SSK, these SSCs for employees are equal to 14% of gross wages. For employers, the SSCs vary between 19.5% and 25% of gross wages according to the occupational risk premium. There is also an additional premium of 1% and 2% of gross wages paid by the employee and employer respectively (see Table 24).

The income taxes on wages are progressive and vary between 15% and 35%. These rates are applied to the gross wages after the SSCs of the employees are deducted. There is also an additional 0.6% stamp tax paid over the gross wage. Accordingly, the tax wedge for the minimum wage as a percentage of the total labour cost is calculated as 41% (see Table 24). It is often argued that the high share of unregistered workers in Turkey is at least partially caused by unreasonably high non-wage labour costs.

These figures demonstrate that tax rates are in general very high in Turkey. Overall, personal and corporate income taxes create a wedge between gross income and net income, so they have a significant impact on labour supply and business investment decisions. In fact, the overall tax burden on the Turkish economy has shot up in an unprecedented manner by over 10 percentage points since the beginning of the 1990s. Today, the ratio of tax revenue to GDP in Turkey, which was around 34% in 2004, is high compared with the average of 21.3% for all upper-middle-income countries. Although still below the OECD and EU averages, this rate is fast approaching them since most OECD and EU countries are reducing their tax-to-GDP rates. As Zenginobuz (2005) rightly notes, with GDP per capita well below OECD and EU averages, Turkey has probably reached the upper limit of how much tax burden it can impose on its economy.

Table 24. Tax burden on wages in Turkey, 2005

	Minimum wage (TRY)	Average wage (TRY)
(1) Gross monthly salary	489	800
(2) Employee contributions to social insurance (old-age, health benefits, etc.) = (1)x0.14	68	112
(3) Employee contributions to unemployment insurance = (1)x0.01	5	8
(4) Income tax base = (1)-(2)-(3)	415	680
(5) Income tax = (4)x0.15	62	102
(6) Stamp tax = (1)x0.006	3	5
(7) Total taxes and contributions = (2)+(3)+(5)+(6)	139	227
(8) Net salary = (1)-(7)	350	573
(9) Employer contributions to social insurance (old-age, health benefits, etc.) = (1)x0.195	95	15
(10) Employer contributions to unemployment insurance = (1)x0.02	10	16
(11) Total cost to the employer = (1)+(9)+(10)	594	972
<i>Memorandum</i>		
(12) Percentage deviation between (1) and (11) as a % of (1)	21.5	21.5
(13) Tax wedge as a % of total labour cost ((7)+(9)+(10))/(11)	41	27

Source: Durmus (2006).

In fact, as the Economic Research Forum & Institut de la Méditerranée (2005) report argues, with such high tax rates, Turkey should have achieved an even higher total-tax-to-GDP ratio than 34%. This ratio is primarily owing to the large share of employment being declared at the minimum wage by both employees and employers in order to reduce their tax burden and the large degree of informal employment in the economy. Rather than piecemeal changes, the country has to introduce a comprehensive tax reform that will substantially simplify the overall tax structure and seek to lower personal income and social security taxes, while broadening the tax base by introducing a relatively low flat tax and simultaneously modernising the tax administration. A simple tax regime with low rates will surely facilitate tax enforcement and compliance. Of course, this approach should be complemented by a campaign to reduce the size of the unregistered economy.

More specifically, Zenginobuz (2005) puts forward the following recommendations:

- 1) Excessive consumption taxes should be curtailed by optimally readjusting the tax mix.
- 2) The tax wedge on labour should be cut at least by half to promote employment.
- 3) Taxes on corporate income should be lowered to levels comparable to those in EU countries that compete for FDI.
- 4) A simpler and flatter personal income tax regime with lower rates should be adopted along with a reduction in tax expenditures and the elimination of tax breaks.
- 5) A comprehensive flat tax structure involving a single rate for all sources of income would provide strong incentives for increasing investments, employment and business activity in general.

The negotiation process with the EU provides an opportunity for Turkey to further review its tax policies and shape them in a way to bring about the competitive and efficient policy environment needed.

5.6 Gender equality and anti-discrimination

In Turkey, the adoption of gender-neutral laws early in Republican history still plays a critical role and the legal framework constitutes the backbone of gender equality. The Civil Code (2002), the Labour Act (2003) and the very recent Penal Code (2005) effectively improve some of the most problematic provisions of earlier legislation in these areas insofar as gender equality is concerned. The national machinery for the advancement of women has also been strengthened with the entry into force, in 2004, of the Organisational Law on the Directorate General for the Status and Problems of Women, and the establishment of the Consultative Council for the Status of Women, to ensure better policy formulation and coordination. The Compulsory Basic Education Law of 1997 had already made an important contribution to girls' education by raising the number of female students especially from rural areas, as had the national campaign "Support for the Schooling of Girls".

The CEDAW (2005) report gives a clear picture of positive aspects and areas of concern and further improvements needed for Turkey in the elimination of discrimination against women. Accordingly, the new Penal Code (2005) defines sexual crimes as crimes committed against the individual rather than against public decency. For the first time, the Code covered marital rape and sexual harassment in the workplace, as well as trafficking in persons. In addition to the annulment, in 2000, of a provision allowing for leniency for perpetrators of honour crimes, the new Code imposes life sentences for perpetrators, thus reinforcing the Government's determination to prevent such crimes.

Yet, as mentioned by the CEDAW (2005) report as well, the full transposition of these directives on gender equality is still required. While important legislative progress has been

achieved, traditional values and customs continue to have an impact on the practical implementation of the new laws. Violence against women, including domestic violence and honour killings are still important concerns. Women, as victims of violence, are in general unaware of their rights and the protection mechanisms available to them under the law. Moreover, support services for women who are victims of violence (including shelters) are inadequate in number.

Women's persistent under-representation in political decision-making is a democratic deficit in Turkey. While there are high proportions of women in professions and in academia, only 4% of seats in parliament are held by women, and in the cabinet only one minister is a woman. Women's representation in local government is also very low. Women have recently begun to show significant interest in participating in politics, however. It is hoped that a leap forward will take place in the near future. Of course, despite progress, regional disparities continue and it is apparent that women's active participation in politics and in the senior management of public administration at all levels (local, regional, national and European) in Turkey should be further promoted (World Bank, 2003; CEDAW, 2005).

6. Governance structures

6.1 Governance efficiency in general and in the social protection system in particular

The style of political governance in the country needs to be transformed from a paternalistic, top-down and patronage-based modality to a form of transparent, accountable and efficient governance that is responsive to citizen's demands, that acknowledges its citizens as stakeholders and that encourages a participatory decision-making process. Although in recent years there have been important steps in that direction, formidable tasks remain with respect to improving the transparency and efficiency of public expenditure management. In addition, there are the tasks of upgrading public accounting, procurement and audit standards, of enhancing democratic principles and participatory mechanisms, of fighting against corruption and ensuring prudent, public liability management.

Studies conducted on the political economy of Turkey largely concur that the paternalistic administration inherited from the Ottoman era – where the strong-state tradition meant a state-centric way of governing society from above by assuming a unity between the state and nation, as well as between national interests and state interests – began to make way for a patronage-based approach following the transition to a multi-party democracy in 1946.¹⁹ The embryonic nature of the civil society, constraints on political freedom and rights, calcification of the bureaucratic apparatus and the continued strong position of the army were simultaneously the causes and the outcomes of this very process.

The “centre–periphery” dichotomy, first proposed by Mardin (1973), provides a theoretical framework for explaining the functioning of the political clientelism that has been shaping, with varying degrees, public life in Turkey. In this context, local and central governments abuse their authorities and responsibilities while engaging in reciprocal relationships with third parties in the creation and allocation of resources. These abuses may range from the choice of the location of a public investment (say an airport or a public hospital) to tolerating illegal shanty housing, or from granting import permits or licenses to public tenders.

¹⁹ See Sunar (1996), Adaman & Sertel (1997), Adaman et al. (2002), Adaman & Carkoglu (2003), Keyder (2005b) and Keyman & Icduygu (2005).

To these ‘grand’ types of corruption, one should add as well the kinds of administrative ones, where individual civil servants violate the principles of public impartiality, justice and equality, more often not in return for monetary gain (bribes), but rather because of the existence of reciprocal networks (most of which are of the extended-family type).

The picture grows even more complicated when helpless officers running underfunded public facilities find no other means but to collect money from the users of their facilities in order to make them reasonably functional. The classic example concerns attempts by primary/secondary school directors to force parents to make ‘voluntary contributions’ to help run schools with a minimum level of standards – usually the money is requested in the name of ‘heating funds’. Such payments are of course not subject to any public control, and thus for citizens the situation may well be perceived as yet another manifestation of governmental failure.

A glance at the World Bank’s governance indicators for Turkey should enable us to position Turkey vis-à-vis European countries. As is known, the methodology of the World Bank consists of constructing measures for six dimensions of governance:

- 1) voice and accountability (which measures political, civil and human rights);
- 2) political instability and violence (which measures the likelihood of violent threats to, or changes in, government);
- 3) government effectiveness (which measures the competence of the bureaucracy and the quality of public service delivery);
- 4) regulatory burden (which measures the incidence of market-unfriendly policies);
- 5) rule of law (which measures the quality of contract enforcement, the police and the courts as well as the likelihood of crime and violence); and
- 6) control of corruption (which measures the exercise of public power for private gain, including both petty and grand corruption and state capture).

The percentile ranks for Turkey for the year 2004 are (in order) 41.7, 30.6, 57.2, 48.8, 54.6 and 50.7, respectively. As such, they are well below the EU-15 as well as Central and Eastern European countries. Although when compared with the previous years’ results positive developments can be observed, it is clear that Turkey should make substantial and continued efforts towards improving its levels of governance.

As mentioned above, in the last few years a series of steps have been undertaken to improve governance efficiency throughout the country. To provide a snapshot of these steps one can easily cite the following actions – some initiated by international players, some forced by local movements and some formulated at the governmental level.

- Much has been done to strengthen the legal and regulatory framework for bank supervision, to carry out a financial clean-up of the banking system, to reform the governance structure for the state banks and to ensure that private banks are properly capitalised. Remembering the high financial and social costs of the 2001 crisis, during which the financial sector was left largely unregulated, a series of regulatory mechanisms have been created.
- The action plan for increased transparency and efficient public administration was approved in 2002. Strategic planning, a total quality approach and measures to increase transparency were the key ingredients of this plan (discussed in further detail below).
- In relation to anti-corruption policy, in recent years Turkey has ratified or signed a series of international agreements: the Council of Europe Civil Law Convention on Corruption was ratified; the OECD’s Convention on the Bribery of Foreign Officials in International Business Transactions was signed; and the UN Convention against Corruption was signed, to name the most important ones.

- The total quality approach in some of the public institutions and organisations is now being applied, which requires fulfilling the criteria to obtain the ISO 9001 and ISO 9002 quality certificates.
- A regulation on the code of ethics for public employees entered into force in 2005, which sets out a detailed code of behaviour for senior public officials.
- The new Penal Code contains provisions with regard to bribery, trading in influence, abuse of power and embezzlement, and introduces the concept of liability of legal persons in cases of corruption.
- A series of actions have been undertaken to increase accountability, some of which include
 - taking a strategic planning approach that incorporates the concept of accountability in terms of meeting the targets set out in plans; and
 - obliging all public agencies provide a written answer to any request/question they may receive, coming from either the public, the media or any other third parties (following the Law on Access to Information adopted in 2003).

That being said, Turkey has a long way to go to comply in a fuller sense with the requirements of the principles of good governance, with the main problem being the persistence of profound corruption in almost every aspect of the public sphere. The current performance of Turkey in terms of corruption is alarming. According to Transparency International's Corruption Perception Index and the surveys conducted in 2001 and 2002,²⁰ Turkey continues to suffer from corruption – be it petty or grand. Turkey has also seen its share of high-level politicians come under the spotlight (recall that one former prime minister and seven former ministers were tried before the High Tribunal on charges of corruption). Although as noted above, on paper Turkey appears to have ratified or signed many international agreements on anti-corruption policy, the persistence of corrupt activities largely indicates that whatever the intentions have been, these are a whitewash. To accentuate the last point, one should also add that the Anti-Corruption Steering Committee is not properly functional at this time. The responsibility for fighting corruption is presently spilt among several organisations and it lacks overall coordination. Furthermore, it should be stressed that corruption is usually understood and interpreted in its narrower meaning, that is to say, bribery; patronage-based applications are nevertheless widespread, as mentioned at the beginning. At the policy formation level there is seldom reference to this latter dimension – partly because of the fact that in clientelist treatments, it would be difficult to observe illegalities and personal, particularistic interests are seldom involved.

The way in which the budgetary system works is of crucial importance in the discussion on governance. Currently, the budgetary system is beset by endemic problems, some of which take on greater importance under coalition governments (see, for example, chapter IV of the 2005 report by the Economic Research Forum & Institut de la Méditerranée). First, owing to inner struggles within the government, total resources and expenditures may not match, with the usual outcome being excessive spending. Second, policy objectives may not always be adequately funded in strategic decision-making. Third, the system may fall short of providing efficient and effective resource allocations. Finally, and above all, the system largely lacks accountability and transparency.

In a related manner, the control and auditing mechanism does not base its assessments on performance and thus it plays a very limited role in preventing waste and fraud. Similarly, quality control and in this context satisfaction with service delivery have been introduced too

²⁰ One of these surveys was conducted among the general public and the other among private businesses – see Adaman et al. (2001 and 2002) and also refer to Michael (2004) and Adaman et al. (2005).

late and in too few public institutions. Research surveys conducted in Turkey repeatedly indicate that citizens are generally not at all satisfied with the quality of public services (see, for example, Adaman et al., 2001 and 2002).

On the other side of the coin is the way in which public servants have been acting. The overall competence level of public servants is low, and there are strong incentives in relation to moral hazard: the pay system is inefficient in the sense that there is no wage differentiation as a function of performance and political preferences may at times undercut merit principles. When the competence level of bureaucrats is low and when the pay system is not dependent on their performance, red tape is likely to increase. Indeed, red tape continues to be a grave problem, on the one hand giving rise to transaction costs and on the other hand breeding corruption. Finally, parliamentary immunity continues to hold. More specifically, many public bodies are exempt from auditing requirements. Although public officials in Turkey are required to submit declarations of their assets, their verifications are seldom checked.

An important development in Turkey in recent years, which has implications for governance, is the devolution process. There have been favourable conditions for accomplishing decentralisation and the delegation of power from the central government down to the local levels. In this regard, the Law on Municipalities and the Law on Special Provincial Administrations, both of which entered into force in 2005, aim at strengthening the capacity of local governments to deal with the challenges of rapid urbanisation and mass migration from rural areas. These laws introduce modern public management concepts in order to create efficient, results-oriented and transparent local government. And at the operational level, these reforms seek to incorporate requirements, inter alia, for strategic planning, emergency planning, debt and borrowing limits, and performance-based budgeting.

As an overall observation, the traditions and the institutions by which authority is exercised continue to pose severe difficulties for the governance structure of Turkey. A first point meriting attention is the process by which those in authority are selected and replaced. Notable in this respect are serious violations of democratic rights as well as a lack of democratic culture within political parties (political parties are highly disciplined and only on rare occasions do representatives vote against their party line – and when they do they are usually expelled from their parties).

The second point is to do with the capacity of government to formulate and implement policies, where major shortcomings can be observed in the effectiveness of governments as well as deficiencies in the regulatory qualities. The competence levels of state officers are quite low, the existing incentive structures do not sufficiently promote efficiency and effectiveness, and civil servants are mostly influenced by political processes. While the cabinet may not have full control over a powerful bureaucracy that maintains intact a long-term policy vision in some ministries, the cabinet has great influence over the actions of bureaucrats by and large. At the same time, in cases where there is little bureaucratic tradition, there is a more open structure for outside influence from business, both domestic and international. Beyond the influence of business, agricultural and labour organisations also have access to policy-making processes. Yet, their influence usually involves creating and maintaining economic rent and patronage, rather than providing expertise and general guidance, which mostly promotes a short-term vision in the political life of Turkey.

And finally, concerning institutions that govern interactions between citizens and the state and among themselves, patron–client types of networks appear to be rather powerful in policy-making, endangering the whole democratisation process. The existence of the informal sector further aggravates the situation, as informality if not illegality is perceived by the overwhelming majority as the norm of society. All these diagnoses are more or less valid at the local level of policy-making as well. Nevertheless, since the mayor is much more dominant over the policy-

making apparatus than the prime minister or even the cabinet, some kinds of influences are much more easily projected than are others. For instance, the peddling of private patronage and influence is more easily accomplished at the local level. Such influence can also easily be conducted based on ethnic or religious sectarian backgrounds, which is a direct violation of the basic rights of the Constitution.

When the picture of general governance efficiency is drawn as such, one should not be surprised to see similar sets of problems in the governance of the social protection system. As previously noted, the main problem with the social protection system is that the bulk of the present protection is contingent on being employed in the formal sector. Unemployed individuals or those who are working in the informal sector are basically outside the coverage system. This in turn means that a large portion of society cannot be reached through current official channels (legislative procedures). As by definition we are talking about an unofficial, unregistered sector, collecting funds and taxes would simply not be possible. Furthermore, some legal, registered enterprises have a dual structure in the sense that some of their activities are undertaken through informal methods. It is unfortunate that the informality problem is usually considered in official discourse as a perversity that can be remedied through more effective policing activities, and thus its structural causes are not given due consideration.

Aside from this very important aspect, the social protection system suffers from a lack of competence, as well as from mismanagement and fraud (as discussed in length in Adaman, 2003). More specifically, first, there is no well-defined formula or criteria for allocating resources in the case of social protection, which may mean the existence of distortions in the needs-based principle. Second, because of the lack of transparency and accountability, it is rather difficult to assess the how effective and impartial policies are or how well they are implemented. Third, as the overall structure of the social protection system is too scattered, it is feared that the system is encumbered by many inefficiencies. And fourth, low levels of competence, coupled with improper incentive structures, brings about low levels of productivity on the part of state officers in the social protection systems.

6.2 The character and capacity of the social partners and social dialogue

There are a number of institutions at the local and national levels to encourage bipartite or tripartite social dialogue. Among these one can cite bodies such as

- the Minimum Wage Determination Committee, which consists of representatives from the government, trade union confederations and employer associations, with the aim of setting the minimum wage;
- the Supreme Arbitration Board, which includes representatives from the trade union confederations and employer associations as well as representatives of an impartial third party (usually academics), with the aim of resolving conflicts arising from the decisions of governments to ban or postpone strikes;
- the Provincial Employment Committees, which include governors, local representatives from ISKUR and relevant ministries, employer and employee organisations, boards of commerce and industry and academics, with the goal of contributing to employment policy-making; and
- the Economic and Social Council, which was created as an overarching advisory body – and therefore deserves more attention (Tunali, 2003).

The Council was established in 1995 (and its formal status was affirmed in 2001) to address key economic and social issues at the highest level. It is chaired by the prime minister and includes

- a deputy prime minister(s);
- ministers of finance, labour and social security, industry and trade, agriculture, energy and natural resources;
- undersecretaries on related issues;
- the Union of Chambers of Commerce and the Stock Exchange of Turkey;
- the Confederation of Tradesmen and Artisans of Turkey;
- the Union of Chambers of Agriculture of Turkey; and
- the three workers' confederations (DISK, TURKIS and HAKIS).

The first goal was to provide consultation to the government on key economic and social issues and to actively involve organised civil society in economic and social policy-making in Turkey. The second and somewhat indirect goal was seen as its contribution to the democratisation process of the country in the area of decision-making on major economic and social issues.

Despite its potential importance, the Council has not yet produced any results; rather it has acted as a talking shop where statements are delivered and inconclusive discussions take place. One of the members, DISK, has recently resigned from the board, making allegations about the legal restrictions on unionisation as well as about the existence of the informal economy. It is therefore no surprise that the Joint Declaration of the EU–Turkey Joint Consultative Committee, held on 13-14 July 2006, emphasised that the Council “needs to develop into a significant element in the democratisation process and take part in the economic and social policy-making in Turkey”. The Declaration also stressed that the composition of the Council “needs to be reshaped by increasing the number of representatives from civil society and by changing the role of the government representatives”.

But to the extent that the informal sector continues to have an impact on economic and social spheres and that the composition of the Council continues to represent the formal sector, informality can only be voiced through the perspectives of the present members and therefore it cannot have a direct presence. Informality in Turkey has an embedded structure; thus, it cannot be dealt with solely by increasing the inspection frequency and raising fines. And seeing informality only as a perverse phenomenon misses important dynamics in the economic and social aspects of Turkey.

In fact, both business and trade unions influence governments principally through semi-structured and sometimes informal channels. Religious brotherhoods are also said to have an influence in policy-making (however, no reliable academic work on this relationship is yet available and these claims remain mere speculations and conspiracy-theorising at best). One should at this point remember the persistence of heavy patron–client networks in the country; hence, one may rightly speculate that the nature of these interactions would be inclined towards rent-seeking.

The international community through the European Commission, the World Bank and the IMF has traditionally been active in shaping policy-making in Turkey. Especially in the area of economic policy there are institutionalised mechanisms through which such influence is channelled.

Only in the last couple of years, have mere NGOs also been asked to provide inputs into the policy-making processes. Yet, such NGOs are either directly linked to the policy-making bureaucracy or they are sympathisers with the ruling party or coalition. Unless such a link is present, no serious input can be made by any NGO. Another difficulty of the Turkish third sector of think tanks and NGOs is that they lack special areas of expertise that can be instrumental in shaping legislation or regulatory frameworks.

6.3 Civil society organisations

Trust as a measure of social capital in Turkey remains very low compared with other countries. World Values Surveys show that from the early 1990s to the present, interpersonal trust in Turkey has remained low at around 7-10%, with the trust figure at 9.8% in 1990 and 6.5% in 1997. In 2006, using identical questions, Carkoglu & Kalaycioglu (2006) found that 7.3% reported that people in general could be trusted. World Values Surveys have found that Croatia, Latvia, Romania and Portugal are the closest in this respect to Turkey.

Not surprisingly, membership in civil society organisations also remains very low in the country. World Values Surveys reported 7% in 1997 and Carkoglu & Kalaycioglu (2006) found 7.4% in 2006. Membership here is self-reported membership and not all institutions are equally likely to be covered. World Values Surveys also report that in all different types of civil society organisations, such as religious, sports, cultural, professional, philanthropic and environmental ones, Turkish participation rates are well below those of the world averages. The only exception is political party membership. Still, in a country where political patronage is the name of the game such reporting is not very reliable. In other words, respondents are likely to have reported their party membership relatively more frequently than they otherwise would admit, thinking that their reported party membership is likely to benefit them in the patronage distribution.

The numbers of civil society institutions are not terribly low in Turkey. The relatively low membership rates lead one to seek an explanation in the dual character of Turkish society. The more prevalent reason for such low participation rates seems to be that the same individuals of relatively higher education and socio-economic status tend to be members of more than a single organisation. The divide in participation rates is also apparent geographically as well. The relatively better off and developed coastal, western provinces and especially urban settlements have more civil society activities than rural areas.

Religious organisations are most probably to remain uncovered in these studies. Most brotherhoods are outlawed and thus are unlikely to be discussed in self-reported membership questions. More importantly, such organisations are not as membership-driven as their counterparts in the West might be. It is more likely that there is a community approach strongly encouraging certain types of behaviour and banning others. Although no solid data on such phenomena exists, limited qualitative descriptions lead one to think that neither membership, nor the types of activities members become engaged in during their membership are voluntary and freely driven in such religious organisations. It is to be expected that they are mobilised in a more hierarchical and tightly controlled manner, and are closed to any input from beyond that of close organisational networks. As such, these organisations may not be correctly defined as civil society organisations but rather of a *suis generis* type that resembles community interest groups.

Increasingly, local government initiatives are gaining importance in Turkish public policy. This trend obviously provides many opportunities for local civil society organisations to participate in the policy-making process. In many settings, participation does take place and it is impossible to keep track of such initiatives and provide a performance evaluation for them. Nevertheless, several observations seem to be replicated in many instances. One pattern emerges from the fact that these civil society organisations are devoid of significant expertise relevant to policy and knowledge-based projects. Thus, they eventually become subservient to either business interests or the local or central bureaucratic expertise. Their typically weak financial standing also helps to maintain their low level of information-based activism and drives them towards being either mere followers or simple rejectionist protesters, but not into a position of being potent and effective participants in the policy-making process.

7. Specific issues

One issue that not only constantly arises in discussions on the Turkish economy and society but also provides an overall explanatory context concerns the obvious dual character of Turkish society in many – if not all relevant respects. Turkish social science literature considers this within the paradigmatic debate on the centre vs. periphery cleavage in Turkish society.

The centre–periphery framework stems from Mardin’s (1973) interpretation of the socio-political history of Ottoman Turks. According to Mardin, Turkish politics is built around a strong and coherent state apparatus run by a distinct group of elites dominated by the military and bureaucracy. The ‘centre’ is confronted by a heterogeneous and often hostile ‘periphery’, composed mainly of the peasantry, small farmers and artisans. The centre is built around Kemalist secular principles. It represents a state-run nationalist modernisation programme. The periphery reflects the salient features of a subject and a parochial orientation. It is built around hostile sentiments towards the coercive modernisation project of the centre and it includes regional, religious and ethnic groups with often-conflicting interests and political strategies.

A predominantly rural Turkey of the 1950s, with its mostly isolated villages, limited mass education, transportation and communications facilities was perhaps more fitting for the centre–periphery framework. Over the past five decades, significant advances have been made across all dimensions of development that may be taken as a reflection of an integration of the periphery with the centre. “Typical villagers of earlier decades, who lived in closed communities and had little contact with outsiders, are fast disappearing. Rather, the typical villager is more likely to have relatives or former neighbours in the big cities of Turkey or Europe” (Toprak, 1996, p. 94). Yet, despite a more open Turkish society, which had largely been integrated through wider access to communications and transportation, the extent of the transformation into a modern social order is not so clear.

Esmer (1999) provides some clues as to the extent of differentiation between the value systems of the centre and the periphery. The level of trust in various institutions is slightly lower among the more highly educated representatives of the centre than it is among the relatively less educated respondents (p. 49) of the periphery. Differences that are more significant are observed in respondents’ evaluations of the shortcomings of democracy.²¹ In rural areas, respondents seem more supportive of a ‘powerful’ leader and military rule by far. Similarly, while the highly educated representatives of the centre seem to believe in the legitimacy of the democratic system in the country, among the peripheral representatives the legitimacy of the democratic system is considerably lower. More striking are the huge differences between the centre and the periphery representatives’ overall levels of tolerance in social relations. Esmer’s (1999, pp. 88–90) overall tolerance index shows that the less educated representatives of the periphery are significantly less tolerant than the more highly educated centre.

On the political front, there is ample evidence of the continuity of the centre–periphery cleavage. Kalaycioglu’s (1994) analysis of the data gathered in the 1990 Turkish Values Survey reveals “the continued importance of the conflict between the values of the centre versus the values of the periphery”, which has come to be signified by religiosity. Alongside religiosity in determining party choice, other typical variables reflecting peripheral traits such as ethnicity and place of residence are also found to be significant in the voting decisions of Turkish citizens (Kalaycioglu, 1999, pp. 64–66; Carkoglu & Toprak, 2000, pp. 117–18).

²¹ For example, while 37% of rural respondents agree with the statement that in democracies the maintenance of public order is difficult, among urban settlers only 26% seem to agree with this argument (Esmer, 1999, p. 80).

Regional disparities in socio-economic development indicators are not only representations of the continuing centre–periphery cleavage but they are also factors that support and maintain such divisions. These divisions often overlap with ethnic and sectarian divisions as well. For example, it is not surprising to observe that the least developed south-eastern and eastern provinces in the country are predominantly inhabited by the Kurdish minority. Similarly, but much more subtly, the Alevi minority in the country suffers relative deprivation. Yet official statistics on these issues are simply non-existent.

As noted above, Turkish values and economic behavioural patterns and structures of various kinds are clearly separated from one another on a simple rural–urban divide. Turkish rural areas heavily depend on agriculture, the relative weight of which has been declining over the years. Nevertheless, a significant proportion of the working population still resides in rural areas and is employed in agricultural activities. The influence of agricultural support prices over the last several decades, and the impacts of intensifying globalisation together with internationalised ethnic conflict in the country have all slowly but decisively changed old patterns in the Turkish agricultural sector. The shift to an open economy has shown how competitive Turkish agriculture is. For many products, it became apparent that productivity was low and protection was necessary if the excess labour was to be kept in rural areas rather than being pushed into urban settlements, which are totally unprepared for a new influx. A similar experience was in effect when the ethnic conflict in the south-eastern provinces drove rural populations into urban areas. A significant share of the rural population in eastern and south-eastern Turkey had been engaged in animal husbandry. When these populations moved to the cities because of ethnic conflict, stockbreeding collapsed. Thus, ethnic conflict has had an impact on the nature of agricultural activity as well. Relatively sudden population movements from rural to urban areas not only distort productive capacity in both areas but also have ramifications on poverty and informality in urban areas. These migratory movements inflate the excess labour supply in urban areas, which drives down labour costs, especially in the informal sectors. As such, the labour absorption capacity of the Turkish economy is linked to poverty, informality, taxation and regulation policies as well as the agricultural sector in the country.

Finally, we should underline the fact that the vulnerability of the newly urbanised populations is not the same for men and women. Turkey has long had a problem with equalising educational opportunities for men and women. While from a health-policy perspective women tend to have a longer life expectancy, their level of schooling has remained well below that for men. Although educational opportunities for women are much higher in urban settings compared with those available in rural areas, their transition from a newly migrated, unqualified labour force into an educated, qualified labour force takes generations and requires concerted efforts by the education sector. Such effective policy implementation is lacking and thus the problems of newly uprooted and urbanised women remain a big issue in the country. One relatively advantageous diagnosis is the fact that women’s labour participation remains well below European levels, at around the low figure of 20%. Thus, migration from rural to urban areas does not immediately pose a problem. The low participation rate of women also has a supply-side deficiency, however, related to the low levels of job creation capacity in urban areas.

In short, when the Turkish agricultural sector cannot compete with global markets and necessarily pushes masses into urban areas, the dual character of Turkish society is brought into the urban settlements, where both the centre and the periphery co-exist. This cohabitation immediately becomes problematic, with a clash of incompatible value systems fuelled by inadequate job creation in urban areas.

8. Conclusions

Turkey's young population offers a window of opportunity for building up its socio-economic infrastructure. To exploit this opportunity, Turkey has to achieve high levels of economic growth and employment.

The skewed income distribution and regional socio-economic differences warrant serious consideration if Turkey wishes to promote social sustainability along with economic growth. The fact that one out of four persons in Turkey is below the poverty line is alarming, as – to say the least – children of the poor are likely to find themselves in the poverty trap in the near future, making poverty a self-perpetuating reality. Social assistance is largely insufficient, and therefore vulnerable groups are unable to benefit from it enough to have a decent life.

Another major challenge is the transformation of agriculture. About one-third of the population lives in rural areas while the share of agriculture in GDP is considerably less than half that. The pace and pattern of urbanisation will shape Turkey's economic and geographical landscape. Expansion of off-farm employment and income generation in rural areas would help to reduce migration to the cities.

Sectoral and micro-economic factors pose major difficulties for the sustainability of economic growth. Gains in productivity in hitherto protected sectors, where the state has remained an active player, are critical. Deregulation and privatisation efforts are underway in core sectors such as energy, telecommunications and transport. The EU provides a blueprint for the regulatory path in these areas.

The dual structure of the Turkish economy, where outward-oriented and competitive modern firms co-exist with traditional, family-owned SMEs, has to converge. Turkey needs to improve the competitiveness of its substantial segment of SMEs. Less burdensome business regulations coupled with increased opportunities for SMEs to access capital are urgently needed.

Turkish labour costs are considerably lower than are those in Eastern European countries such as Poland and Hungary. On the other hand, payroll taxes and severance payments are significantly above the average for OECD countries. This, together with stiff labour legislation, accounts for a very sizable informal sector. The legislation has to shift from protecting jobs to protecting workers.

The Turkish Employment Organisation was reorganised in 2000 in line with the European employment strategy. Adequate resources must be provided for active labour market programmes that are effective. Also, the eligibility requirements for unemployment insurance must be relaxed.

Currently, the social security system in Turkey is going through a major overhaul. The legislative changes that are near completion mainly have three goals:

- i) institutional reform to restructure the organisationally fractured system, through creating an umbrella agency for coordinating the public provision of all social insurance and social assistance services, while harmonising eligibility conditions and the calculation of benefits provided by individual agencies;
- ii) reform of the parameters to restore actuarial balances and to help curb the rapidly growing deficits of the publicly managed social-security system; and
- iii) health care reform to improve access to medical care by all segments of society.

Good governance indicators reveal the problems that Turkey needs to address. It goes without saying that a more democratic, transparent and accountable governance structure, along with an effective and efficient resource-allocation mechanism, requires a radical reshaping of the whole system. The question that needs to be answered, therefore, boils down to whether society and the state are both prepared to launch an all-encompassing reform initiative and, if so, who is going to pay the costs of such a transformation.

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Annex to BALKANDIDE Turkey country report

Turkey - additional indicators

Annex 5.1	Economy, labour market
Annex 5.2	Demography
Annex 5.3	Living conditions
Annex 5.4	Tax-benefit general
Annex 5.5	Tax-benefit IMF2001
Annex 5.6	Governance

Annex 5.1: Economy, labour market

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP																
local currency; constant 1987 prices	TURKSTAT		thousand YTL	97,888	104,745	112,631	116,114	110,646	118,789	109,885	118,612	125,485	136,693	146,781		
Inflation rate																
aggregate CPI	TURKSTAT			78.1	75.7	101.6	65.9	68.9	35.9	73.2	26.4	16.2	9.5	10.4		
Foreign Direct Investment																
in USD	TR Central Bank (CBRT)		Million USD	885	722	805	940	783	982	3,352	1,137	1,752	2,847	9,673		
in EUR		Annual Avg. Exch. Rates are used for conversion.	Million Euro					738	1,067	3,756	1,197	1,552	2,291	7,768		
Productivity																
		(e) estimated; (f)														
Labour productivity per person employed	Eurostat	forecasted			36.6 (e)	39.6 (e)	39.3 (e)	36.3	39.4 (f)	35.2 (f)	37.0 (f)	38.5 (f)	40.8 (f)	42.8 (f)	43.9 (f)	44.7 (f)
Agriculture	CBRT	1987 Prices	YTL	1.60	1.64	1.68	1.78	1.72	2.04	1.84	2.09	2.10	2.14	2.54		
Mining and Quarrying	CBRT	1987 Prices	YTL	10.15	9.75	10.54	12.38	12.68	20.73	15.64	12.36	16.72	13.77	13.55		
Manufacturing	CBRT	1987 Prices	YTL	7.72	7.73	8.09	8.15	7.49	7.79	7.26	7.76	8.55	9.10	8.93		
Utilities	CBRT	1987 Prices	YTL	25.93	37.71	30.67	32.01	38.24	42.53	39.28	39.12	43.63	53.73	61.19		
Construction	CBRT	1987 Prices	YTL	4.67	4.71	4.87	4.88	4.15	4.33	5.09	5.58	5.09	4.96	5.30		
Trade	CBRT	1987 Prices	YTL	7.59	8.20	8.65	8.48	7.42	6.98	6.44	6.75	7.20	7.82	7.74		
Trans. & Communication	CBRT	1987 Prices	YTL	14.46	15.06	16.20	15.93	15.81	14.89	14.38	15.77	16.65	16.64	17.52		
Fin. Services	CBRT	1987 Prices	YTL	5.12	4.96	4.97	5.15	5.15	4.25	3.83	3.57	3.14	3.02	2.69		
Services	CBRT	1987 Prices	YTL	1.92	1.94	2.03	1.93	1.80	2.00	1.99	1.99	2.08	2.22	2.15		
Aggregate	CBRT	1987 Prices	YTL	4.34	4.50	4.83	4.86	4.71	4.96	4.62	4.98	5.28	5.60	5.91		
	State Planning Organization (SPO)		YTL	27	36	80	145	340	563	769	1,012	1,285	1,359			
average nominal yearly wage - public sector workers	SPO		YTL	19	35	63	136	250	392	483	693	865	:			
average nominal yearly wage - private sector worker	SPO		YTL	12	23	51	92	159	219	325	498	618	701			
average nominal yearly wage - civil servant	SPO		YTL	4	8	16	28	63	84	111	174	226	311			
minimum wage	SPO		YTL													
Macroeconomic policies & other indicators																
general government revenues; % of GDI	Ministry of Finance			17.9	18.0	19.9	22.2	24.2	26.9	29.4	27.5	28.1	25.6	27.67		
general government expenditures; % of GDI	Ministry of Finance			21.5	25.1	26.1	27.5	33.4	34.2	43.8	38.3	36.2	32.7	29.67		
		(ON) Central Bank (Interbank) Quotations														
average interest rate - official, for major monetary policy instrument	CBRT	BID (%) (Overnight)		:	54.70	54.38	52.22	48.93	6.01	4.98	25.66	36.04	21.85	14.81		
3 month interbank offered interest rate				:	:	:	:	:	:	:	:	:	:	:		
credit to households; % of GDP				:	:	:	:	:	:	:	:	:	:	:		
credit to households; annual growth rate				:	:	:	:	:	:	:	:	:	:	:		
average annual exchange rate - local currency per 1 euro	CBRT	average of EUR buying & selling, CBRT rates		:	:	:	:	0.446755	0.575325	1.09632	1.433215	1.689365	1.77195	1.67356		

Annex 5 | Turkey - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Balance of payments																
Goods exports	CBRT		Million USD	21,636	32,067	32,110	30,662	28,842	30,721	34,373	40,124	51,206	67,047	76,748		
Services exports	CBRT		Million USD	14,939	13,057	19,248	23,171	16,359	19,454	15,199	14,025	17,945	22,928	25,858		
Goods imports	CBRT		Million USD	-34,788	-42,331	-47,158	-44,714	-39,027	-52,680	-38,106	-47,407	-65,216	-90,925	-109,467		
Services imports	CBRT		Million USD	-5,319	-6,400	-8,336	-9,665	-8,868	-8,088	-6,067	-6,146	-7,441	-10,144	-11,868		
current account	CBRT		Million USD	-2,339	-2,437	-2,638	1,984	-1,340	-9,821	3,392	-1,524	-8,036	-15,604	-23,007		
worker remittances	CBRT		Million USD	3,327	3,542	4,197	5,356	4,529	4,560	2,786	1,936	729	804	851		
capital and financial account	CBRT		Million USD	-93	938	3,625	-1,287	-377	12,581	-1,633	1,406	3,095	13,337	20,898		
direct investment in reporting country	CBRT		Million USD	885	722	805	940	783	982	3,352	1,137	1,752	2,847	9,673		
Labour market indicators																
participation rate																
age 15+																
total	TURKSTAT	Total means 15+		54.1	53.7	52.6	52.8	52.7	49.9	49.8	49.6	48.3	48.7	48.3		
male	TURKSTAT- LFS	Total means 15+		77.8	77.3	76.8	76.7	75.8	73.7	72.9	71.6	70.4	72.3	72.2		
female	TURKSTAT- LFS	Total means 15+		30.9	30.6	28.8	29.3	30.0	26.6	27.1	27.9	26.6	25.4	24.8		
age 15-24																
total	TURKSTAT			48.6	48.5	47.0	46.0	46.7	42.5	42.1	40.9	38.4	39.3	38.7		
male	TURKSTAT- LFS			63.7	63.6	62.5	60.9	60.7	57.6	56.3	53.3	50.6	53.1	52.9		
female	TURKSTAT- LFS			34.2	34.1	32.2	31.7	33.2	28.1	28.5	29.0	26.8	26.1	25.1		
participation rate by educational categorie:																
Total																
Age group 15+																
Illiterate	TURKSTAT- LFS			35.4	34.2	34.5	34.9	31.5	29.5	31.5	32.9	32.3	29.1	29.6		
Below Secondary	TURKSTAT- LFS			55.3	55.5	55.1	54.8	54.1	53.6	54.1	55.3	53.6	49.4	49.7		
Upper Secondary	TURKSTAT- LFS			60.5	59.0	58.8	57.7	57.7	58.4	57.8	58.8	58.1	55.5	55.3		
Tertiary	TURKSTAT- LFS			83.1	82.5	81.8	80.1	80.7	81.8	81.5	82.2	79.9	77.9	79.4		
Male																
Age group 15+																
Illiterate	TURKSTAT- LFS			62.5	62.4	62.2	61.5	58.7	57.0	58.2	56.7	54.7	54.1	54.9		
Below Secondary	TURKSTAT- LFS			78.9	79.0	78.8	78.9	79.0	78.7	78.7	78.9	77.1	73.5	74.1		
Upper Secondary	TURKSTAT- LFS			75.3	74.4	73.6	71.7	71.2	71.8	72.1	73.7	73.8	71.1	70.4		
Tertiary	TURKSTAT- LFS			88.1	87.8	86.6	84.2	85.2	86.3	85.1	86.2	84.8	82.8	84.1		
Female																
Age group 15+																
Illiterate	TURKSTAT- LFS			28.5	26.9	27.6	28.2	24.4	22.6	25.1	27.2	26.8	22.9	23.4		
Below Secondary	TURKSTAT- LFS			29.0	29.1	28.8	28.3	26.6	25.8	27.0	29.2	27.7	23.1	23.1		
Upper Secondary	TURKSTAT- LFS			37.1	35.1	35.4	35.8	36.9	36.8	35.5	36.7	34.4	32.1	32.7		
Tertiary	TURKSTAT- LFS			73.8	72.8	72.6	72.4	72.8	73.9	75.2	75.2	71.6	69.8	71.6		
unemployment rate by educational categorie																
Total																
Age group 15+																
Illiterate	TURKSTAT- LFS			2.8	2.9	2.1	1.1	1.7	2.5	2.2	2.0	2.2	3.4	4.1		
Below Secondary	TURKSTAT- LFS			7.0	6.4	5.6	5.2	5.6	5.9	5.6	6.0	6.7	7.3	6.7		
Upper Secondary	TURKSTAT- LFS			14.6	13.6	13.8	14.4	14.9	14.5	13.9	15.1	14.4	12.4	11.1		
Tertiary	TURKSTAT- LFS			6.4	6.3	6.7	6.9	6.8	7.1	8.4	8.7	8.1	7.6	6.5		

Annex 5 | Turkey - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Male		Age group 15+														
Illiterate	TURKSTAT- LFS			5.0	5.0	3.7	2.1	2.9	3.8	3.4	4.1	5.0	6.7	6.1		
Below Secondary	TURKSTAT- LFS			7.3	6.9	6.2	5.7	5.8	6.0	6.0	6.5	6.9	7.5	7.0		
Upper Secondary	TURKSTAT- LFS			11.7	10.7	11.3	11.4	11.0	11.0	11.4	12.5	12.0	10.3	9.4		
Tertiary	TURKSTAT- LFS			5.6	5.1	5.8	5.7	5.4	5.9	7.2	7.7	6.8	5.8	5.3		
Female		Age group 15+														
Illiterate	TURKSTAT- LFS			1.7	1.7	1.2	0.5	0.9	1.6	1.6	1.1	0.9	1.4	2.7		
Below Secondary	TURKSTAT- LFS			6.0	5.3	3.9	3.6	5.2	5.8	4.2	4.3	5.9	6.5	5.5		
Upper Secondary	TURKSTAT- LFS			23.8	23.1	22.3	24.2	26.6	25.3	22.0	23.0	22.3	19.3	16.4		
Tertiary	TURKSTAT- LFS			8.0	8.8	8.7	9.4	9.6	9.6	10.7	10.8	10.8	11.0	8.7		
Regional labour market																
employment rate by regions, NUTS 2		Population Census data do not match Labour Force Survey Data. There could be some discrepancies.														
max	Population Census								67.6							
min	Population Census								47.5							
standard deviation	Population Census								5.4							
unemployment rate by regions, NUTS 2																
max	Population Census								14.8							
min	Population Census								5.0							
standard deviation	Population Census								2.8							
Self-employment																
rate of self-employment outside agricultun	TURKSTAT			16.1	15.3	15.6	14.4	15.8	15.8	15.1	14.5	15.6	16.3	16.4		
Legislative and regulatory framework																
EBRD rating of legal effectiveness																
Transparency International corruption index				4.10	3.54	3.21	3.4	3.6	3.8	3.6	3.2	3.1	3.2	3.5		
WB Control of Corruption from Governance Indicators		percentile rank			61.3		65.6		48.9		40.8		50.7			
Privatisation and private sector development																
Doing Business', Dealing with licenses - tim	http://www.doingbusiness.org/ExploreTopics/StartingBusiness/		days	:	:	:	:	:	:	:	:	:	:	:	:	232
Doing Business', Starting a business - duration	http://www.doingbusiness.org/ExploreTopics/StartingBusiness/		days	:	:	:	:	:	:	:	:	38	9	9		
Doing Business', Starting a business - no. Of procedures	http://info.worldbank.org/governance/kkz2004/mc_indicator.asp			:	:	:	:	:	:	:	:	13	8	8		
WB Regulatory Quality from Governance Indicators	http://info.worldbank.org/governance/kkz2004/mc_indicator.asp		percentile rank (0-100)	:	71.3	:	80.4	:	55.1	:	55.6	:	48.8	:		
WB Government Effectiveness from Governance Indicators	http://info.worldbank.org/governance/kkz2004/mc_indicator.asp		percentile rank (0-100)	:	62	:	41.5	:	52.7	:	55.2	:	57.2	:		

Annex 5 | Turkey - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Structure of the economy																
Value added by sector (% of total value added in the economy)																
Industry	CBRT			26.3	25.2	25.3	22.9	23.2	23.3	25.7	25.2	24.7	24.9	25.4		
Services	CBRT			58.0	58.0	60.2	59.6	61.5	62.6	62.2	63.2	63.6	63.9	64.4		
Agriculture	CBRT			15.7	16.9	14.5	17.5	15.3	14.1	12.1	11.6	11.7	11.2	10.3		
Value added by sector - annual growth rate:																
Industry	CBRT			12.1	7.1	10.4	2.0	-5.0	6.0	-7.5	9.4	7.8	9.4			
Services	CBRT			6.3	7.6	8.6	2.4	-4.5	8.9	-7.7	7.5	6.7	10.2			
Agriculture	CBRT			2.0	4.4	-2.3	8.4	-5.0	3.9	-6.5	6.9	-2.5	2.0			
Financial sector																
Interest rate spread (GCR)	European Commission Progress Report Statistical Annex; State Planning Organisation	www.dpt.gov.tr		13.4	6.4	6.4	-13.8	0.6	13	16.6	-0.2	2.5	5.5	4.6	3.4	
Domestic credit and loans as share of GDP (including consumer loans and mortgages)	Turkish banking association; Banking Regulatory Authority	www.bddk.org.tr				30.6	27	28	27.5	20.8	30.6	25.2	24	30.7		
Share of population with access to basic banking services (including bank account)	Turkish banking association; Banking Regulatory Authority	www.tbh.org.tr														
Share of 3 largest banks in total assets	Turkish banking association; Banking Regulatory Authority					31.23	29.57	33.38	33.49	37.07	40.37	42.92	42.56	45.6		
Share of 3 largest banks in total deposits	Turkish banking association; Banking Regulatory Authority					35.86	36.9	38.62	38.09	37.5	43.03	45.09	45.4	47.45		
Education																
enrolment rates at various stages of formal education																
in primary education	TURKSTAT					87.6	92.6	97.6	100.7	99.8	96.3	96.1				
in secondary education						53.3	57.6	59.4	64	73.7	81	96.4				
in tertiary education						25.7	27.4	27.8	28	30.8	35.8	36.8				

Annex 5 | Turkey - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
educational outcomes																
	OECD, Education At A Glance	PISA 2003 Results														
PISA Math Test Scores																
Average Score												423				
Std. Dev. Of Score												6.7				
Percentages																
Less than Level 1												27.7				
Level 1												24.6				
Level 2												22.1				
Level 3												13.5				
Level 4												6.8				
Level 5												3.1				
Level 6												2.4				
PISA Analytical Test Scores																
Average Score												408				
Std. Dev. Of Score												6.0				
Percentages																
Less than Level 1												51.2				
Level 1												32.5				
Level 2												12.4				
Level 3												3.9				

Annex 5.3: Living conditions

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Income distribution														
World Bank LSMS methodology														
absolute poverty rate at general poverty line	HBS, 2002, 2003										26.96	28.12		
absolute poverty rate at food line	HBS 2002, 2003	food+non-food									1.35	1.29		
Laeken indicators														
At-persistent-risk-of-poverty rate, total (50% median)	HBS, 2002		%								18.64			
At-persistent-risk-of-poverty rate, female (50% median)	HBS, 2002		%								18.84			
At-persistent-risk-of-poverty rate, male (50% median)	HBS, 2002		%								18.42			
Gini coefficient	HBS, 2002		%								46.36			
Dispersion of regional employment rates, total NUTS2 level	Population Census, 2000								5.4					
Early school leavers not in education or training	Eurostat OECD, http://www.oecd.org/dataoecd/32/26/33710913.xls		%						58.8	57.3	54.8	53	54.6	51.3
Persons with low educational attainment	0913.xls	Below upper secondary	%				78.06	77.82	76.50	76.17	74.82			
Access to goods and services														
percentage of households having electricity	HBS 2002-Poverty Assessment Report 2005		%								99			
percentage of households connected to the gas pipe	HBS 2002-Poverty Assessment Report 2005		%								9.2			
percentage of households with improved water source	HBS 2002-Poverty Assessment Report 2005	pipied water system	%								95.3			
percentage of households having a home telephone	HBS 2002-Poverty Assessment Report 2005										86.4			
percentage of households with internet access	HBS, 2002; Eurostat (for 2004)										6		7	
Work-life balance														
weekly working hours, both genders	Household Labour Force Survey- Tunali, 2003						48.8			52.1				
weekly working hours, female	Household Labour Force Survey- Tunali, 2003						41.2			44.7				
weekly working hours, male	Household Labour Force Survey- Tunali, 2003						50.1			53.7				
frequency of difficulties reconciling work and family life	Eurobarometer, 2002	job prevents giving time to family	%								28.3			
Housing and local environment														
number of rooms per persons	EQLS 2003											1.1		
	EQLS 2003													
proportion of persons living in own homes	HBS, 2002													
without mortgage	Population Census, 2000		%											57
owner occupier or rent-free			%								80.85			
owner			%						68					
complaints about environmental problems (noise, air pollution, water quality, etc)	EQLS, 2003		%											
noise												29		
air pollution												29		
lack of green space												45		
water quality												41		

Annex 5.4: Tax-benefit general

source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Exchange rate															
ave. annual exc. rate of national currency to USD	Turkish Central Bank	New TL per USD	0.04595	0.08180	0.15280	0.26223	0.42215	0.67267	1.23132	1.51310	1.50027	1.42920	1.34726	1.34836	
ave. annual exc. rate of national currency to euro	Turkish Central Bank	New TL per euro	:	:	:	:	0.44783	0.57671	1.09896	1.43666	1.69343	1.77621	1.67759	1.64691	
Social protection provisions															
old-age															
number of beneficiaries, total	Total of SSK, BK and ES	Persons		2,771,963	3,017,404	3,254,807	3,510,066	3,737,230	3,984,561	4,176,968	4,376,498	4,612,049	4,870,344		
SSK SSK		Persons		1,644,623	1,791,557	1,940,842	2,106,088	2,248,287	2,418,992	2,555,965	2,694,834	2,838,422	2,988,054	3,036,831	
BK BK		Persons	454,455	499,309	547,098	591,333	629,071	668,176	698,559	717,326	733,984	767,032	820,781		
ES ES		Persons	558,712	628,031	678,749	722,632	774,907	820,767	867,010	903,677	947,680	1,006,595	1,061,509	1,101,822	
number of beneficiaries, female															
SSK SSK						298,513	334,397	363,538							
number of beneficiaries, male															
SSK SSK							1,642,329	1,771,691	1,884,749						
average benefit in local currency (Ave. monthly benefits payments bill through the total per person (for all individuals covered under old-age, numbers of beneficiaries covered by disability and survivors programs): 2000-2005) each soc. sec. agency	Calculated by dividing yearly benefit It is impossible to separate average benefits by the type of social protection														
SSK		New TL/month	:	:	:	:	:	92.6	138.5	206.1	299.2	345.5	437.4		
BK		New TL/month	:	:	:	:	:	61.2	90.6	135.4	246.6	297.4	339.2		
ES		New TL/month	:	:	:	:	:	150.1	219.7	339.5	441.6	511.8	611.7		
average benefit in euros															
SSK		USD/month	:	:	:	:	:	160.6	126.0	143.4	176.7	194.5	260.7		
BK		USD/month	:	:	:	:	:	106.2	82.4	94.2	145.6	167.4	202.2		
ES		USD/month	:	:	:	:	:	260.3	200.0	236.3	260.8	288.1	364.7		
average benefit as percentage of average net wage	Replacement rates														
SSK CSGB	Monthly pension income/Long run average of work income	% for each year worked	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.5
BK	BK covers self-employed and hence there's no wage income														
ES CSGB	Monthly pension income/Long run average of work income	% for each year worked	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	2.5
number of new beneficiaries, total				329,914	304,141	299,549	322,780	348,404	351,970	313,454	332,582	329,989	374,640		
SSK SSK				177,004	179,951	181,999	198,879	188,628	209,281	182,759	177,792	169,913	201,696		
BK BK			45,779	61,100	60,750	59,747	57,658	100,106	68,522	62,593	70,892	75,926	91,622	20,987	
ES ES			53,421	91,810	63,440	57,803	66,243	59,670	74,167	68,102	83,898	84,150	81,322		
number of new beneficiaries, female															
SSK SSK				27,134	29,367	30,329	35,343	32,921	34,441	34,243	34,365	31,200			
number of new beneficiaries, male															
SSK SSK				149,870	150,584	151,67	163,536	155,707	174,838	148,516	143,247	138,713			
disability															
number of beneficiaries, total	Total of SSK, BK and ES	Persons		91,501	93,776	96,262	99,285	101,987	105,106	106,809	107,103	109,612	109,044		
SSK SSK		Persons		55,629	56,239	57,214	58,685	59,742	61,649	62,542	62,709	63,071	62,700	62,913	
BK BK		Persons	10,778	10,852	11,533	12,584	13,584	14,510	15,054	15,059	14,643	14,642	14,222		
ES ES		Persons	23,934	25,020	26,004	26,464	27,016	27,735	28,403	29,208	29,751	31,899	32,122		
number of beneficiaries, female															
SSK SSK						6,902	7,183	7,312							
number of beneficiaries, male															
SSK SSK							50,312	51,502	52,430						
average benefit as percentage of average net wage	See replacement rates for old-age														
number of new beneficiaries, total		Persons		6,749	8,040	8,190	8,446	9,114	9,103	8,203	7,389	7,452			
SSK SSK		Persons		3,588	4,184	4,335	4,893	5,185	5,539	5,079	4,385	3,987			
BK BK		Persons	1,219	1,104	2,014	2,336	2,259	2,442	1,902	1,454	1,336	1,447	829		
ES ES		Persons	1,759	2,057	1,842	1,519	1,294	1,487	1,662	1,670	1,668	2,018	1,265		
number of new beneficiaries, female															
SSK SSK				300	385	423	481	538	619	518	513	397			
number of new beneficiaries, male															
SSK SSK				3,288	3,799	3,912	4,412	4,647	4,920	4,561	3,872	3,589			

Annex 5 | Turkey - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
survivors																
	number of beneficiaries, total	Total of SSK, BK and ES	Persons		1,483,991	1,569,490	1,651,811	1,743,661	1,825,745	1,896,866	1,973,185	2,050,296	2,117,418	2,173,440		
	SSK SSK	Spouse, children and (eligible) parents together	Persons		724,362	766,342	812,774	861,997	908,416	955,007	1,002,706	1,051,052	1,091,904	1,130,420	1,147,775	
	BK BK	Spouse, children and (eligible) parents together	Persons	347,462	364,469	393,421	415,392	444,273	468,896	481,714	494,423	509,996	529,432	540,678	624,600	
	ES ES	Spouse and children together	Persons	369,714	395,160	409,727	423,645	437,391	448,433	460,145	476,056	489,248	496,082	502,342	504,757	
	number of beneficiaries, female															
	number of beneficiaries, male															
	average benefit as percentage of average net wage															
	number of new beneficiaries, total															
	SSK SSK	Spouse, children and (eligible) parents together	Persons		85,856	90,634	89,215	89,558	94,113		91,138	92,065	80,992			
	BK BK	Spouse and children together	Persons													
	ES ES	Spouse and children together	Persons	27,003	26,111	26,570	26,229	26,585	23,653	28,457	29,302	24,849	40,337	40,705		
	number of new beneficiaries, female															
	SSK SSK								71,805		77,111	78,349	68,929			
	number of new beneficiaries, male															
	SSK SSK								22,308		14,027	13,716	12,063			
family and children																
	number of beneficiaries, total	Dependents of employees actively contributing to obtain benefits from a soc. sec. agency														
	SSK State Planning Organization							21,469,875	22,541,181	21,592,466	22,993,730	24,610,697	26,771,763	29,123,424		
	BK State Planning Organization									10,581,159	10,832,989	11,051,955	11,266,245	11,035,587		
	ES State Planning Organization									4,980,651	5,255,878	5,363,274	5,331,249	5,272,130		
unemployment																
	number of beneficiaries, total	Unemployment insurance was introduced in mid-2002	Persons								87,337	133,080	151,841	186,207	38,046	
	number of beneficiaries, female		Persons								22,922	33,200	40,959	48,905	8,998	
	number of beneficiaries, male		Persons								64,415	99,880	110,882	137,302	29,048	
	average benefit in local currency		New YTL per month	:	:	:	:	:	:	:	157.97	184.80	240.15	255.10	267.65	
	average benefit in euro		Euro per month	:	:	:	:	:	:	:	109.95	109.13	135.20	152.07	162.52	
	average benefit as percentage of average net wage			:	:	:	:	:	:	:	66.81	60.39	55.39	52.20	50.41	
	number of new beneficiaries, total															
Public social expenditure																
consolidated general government expenditure in local currency	Revenue Administration (Gelir Idaresi Baskanligi-GIB)		thousand New TL (or Bn TL)	1,724,194	3,961,308	8,050,252	15,614,441	28,084,685	46,705,028	80,579,065	115,682,350	140,454,842	152,169,930	157,044,049		
consolidated general government expenditure as percentage of GDP	Calculated using GDP data from SPO			22.2	26.8	27.9	29.9	36.3	37.5	45.2	41.7	39.0	35.3	32.3		
Taxation																
taxes on labour as percentage of total tax revenues	Revenue Administration (GIB)	Share of Income Tax in Total Tax Revenue 2005														19.1
taxes on capital as percentage of total tax revenues	Revenue Administration (GIB)	Share of Corporate Taxes in Total Tax Revenue 2005														9.6
taxes on consumption as percentage of total tax revenues	Revenue Administration (GIB)	Share of Value Added Taxes in Total Tax Revenue 2005														32.1
tax wedge on labour cost for low earners	Eurostat	relative tax burden for an employed person with low earnings		42.1	43.5	43.0	34.5	39.1	42.6	41.5	41.0	41.0	41.9	41.9		

Annex 5 | Turkey - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
rate of contribution revenues to total expenses in social security funds																
		Contribution Revenue/Total Expenses for 2005 (Contribution Rev./Benefit Payments for 2005)	%											53.5 (91.0)		
	SSK SSK															
		Contribution Revenue/Total Pension Payments 2004	%											32.2		
	BK BK															
		Contribution Revenue/Total Expenses for 2005	%											61.8		
	ES ES															
proportion of revenues of social security funds by source employer's contributions																
	SSK Sosyal Guvenlik Kurumu	Employer share within the average contribution rate	%											11		
		Average contribution rate. For BK covering the self-employed, employer and employee are the same	%											20		
	BK CSGB															
contributions by protected persons																
	SSK Sosyal Guvenlik Kurumu	Employee share within the average contribution rate	%											9		
		Employee share within the average contribution rate	%											36		
	ES CSGB															
transfers from government												Transfers in 2005 [A]	Revenues + Transfers [B]	[A]/[B] (in %)		
	SSK	Transfers plus revenues / Revenues	New TL (2005)									7,507,000,000	29,479,650,000	25.5		
	BK	Transfers plus revenues / Revenues	New TL (2004)									6,926,000,000	11,167,518,000	62.0		
	ES	Transfers plus revenues / Revenues	New TL (2005)									4,539,000,000	14,095,918,351	32.2		
Gender equality and anti-discrimination																
number of senior and junior ministers in government by BEIS-type to the EU average		Number of ministries and percentage of men at n1 and n2 levels Data collected: 2005/2006												B Senior M4 - 100% B Junior: 3 - 100% E Senior 3 - 100% E Junior 1 - 100% I Senior: 4 - 100% I Junior 1 - 100% S Senior: 4 - 100% S Junior: 1 - 100%		
number of representatives in the Parliament to the EU average														President: M Members: W: 24 (4%) M: 526 (96%)		
rate of female members of the highest decision making body of the top 50 publicly quoted companies														President: 4 % Members: 6% CEO: 2%		

Annex 5.5: Tax-benefit IMF2001

	source	notes	unit	2000	2001	2002	2003	2004	2005	2006	
Aggregate social expenditure in local currency, IMF Government Finance Statistics 2001 classification											
Expenditures on ... by consolidated general government											
	health	Ministry of Finance	Budget of the Ministry of Health as part of the consolidated budget	New TL	1,059,855,000	1,280,660,000	2,355,447,691	3,723,749,000	4,554,490,337	5,447,962,016	
Expenditures on ... by central government											
... of which expenditures on ... by social security funds											
	health		family and children included								
	SSK	SSK		New YTL	1,280,188,800	2,257,957,600	3,594,350,100	4,981,193,700	6,635,691,000	7,457,105,000	9,369,662,000
	BK	BK		New YTL	730,296,000	1,228,849,000	2,195,308,000	3,183,146,000	3,719,356,000		
	ES	ES		New YTL			1,840,221,231	2,505,626,442	2,755,094,289	2,891,133,628	746,518,000
	sickness and disability, old age and survivors										
	SSK	SSK		New YTL	3,574,600,000	5,708,300,000	8,953,900,000	8,954,900,000	11,960,500,000	16,555,700,000	
	BK	BK		New YTL	1,136,329,700	1,780,218,900	2,760,011,800	4,763,725,000	5,981,152,000		
	ES	ES		New YTL			5,740,351,965	7,772,504,522	9,425,347,462	11,067,750,667	2,995,200,000

Annex 5.6: Governance

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Government effectiveness															
World Bank Governance Matters indices on government effectiveness	WB						41.5						57.2		
regulatory quality	WB						80.4						48.8		
rule of law	WB						65.9						54.6		
Social protection performance in old-age pensions															
average claim handling time of benefits		January for 2006 December for 2005												66	74.6
percentage of personnel cost	SSK	Social Security Fund (SSK)						84	69	54	63	69	70		
Administrative barriers to firm entry/exit															
number of procedures of starting a business	WB- Doing Business														8
duration of starting a business in days	WB- Doing Business														9
cost of starting a business as % of per capita GNI	WB- Doing Business														27.7
time required for closing a business in years	WB- Doing Business	actual time	in years												5.9
cost of closing a business as % of estate	WB- Doing Business														7
recovery rate	WB- Doing Business														7.2
Civil society organizations															
religious service attendance	EQLS 2003		%										41		

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CASE	Center for Social and Economic Research, Warsaw, Poland
CEE	Center for Economics and Econometrics, Bogazici University, Istanbul, Turkey
CEPII	Centre d'Études Prospectives et d'Informations Internationales, Paris, France
CEPS	Centre for European Policy Studies, Brussels, Belgium
CERGE-EI	Centre for Economic Research and Graduated Education, Charles University, Prague, Czech Republic
CPB	Netherlands Bureau for Economic Policy Analysis, The Hague, The Netherlands
DIW	Deutsches Institut für Wirtschaftsforschung, Berlin, Germany
ESRI	Economic and Social Research Institute, Dublin, Ireland
ETLA	Research Institute for the Finnish Economy, Helsinki, Finland
FEDEA	Fundación de Estudios de Economía Aplicada, Madrid, Spain
FPB	Federal Planning Bureau, Brussels, Belgium
IE-BAS	Institute of Economics, Bulgarian Academy of Sciences, Sofia, Bulgaria
IER	Institute for Economic Research, Bratislava, Slovakia
IER	Institute for Economic Research, Ljubljana, Slovenia
IHS	Institute for Advanced Studies, Vienna, Austria
ISAE	Istituto di Studi e Analisi Economica, Rome, Italy
NIER	National Institute of Economic Research, Stockholm, Sweden
NIESR	National Institute of Economic and Social Research, London, UK
NOBE	Niezalezny Osrodek Bana Ekonomicznych, Lodz, Poland
PRAXIS	Center for Policy Studies, Tallinn, Estonia
RCEP	Romanian Centre for Economic Policies, Bucharest, Romania
SSB	Research Department, Statistics Norway, Oslo, Norway
SFI	Danish National Institute of Social Research, Copenhagen, Denmark
TÁRKI	Social Research Centre Inc., Budapest, Hungary

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Place du Congrès 1 • 1000 Brussels • Tel: 32(0) 229.39.11 • Fax: 32(0) 219.41.51

Website: <http://www.enepri.org> • E-mail: info@enepri.org