

SOCIAL AND ECONOMIC PRIORITIES IN EASTERN AND SOUTHEASTERN ANATOLIA

INTRODUCTION

The TESEV project on social and economic priorities in Eastern and Southeastern Anatolia is coordinated by Dr.Orhan Kurmuş and it consists of three parts:

Dr. Ayşe Kudat conducted the study on *The Role of Investments in the Development of Eastern and Southeastern Anatolia*. Prof. Dr. A. Halis Akder prepared the section on *The Role of Agricultural Policy in the Development of South and Southeastern Anatolia* and the study on *the Role of Social Policy in the Development of Eastern and Southeastern Anatolia* was carried out by Prof. Dr. Çağlar Keyder.

The method of the study is based on field research, taking into consideration the specific conditions prevailing in the region and the relationship between development and social dynamics .While, it is not prepared as a comprehensive regional development program, the study attempts to define the priorities in the region.

For that reason, some issues of regional development are not dealt with and policy formulations in different subjects do not have the same level of concreteness. For instance, in the area of social policy there are detailed suggestions, whereas only general statements are made about the past and future role of the incentives. Since comprehensive studies on incentives are conducted by the State Planning Organization and several business organizations are preparing policy formulations concerning incentives, the study is contented to make an overall analysis of the function of incentives in the region and to underline some basic points. In addition, the study does not contain any suggestions in the fields of administrative reforms, Development Agencies and institutional arrangements for human resources development. However, it is clear that, programs and actions aiming to further develop institutional and social capacities are crucial in order to implement policies suggested in the report.

Policy formulations of the study are prepared for 21 provinces in order to have the maximum impact. However, it is clear that there are significant differences among the region. For example, in Adıyaman and Şanlıurfa which are in the western part of Southeastern Anatolia, economic development and investment dynamics are much more visible. (It can be said that the proximity of Adıyaman to Gaziantep where there is a significant tradition of industrialization and entrepreneurship and Şanlıurfa's prosperity due the availability of agricultural resources have a role in that). It can be envisaged that implementation of socioeconomic programs may start in a pilot area where problems are most pressing. The policy packages could then be extended and their components can be modified depending on different social dynamics and levels of development within the region.

Moreover, some of the policy proposals can be implemented in other parts of Turkey where there are also pockets of extreme poverty, along with 21 provinces chosen for this study.

We suggest that policy packages responding to the priorities highlighted in this report should be planned for an implementation period of 5-7 years and presented to the public as such.

We find it advisable to share the prospective regional program with the European Union at an early stage and to integrate it into the Pre-Accession Strategy.

It should be emphasized that, as it was the case for Portugal's accession, Turkey's social and economic harmony with the EU requires unconventional programs and resources. We believe that once such programs will be defined and put into implementation by Turkey with its existing resources, it could be expected that the EU would also allocate significant resources to the programs to be undertaken.

SOCIAL AND ECONOMIC PRIORITIES IN EASTERN AND SOUTHEASTERN ANATOLIA: A BRIEF ASSESSMENT

That the regions of Eastern and Southeastern Anatolia are underdeveloped is a historical fact. A twenty-year spell of armed conflict starting in the 1980s led to a wave of migration which resulted in villages becoming deserted, and had an impact on big cities in both the region and the rest of the country. A substantial portion of those who migrated did so not because they had employment opportunities or a network of contacts, consisting of relatives or earlier migrants from the same region, that awaited them at their destinations, but simply because they were forced to go because their security and livelihood were threatened. Consequently, an extremely serious socioeconomic integration problem arose at these destinations and especially in those cities that received a particularly heavy inflow of migrants. Unemployment is a major problem, economic conditions in the region keep falling further below the Turkish average; more than half of the population is below the poverty line, and urban poverty poses a drastic social and political threat.

The dominant outlook amongst the local population is one that emphasises the importance of order, peace and justice. However, as well as political tensions, armed actions are also continuing, even if they are much more limited than they were in the past. Moreover, the region's population follow events in Northern Iraq with keen interest, and the political and economic developments in connection with the Kurdish population there offer a new model of loyalties, and inspiration for new aspirations, to Turkish citizens of Kurdish origin. In these circumstances, it is extremely important that those who live in the region should feel themselves to be citizens with equal rights in a fair society, and to trust the state. And this can be achieved only through the taking of economic and social steps that will have an impact in the short run.

The long-term goal of such steps is the development of the region, and that means raising the population's living standards by the creation of more employment through the development of private enterprise. To arrive at a concrete definition of this goal, which must also be attained in order to achieve integration into the EU; first of all, the factors of production in the area and the characteristics of the local economic environment must be taken into account, and consideration must be given to the speed with which each step will bear fruit, and to the extent of the possible results.

There are two points which it would be useful to bear in mind in this context. First, the workforce in the region consists of individuals who have only recently moved out of agriculture, and do not have a high degree of basic education. It is not easy to train such a workforce speedily so that it can work in a disciplined and productive fashion, and offer an

advantage in terms of labour costs, in the industrial sector, which operates under conditions of international competition.

Secondly, it must be borne in mind that the fact that the region is underdeveloped discourages investment in it – particularly from outside the region. An environment characterised by underdevelopment involves a whole series of disincentives ranging from infrastructural deficiencies to the difficulty of recruiting the necessary administrative and technical personnel, and persuading them to stay in the region. Interviews conducted in the course of the study reveal that investment incentives are not sufficient to surmount such problems.

The two facts cited above make it difficult to be optimistic about solving the economic problems of the region through a large-scale industrialisation effort designed to attract outside investors. The planning and implementation of policies with narrower targets, involving the offering of incentives to small and medium enterprises in the region, paying particular attention to local demand may prove more successful. Such policies, in the development of which local chambers may play an important role, do not have the potential to create extensive employment opportunities in the short term, they may be expected to contribute, in the long term, to the creation of an environment more suitable for industrialisation on a larger scale, and of an enterprise culture.

Although agriculture continues to be important in the region, the prospects of achieving a comprehensive social transformation through it appear limited. Priority must be given to rural development projects with a social dimension. In the GAP [*Southeastern Anatolia Project*] area, irrigation projects must be continued through physical and organisational investment in the infrastructure, and product designs, which also take the environment into account, must be re-modelled in the light of global developments, rural development projects must be prioritised.

The construction sector, which will be stimulated in the short and middle term by state investment in economic and social infrastructure projects, is a sector that can play an important role in the employment of unqualified labour. Indeed, migrants to big cities have found employment above all in this sector. For cities to become more liveable in, the necessary public areas need to be provided, and urban development projects must be undertaken. The accommodation conditions of the poor in the region are at an unacceptable level. Consequently construction, repair and alteration activities therefore constitute an area where public resources may be used efficiently to obtain results. As cities become more ‘liveable in’ they will also attract a qualified workforce to the region.

In the short and middle term, the important economic potential of the region appears to be in the commercial and tourism sectors. From this point of view, the fostering of trading links between the region and neighbouring foreign countries is of great importance. The region has highly valuable cultural assets that are little known in the world. Incentives in these areas have a high chance of success.

At present, the economic underdevelopment and poverty of the region, the scarcity of employment opportunities, and the consequent dearth of purchasing power create a vicious circle that constitutes an obstacle to the stimulation of the economy. Escape from this vicious circle and the creation of a momentum that will drive the development of the entire region is possible only through the rising of incomes and of consumption capacity, and through spending reaching levels that will render local enterprise profitable.

Conditional and unconditional transfers of cash that will come about in the region through welfare payments, and revenue-in-exchange-for-work schemes organised by the state, will be channelled directly into consumption, lead to a serious increase in purchasing power, and have an effect on production and employment in the short term.

Poverty renders expectations and projects to be realised only in the future impossible. The meeting of people's basic needs through various transfers in cash and kind constitute the most effective step. Raising the entire population of the area to a more secure income level and rapidly taking comprehensive steps also in the areas of health and education will have a positive effect on human development in the region, raising the chances of the regional economy achieving a self-sustaining dynamic. The increasing of the capacity of social services, which are woefully inadequate to the needs of the region, will also have an effect in this respect, as well as creating an important source of employment in the short term.

Because social policy initiatives will, as well as leading to economic development and employment opportunities, be seen as the state taking an interest in the people of the region, they will contribute to the latter feeling more like citizens. Since such policies will be aimed at the poor in particular, they will doubtless create a greater bond between the people and the state.

Ours are proposals directed at strengthening the bond between citizens and the state and human resources in the region. The administrative and organisational arrangements, the development of educational and organisational capacities needed for the achievement of this goal are of vital importance in terms of the implementation of the policies. We must stress the necessity of cooperation between central government and local bodies and organisations. In this context, efforts to ensure that local bodies and organisations participate in debates regarding economic development and social policy, make suggestions, and acquire the capacity for contribution to work in these areas, are of fundamental importance. What can be done to create the conditions that will enable the universities in the region to play a meaningful role in this process is a matter that also needs to be looked into.

High Priority Social and Economic Policy Suggestions for Eastern and Southeastern Anatolia

Dr. Orhan Kurmuş, Project Coordinator

GOAL

This research project aims at identifying policies that can be implemented in the short term and would serve as the basis for longer term solutions to socio-economic problems in Eastern and Southeastern Anatolia. Suggestions regarding agriculture, the path and potential evolution of private enterprise and social policy are provided with no discussion of the legislative, regulatory or administrative changes that they would entail, except for brief references to the course of such changes in cases where this is considered essential.

Local conditions that constitute the material basis of policy suggestions were identified through field work conducted by three research teams appointed by TESEV; suggestions were formulated through discussion of collected data and draft suggestions with representatives of central government, local governments, professional associations, non-governmental organizations and local stakeholders.

We trust that these suggestions will contribute to efforts to eliminate regional differences, which is a precondition for EU membership, as well as serving to facilitate the provision of necessary financial assistance towards overcoming problems of adaptation prior to ascension.

PROBLEM

All measurable indicators unmistakably point to Eastern and Southeastern Anatolia as the two least developed regions in the country. Detailed information on these indicators is provided in the two reports, *Suggestions towards Regional development in Eastern and Southeaster Anatolia* and *The Role of Social Policy and Suggestions for the Development of Eastern and Southeastern Anatolia*, annexed to the present report. The study was conducted in a total of 19 provinces in these two regions. The primary criterion for selection of provinces was the Socio-Economic Development Ranking (SEDR) published by the State Planning Organization (SPO) in 1996 and 2003. Based on this criterion, Kilis, which was not a province in 1996, and the relatively higher ranking provinces of Gaziantep, Elazığ and Malatya were excluded from the study while the two Black Sea provinces of Gümüşhane and Bayburt that have certain similarities with Eastern and Southeastern provinces were included. Thus, 21 provinces were selected for the study.

These 21 provinces have four basic characteristics in common.

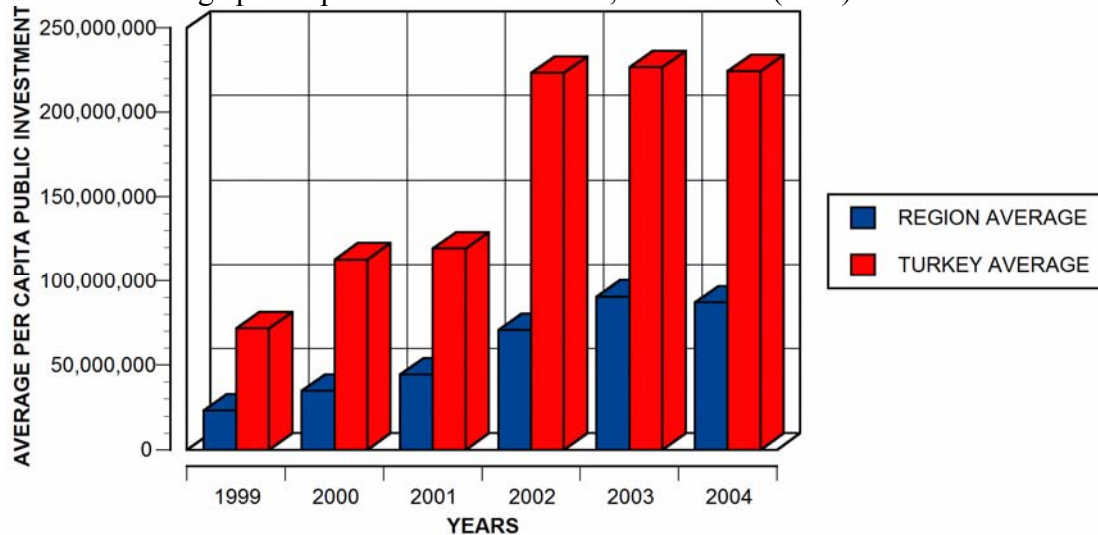
- 1) In 1996, they ranked lowest on Socio-Economic Development among the 76 provinces in the country (except for Yozgat that ranked 58th); in 2003, 17 of these provinces appeared lowest down the scale among the 81 provinces in the country. The rank order is shown on the following table.

TABLE 1: SEDR of Provinces Covered in the Study; 1996-2003 (SPO)

SEDR 1996-2003							
PROVINCES	2003	1996	Change	PROVINCES	2003	1996	Change
ADIYAMAN	65	61	0,02%	MUŞ	81	76	0,00%
AĞRI	80	74	-1,41%	SİİRT	73	68	-0,72%
BİNGÖL	76	73	2,37%	TUNCELİ	52	60	22,98%
BİTLİS	79	71	-4,21%	ŞANLIURFA	68	59	-7,53%
DIYARBAKIR	63	57	-3,57%	VAN	75	67	-4,79%
ERZİNCAN	58	47	-13,63%	BAYBURT	66	64	3,35%
ERZURUM	60	56	-0,53%	BATMAN	70	65	-1,03%
GÜMÜŞHANE	71	63	-5,43%	ŞIRNAK	78	75	2,48%
HAKKARİ	77	70	-3,11%	ARDAHAN	74	72	3,70%
KARS	67	62	-1,37%	IĞDIR	69	69	6,58%
MARDİN	72	66	-2,30%				

In absolute terms, all provinces other than Iğdır ranked lower in 2003 than they did in 1996. In relative terms¹, the status of Muş remained unchanged as the province ranked lowest in both cases, while the status of 13 provinces deteriorated and that of 7 provinces improved. Regionally speaking, the five provinces that suffered greatest in relative terms are Erzincan, Şanlıurfa, Gümüşhane, Van and Bitlis, in descending order of loss. Such movement down the scale is not peculiar to provinces in these two regions; there are 32 other provinces that have experienced a similar decline. However, no other geographic region is marked by deterioration in the status of 65 percent of its provinces. SPO classifies Tunceli, Erzincan, Erzurum, Diyarbakır and Adıyaman at the 4th level and all other provinces in the region at the 5th level of development.

2) Per capita public investment is lower than the national average.

CHART 1: Average per Capita Public Investment; 1999-2004 (SPO)

Public investment is of crucial importance because of its implications for creating employment and generating income. Yet, the mean per capita public investment in provinces

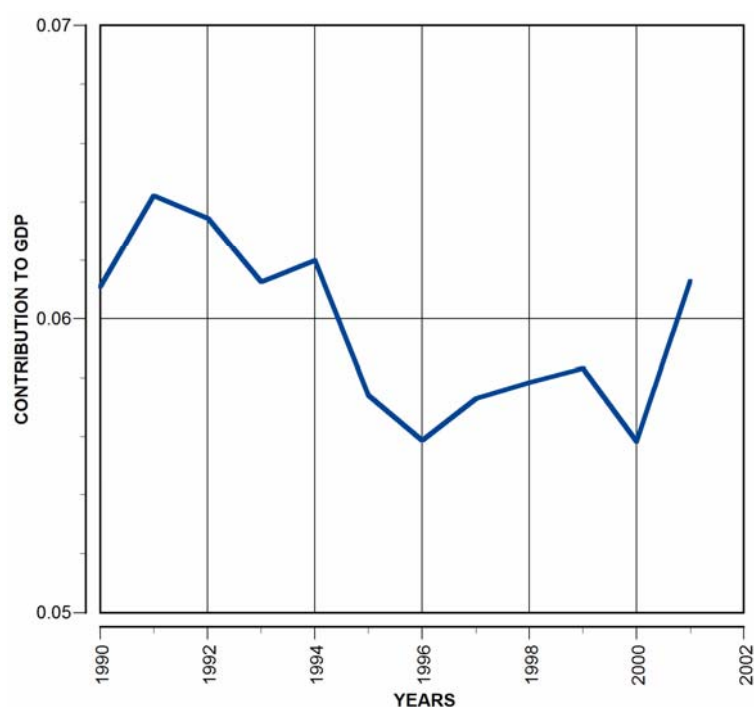
¹ Relative change is defined as the ratio of the 1996 rank order of any province divided by 76 to the 2003 rank order of the respective province divided by 81.

in these regions remains at about one third of the national average. Excluding data from these regions in the calculation of the national average, the regional mean drops to one fourth of the mean for the whole country excluding the said regions.

Among these provinces, Tunceli is exceptional in terms of per capita public investment in that the provincial average is consistently above the national average each year. In 2001, for example, per capita public investment in Tunceli was as high as four times the national average. Even in 2004 when the difference was lowest, that ratio was 3:2 in favor of Tunceli. Examination of the kind of public investment in Tunceli, on the other hand, reveals that about 86.8 percent of such investment went to energy lines and was not designed to address issues of creating employment or enhancing purchasing power in the province.

3) The relative share of the region in the GDP is low.

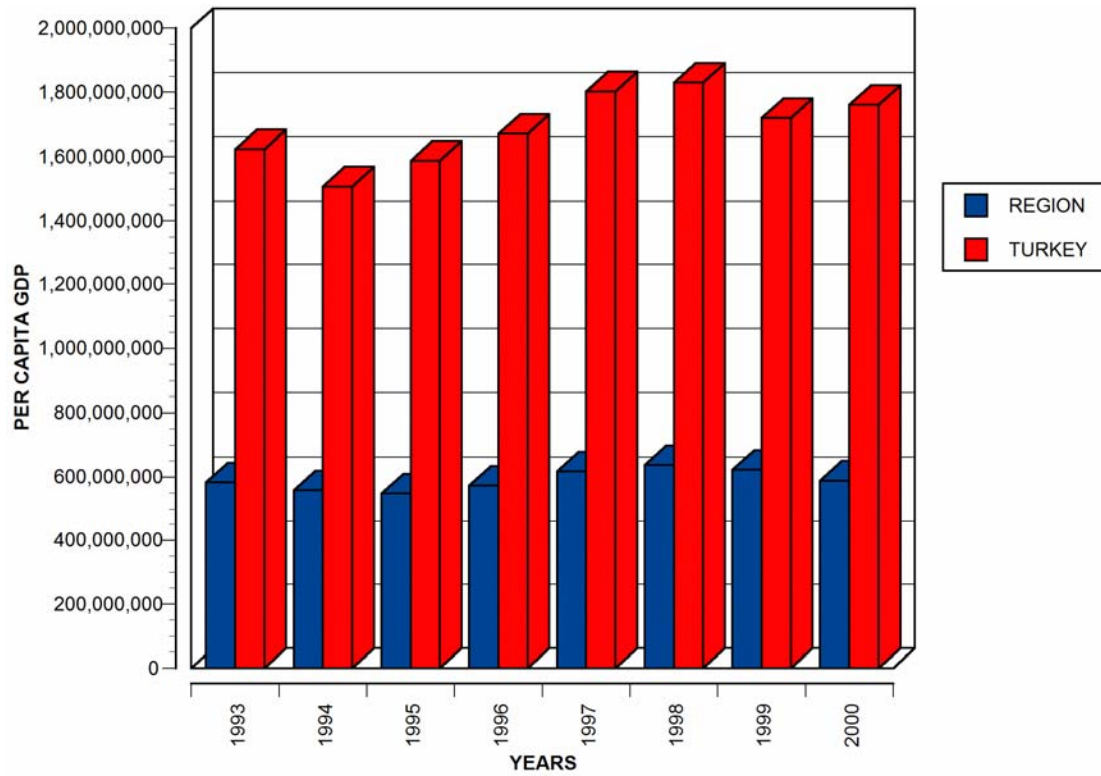
CHART 2: Share in GDP; 1990-2001 (TURKSTAT)



The region has 15 percent of the national population, but contributes about 6 percent of the GDP. Agricultural value added accounts for a very important part of that regional contribution.

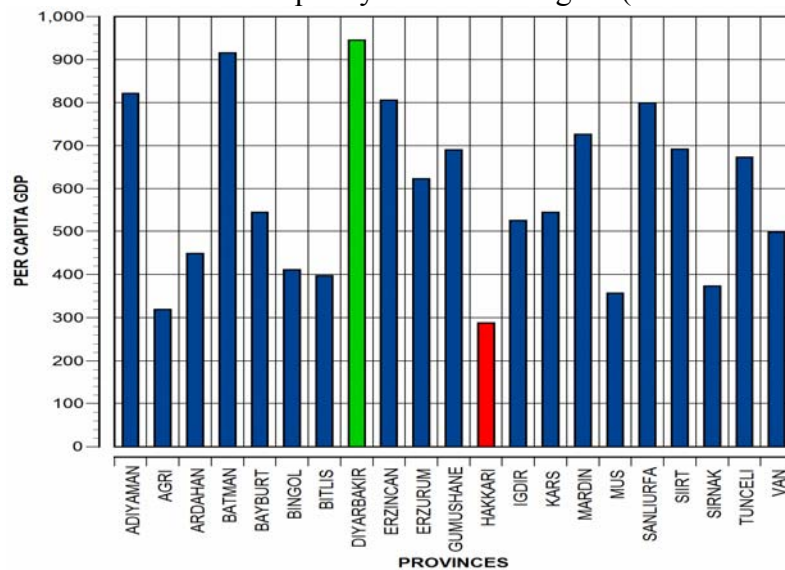
4) Per capita GDP in the region is lower than the national average.

CHART 3: Per capita GDP 1993-2000 (TURKSTAT)



Per capita GDP in the region is about one third of the national average. Such difference between the country and the region is also observable within the region. The difference between Hakkâri with the lowest per capita GDP and Diyarbakır with the highest per capita GDP is approximately 1:4.

CHART 4: Income Inequality within the Region (1993-2000 Averages)



More serious than that suggested by aggregate economic indicators is the fact that about 60 percent of the population in the region lives under the poverty threshold and that poverty has acquired a chronic character as it is passed on to successive generations. Reasons for such a state, which is totally unacceptable in economic, social or human terms, include virtually all concepts that economic and social sciences employ in explaining these kinds of inequalities. Even if all of these are valid, “negligence” on the part of the central government, as moderately termed by the local population, stands out as a significant factor. One has to recognize that there are political, as well as economic and social factors associated with this negligence. Nearly two decades of low-intensity clashes not only led to a total disruption of the economy in the region, but also created a population of millions who were severed from all their relations and identities; left with almost no hope in their future; remained unemployed, penniless and deprived of even the most basic rights such as education and healthcare in their original places of residence or where they chose or had to migrate; and lost all faith in people around them and in the central government. This is dangerous and goes beyond a merely regional concentration or deepening of poverty.

Suggestions proposed in this report were developed to initiate action to prevent persistence of these conditions. We believe that these measures would help boost employment and income-generating activity in the region, and increase purchasing power, albeit incrementally, to expand the regional market to bring about a gradual revival of local entrepreneurship. We also believe that they include significant components of an action plan that would begin to eliminate feelings of desertion that have started to take root among the regional population, as well as the social and political dissatisfaction stemming from such feelings.

An equally important reason for the implementation of these measures is associated with Turkey’s obligations within the framework of the EU ascension process. Turkey has to reduce regional inequalities to an acceptable level so as to meet an important condition of EU membership. The difficulty of this task becomes evident when one looks at the United Nations Human Development Index values for provinces in the region.

TABLE 2: Human Development Index Values for Provinces (UN)

Source: *Human Development Report-Turkey 2004*, UNDP.

PROVINCES	HDI	PROVINCES	HDI
Bayburt	686	Siirt	636
Tunceli	685	Iğdır	632
Gümüşhane	669	Şanlıurfa	619
Diyarbakır	668	Van	616
Erzurum	661	Hakkari	611
Ardahan	655	Bingöl	601
Erzincan	653	Bitlis	577
Adıyaman	652	Muş	574
Kars	644	Ağrı	572
Batman	644	Şırnak	560
Mardin	637		

The table shows Human Development Index values of the 21 provinces for the year 2003 (Turkey has a country score of 750, ranking 94th among 177 countries, immediately after Sri Lanka and just before the Dominican Republic). Comparing the provinces with various countries reveals noteworthy results. Botswana, for example, has a score of 565, ranking 131st which is slightly higher than Şırnak and Equatorial Guinea shares 121st place with Ardahan,

both scoring 655 on HDI. Countries that may be compared to Bayburt, which enjoys highest HDI score among these provinces, include Mongolia that has a country score of 679 and Bolivia that ranks 113th with an HDI score of 687. Risking a statistical inaccuracy, the average HDI score for the 21 provinces may be suggested at 631. This corresponds to the HDI score of Morocco that ranks 124th on HDI. Under the present circumstances, 10 percent of the

country's population lives in 21 provinces with an average HDI-ranking that is roughly the same as Morocco's, and as Turkey prepares to join the European Union, the importance of raising the HDI scores of these 21 provinces to an acceptable level is quite obvious. Even more strikingly, it is worth noting that the five provinces that rank lowest on HDI, namely Bingöl, Bitlis, Muş, Ağrı and Şırnak, have HDI scores lower than India. In other words, these provinces are less developed than India that has an HDI score of 602.

In addition to the uneven development made evident by the above comparisons of HDI scores, the European Union has already pointed out that per capita GNP levels particularly in Eastern Anatolian provinces, which range between 7 percent and 16 percent of the Union average, represent the greatest gap observed between candidate and member countries and stressed the importance of eliminating such inequality among the tasks that Turkey has to accomplish prior to ascension.² Indeed, the respective ratio is 32 percent even for the Lubelskie region of Poland that has the lowest per capita GNP within the Union.³ Levels of per capita GNP found in the ten regions (mostly in Poland, some in Hungary, Slovakia and Latvia) that rank lowest within the EU in this respect range from 32 percent to 39 percent of the EU average. That ratio is 58 percent in Dytiki Ellada, the region with the lowest per capita GNP in neighboring Greece.

Raising per capita GNP to at least 32 percent of the EU average requires a 2-to-4.7-fold increase in the provincial levels of GNP even in the absence of population growth. Failure to achieve such growth in GNP would mean failure to satisfy one of the most important criteria for ascension.

Access to EU funds allocated to reducing regional inequalities requires permanent, consistent, and result-oriented effort. Policies suggested in this report have the potential to unfold in support of that effort.

AGRICULTURE

Agriculture is clearly the dominant sector in Eastern and Southeastern Anatolia as compared to other regions and sub-regions in the country in terms of its share in employment and GDP. Detailed figures pointing to that dominance may be found in the research report, *Agriculture in Eastern and Southeastern Anatolia: What Can Be Done?* annexed to the present report. In view of the fact that women older than 50 years of age constitute the majority of the workforce employed in agriculture and that the literacy rate, except for Ardahan and Erzincan, is lower than the national average, transfer of labor from agriculture for efficient employment in other sectors is virtually impossible.

In terms of the relative weight of animal and crop production, provinces in the region fall into two distinct categories that fully reflect the geographic division. Southeastern Anatolia is a crop producing region whereas animal production dominates in Eastern Anatolia.

A review of factors with a positive impact on crop production, on the one hand, and on animal production, on the other, is due so as to make agricultural policy suggestions possible.

² *Financing Memorandum*, Annex 3, p.6, 20 January 2005

³ *Eurostat News Release*, 47/2005, 7 April, 2005, p.1

1) Crop Production

Increased soil productivity is the only factor that contributed to the real growth in the value of crop production in Southeastern Anatolia during the period 1996-2003. In the country as a whole, changes in crop patterns are also known to contribute to growth although not as significantly as increased productivity. Thus, Southeastern Anatolia differs from the rest of the country in this respect. Furthermore, in contrast to shrinking industrial crop production in terms of both cultivated land area and production value in the country as a whole, sharp increases are found in Southeastern Anatolia, especially in cotton.

Subjecting sub-regions to the same analysis shows that Southeastern Anatolia is not homogenous in this respect. In sub-region TRC2 covering Şanlıurfa and Diyarbakır, real increase in the value of crop production is due to growth in industrial crop production and, to a smaller extent, growth in cereal production. This is in contrast to Siirt, Şırnak, Batman and Mardin that make up sub-region TRC3 where cereal and fruit production has a positive and industrial crops have a negative impact on growth.

In 1996-2003, real growth was 29 percent in sub-region TRC2, as opposed to only 3 percent in sub-region TRC3. In the latter, overall growth remained limited despite the 44 percent increase in cereal and 20 percent increase in fruit production because levels of production in all other crops fell at rates ranging from 9 percent to 68 percent.

Increased soil productivity played the most important role among factors that contributed to growth in sub-region TRC2. Meanwhile, changes in crop patterns that had a negative effect in the South Anatolian region as a whole, accounted for 19 percent of total growth observed in this sub-region.

Increased soil productivity in sub-region TRC2 and in Southeastern Anatolia as a whole is due to improved means of irrigation made possible by GAP, the Southeastern Anatolia Project. The Project, however, is still incomplete as a result of which the volume of crop production in 2000 was about 41 percent of the estimated level that would have been reached in the same year if the project had been completed. A similar calculation extended to the year 2010 would set the maximum production value for 2010 at about 2.25 times the 2003 value, provided that the project can be completed by 2010.

Similar observations can be made for Eastern Anatolia as a whole and its sub-regions. Once again, changes in the value of crop production and factors in these changes differ from those generally found in the country. Likewise, sub-regions do not resemble one another.

Table 3 summarizes the variation in crop production values in Southeastern Anatolia (SEA) and Eastern Anatolia (EA), as well as in the four sub-regions, between 1996 and 2003.

TABLE 3: Changes in Crop Production Values; 1996-2003

	Change in Crop Production Value 1996-2003						
	TURKEY	SEA	EA	TRA1	TRA2	TRC2	TRC3
Cereals	+	+	+	+	+	+	+
Legumes	-	-	-	+	-	+	-
Industrial crops	-	+	-	-	+	+++	-
Oil seeds	+	-	-	--	-	-	--
Tuber crops	+	-	+	-	-	-	--
Vegetables	+	0	+++	++++	+	+	-
Fruits	+	+	+	+	--	+	+
TOTAL	+	+	+	+	-	+	+

Positive change: + 1%-50%; ++ 51%-100%; +++ 101%-200%; ++++ 200% and more;
 Negative change: - 1%-50%; -- 51% and more

As shown in the above table, there is no similarity among Turkey in general, the two regions and four sub-regions with respect to changes in production values. Table 4 outlines the impact of factors that contribute to changes in crop production values.

TABLE 4: Factors in Production Value Change; 1996-2003

	Factors in Changes in the Production Value 1996-2003				
	TURKEY	SEA	EA	TRA1	TRC2
Land Area	--	-	+	++	+
Productivity	+++	+++	++	++	++
Production Pattern	++	0	-	-	+
Interaction	+	+	-	+	+

Once again, the above table does not point to any resemblance other than in the impact of the “Interaction” factor, except for the reversed direction of change in the case of Eastern Anatolia.

Both tables point to major differences within the region, as well as from the country as a whole in terms of growth in production values and relative significance of factors that contribute to that growth. This is suggestive of the difficulty of deciding on an all-comprehensive and control-driven agricultural policy.

2) Animal Husbandry and Production

Benefiting from climatic and geographic conditions favorable for animal husbandry and thus enjoying both comparative and absolute advantage over all other regions in the country, Eastern Anatolia experienced significant growth in the value of meat production in 1996-2003; similar although more modest growth was seen also in Southeastern Anatolia. The most striking aspect of such growth is the increase in beef production, except in sub-regions TRB2 and TRC3. Changes in the value of meat production are shown in Table 6.

TABLE 5: Changes in the Value of Meat Production; 1996-2003

	Change in Meat Production Value 1996-2003						
	SEA	EA	TRA1	TRA2	TRB2	TRC2	TRC3
Sheep	-	-	+	-	--	+	--
Goat	--	-	--	-	-	--	--
Cattle	++	+++	++++	++++	-	++++	--
Buffalo	--	--	--	-	-	--	n.a.
TOTAL	+	++	++++	+++	-	+++	--

The report entitled *Agriculture in Eastern and Southeastern Anatolia: What Can Be Done?* annexed to the present report points to increased productivity and changes in herd composition as the main factors that generated such growth in production values. The significance of beef in increased meat production is apparent.

Turkey's overall milk production in 2003 is slightly lower than that in 1996. Reviewing animal production in the region in terms of milk production shows that the value of milk production dropped in Southeastern Anatolia whereas it increased in Eastern Anatolia.

TABLE 6: Changes in Milk Production Value; 1996-2003

	Change in Milk Production Value 1996-2003	
	SEA	EA
Sheep	-	-
Goat	-	+
Cow	-	+
Buffalo	-	-
TOTAL	-	+

Although not reflected in the above table, it is extremely important to note that the change in the milk production value is almost entirely due to cow milk production (goat milk production value accounts for only 2 percent of the total) and that the increase was achieved with almost the same number of cows. This signifies a major increase in productivity and appears as an indicator of a process of substitution whereby native breeds are replaced by cultivated breeds to transform herd composition. Calculations referring to Erzurum and identifying factors in the increase in production value that are included in the above mentioned study clearly confirm this observation.

3) Suggestions

a) Efforts to delineate an extensive and comprehensive agricultural policy geared to maximizing enterprise profitability in the region would be futile. Instead, it would be more effective to develop and implement rural development projects that are designed to meet a variety of needs simultaneously. Components and targets of such projects should be identified in collaboration with local stakeholders. At present, the region lacks the capacity to contribute to this effort. The initial phase of rural development projects should be devoted to enhancing local capacity.

b) The amount of further investment that is required to complete GAP is equal to the amount so far invested in the project, and completion of the project would result in a maximum of 1¼-fold increase in production value in the GAP region as compared to 2003 levels. Feasibility of continued investment should be re-assessed taking into account both existing product patterns and innovations to be introduced in such patterns. In case decision is made to continue with investment, it would be necessary to create the institutional capacity for taking the water to the fields and to try approximating the optimum product pattern through employing a differential pricing strategy in irrigation.

c) Considering the permanent nature of the relative advantage that the region enjoys in animal products, a higher degree of processing should be ensured in these products; projects with proven benefit in breed improvement should be continued and freed from administrative impediments.

PRIVATE ENTERPRISE, COMMUNITY-DRIVEN DEVELOPMENT, BORDER TRADE AND TOURISM

The fact that development models designed to eliminate regional inequalities through price mechanisms fail to create employment even in rare cases where they result in growth has led to the relatively recent popularity of government intervention through public investment. This approach is built on the proposition that growth should be decentralized, should be based on local resources and decision-making processes and should create employment. This is also emphasized in the most basic EU document⁴ on reducing inter-regional differences.

1) Incentives

So far, no assessment has been made of investment incentives in terms of the social efficiency of their few benefits to the region or of the social cost – social benefit balance of such incentives. It is widely held, however, that incentives give rise to plundering of public resources, especially in cases where they involve cash payment.

It is unrealistic to think that investment incentives will play a significant part in promoting development, in boosting employment or increasing purchasing power in the region. In fact, the conception that regional inequalities in development can be alleviated through use of this method is not validated by past performance. It is impossible to understand why effort should still be made to implement a system of incentives with various modifications and expansions when its contribution to its intended purpose is dubious at best. While a simple inquiry into the ratio of allocated incentives to the actually realized level of physical investment would plainly reveal the degree to which the incentive scheme meets expectations, it is noteworthy that bodies authorized in the allocation and closure of incentives have conducted no such study until the present⁵. Two academic works make up for this shortcoming of public bodies and are very important in that they shed light on the issue.

⁴ *Europe's Agenda 2000*, ver.31.8, 1999. p. 9-13.

⁵ For a partial and strictly limited exception to this generalization, see Mustafa Duran, *Türkiye'de Yatırımlara Sağlanan Teşvikler ve Etkinliği*, T.C. Başbakanlık Hazine Müsteşarlığı, Araştırma ve İnceleme Dizisi, No.32, 2002.

The first study, published in 2004, uses panel data to show that no statistically significant correlation exists between investment incentives and private sector investments at NUTS Level 1 (with the exception of Eastern and Western Marmara regions) in 1991-2000⁶. The same study also concludes that public sector investments trigger and stimulate private sector investments in Mideastern, Northeastern and Southeastern Anatolia⁷. Findings suggest that a 100-unit change in public investments results in 8.5-unit, 10.9-unit and 16.1-unit changes in private sector investments in Northeastern, Mideastern and Southeastern Anatolia, respectively. According to this study, access to bank loans is another significant variable that has a positive impact on private sector investment.

A more recent study shows that there is no statistically significant correlation between investment incentives and factor productivity in Turkey but that, contrary to expectations, there is a significant negative correlation between investment incentives, on the one hand, and employment and investment levels, on the other⁸. This unexpected finding is explained by the observation that there is no way to integrate incentives into the investment decisions of the entrepreneurs⁹.

The same study refers to a survey conducted among TOBB members on the opinion of business circles with respect to investment incentives; asked of the likely effect of having no incentives on the decision to invest and on the choice of location, 63.5 percent of the respondents said that the decision to (or not to) invest and 77 percent said that the choice of location would remain unchanged in the absence of incentives¹⁰.

Local entrepreneurs interviewed in the region are in complete agreement with (although not informed about) the findings that involved complex econometric analyses by the four academics. They emphasize lack of public investment and total uselessness of incentive measures among the main factors that impact private investment decisions.

No doubt, conditions of conflict in the region have an adverse effect on the desire to invest, but this is not the only reason that prevents industrial investment. Virtually all respondents interviewed in the field refer to a number of factors in addition to security as being decisive for investment; they mention inadequate infrastructure (especially energy), difficulties in finding qualified labor, and the failure of the incentive schemes in its final form to make the region more attractive for investors. They complain not only about the past implementation of incentive measures that did not benefit the region to any significant extent, but also about the new scheme that favors organized industrial zones and the difficulty of meeting the criterion of minimum employment.

It does not seem possible to increase industrial investment in the region through a general-purpose incentive policy. This is also made evident by the outcome of past implementations. Addressing the issue of incentives within a decentralized framework that will be set by the active participation of the investors and focused on selected provinces would increase its potentials for success. This would not mean to lay the

⁶ Hatice Karaçay-Çakmak, Lütfü Erden, "Yeni Bölgesel Kalkınma Yaklaşımları ve Kamu Destekleme Politikaları," *Gazi Üniversitesi İktisadi ve İdari Bilimler Fakültesi Dergisi*, 6/3, 2004, Table 2, p. 91.

⁷ *Ibid.*, Table 3, p. 92-93.

⁸ Hasan Ersel, Alpay Filiztekin, "Incentive or Compensation? Government Support for Private Investments in Turkey," ECES Working Paper, No.107, December, 2005.

⁹ *Ibid.*, p.4. (The authors base this argument on research by I.Arslan and S. Togan.)

¹⁰ *Ibid.*, Table A-6, p. 17.

foundations of an industry-based economic development in the region. At best, it can create thin concentration, low technology industrial clusters with limited capacity to create employment and generate income in certain regions. Such a form of industrialization should not be expected to contribute seriously to eliminating regional inequalities.

2) Public Investment and Community-Driven Development

Against this gloomy background, a strategy of “community-driven development” that involves directing public investment so far denied to the region in line with the prerogatives of the local decision-making mechanisms stands a better chance of success. This strategy derives from the basic premise and goal of transforming the cities in the region into livable environments. The difficulty of finding and keeping qualified labor is mentioned among the main obstacles to industrial investment in the region. This problem, as well as the reluctance of top and medium-level managers, doctors, teachers and other highly qualified professionals to come and stay in the region is largely rooted in the conception that cities in the region are not fit to live in. This well-trained workforce of professionals cannot be attracted to the region even if they are offered significant monetary advantages and although they may be prepared to make the personal sacrifices to settle for a life in an unlivable environment because they cannot bring themselves to “condemn” their children to such a life. This perception can be changed in the short term.

In addition to greater investment in education and health care, which will be discussed under social policies below, completing and improving the energy and transport infrastructure, as well as changing the physical appearance of the cities, will contribute significantly to the perception of a “livable” environment. The joint effect of these changes and improvements will be significant even if they may seem trivial when taken separately. Furthermore, it is crucially important for these activities to be locally, rather than centrally organized and implemented; local governments should be authorized to decide on and take the initiative in carrying out these activities; likewise, the local population that so far has been denied the opportunity to express its preferences with respect to various options of economic and social development in the region and was unable to voice its priorities should be actively involved in the process. We realize that the transfer of power and judgment from the central authority to the local governments involves a hard and troublesome process. Ability to overcome these hardships and ensure local participation has been observed to lead to effective, just and equitable results and to maximize local ownership, all to the extent that resources could be distributed in accordance with people’s preferences, knowledge and skills. Examples of success along these lines from Africa, Latin America, South and Southeast Asia are encouraging also in terms of the sustainability of development¹¹.

The first steps towards transforming and improving urban environments as a part of community-driven projects to make cities livable may involve activities such as repairing and painting government houses, city halls, schools and primary health units, fixing urban

¹¹ S. R. Osmani, “Participatory Governance and Poverty Reduction,” *Choices for the Poor*, UNDP, New York, 2001, p.121-143. The World Bank classifies this type of approach as “Community Driven Development” as distinct from “Community Based Development”: *The Effectiveness of World Bank Support for Community-Based and –Driven Development*, World Bank, Washington D.C., 2005. For a discussion of problems of local ownership within problems in Poverty Reduction Strategy, see *The Poverty Reduction Strategy Initiative*, World Bank, Washington D.C., 2004.

roads and pavements, simple park and garden arrangements, social forestation and tree planting. Transfer of public resources to local governments towards this end and allocating, for a certain period of time, funds received from the European Union and international organizations to the region towards creating employment would accelerate favorable results.

Additional employment created through these means would increase household income and improve purchasing power, thus bringing the income of some, if a limited number of households to levels above the poverty threshold. Demand created by projects for the physical improvement of the environment would increase production of construction and building materials. It must be admitted that such a strategy cannot be pursued continuously for long periods of time. Still, in addition to modest economic benefits that would readily ensue, two important objectives would be met in terms of future development. First, the cities would have the improved appearance that would enhance their capacity to keep the well-trained, qualified workforce that is needed in the region, and second, the initial, enthusiastic phase of local participation and decision-making experience would be complete, albeit at an elementary level.

3) Border Trade Centers

The second strategically beneficial activity that would serve regional development is foreign trade, and specifically, border trade. Following various phases of expansion and restriction, border trade is now regulated by a Cabinet Resolution, two regulations published on the basis of that Resolution and relevant general rules. According to the regulations, the Undersecretariat of Foreign Trade determines and announces the subject of border exports in accordance with agreements reached with bordering countries. Local stakeholders have no say in this respect. In a similar vein, a committee of five bureaucrats and two local representatives of trade decide on imports once a year, taking into account the annual needs of the province; the decision becomes final upon approval by the Ministry of Agriculture and Rural Affairs and the Ministry of Industry and Trade. In addition to this convoluted method of determining the coverage of foreign trade, tiresome rules mark the regulations that govern foreign trade.

The Certificate of Approval that needs to be drawn for imports has features reminiscent of the import quota allocations of the 1950s.

Of the Border Trade Centers that were to be opened in 20 provinces since 2003, only three have been opened so far. Stakeholders interviewed in the region have consistently emphasized that while Iran's demand for consumer goods and Northern Iraq's demand for both consumer and capital goods can be met through border trade, existing legislation and failure to set up the planned border trade centers, as well as the significantly insufficient infrastructure of the centers that have been set up, make it virtually impossible for the region to benefit from such an important source of potential income¹².

¹² Given the emphasis of stakeholders in the region on the crucial importance of border trade, see <http://www.dtm.gov.tr/pazaragiris/ulkeler/Ira/ira-ulk-dis.htm> on the official web site of the Undersecretariat of Foreign Trade for evidence of the level of seriousness with which the Undersecretariat that is authorized in matters of foreign trade in the country addresses the issue. The document refers to taxes that were collected by Iranian Customs on exports from Turkey, but that remained unknown to the Undersecretariat in terms of their nature, basis means and rates, coming to

4) Tourism

Tourism constitutes the third strategic target despite the existence of serious obstacles to its development and survival. Persisting problems of security, as well as inadequate physical and accommodation infrastructure, have rightly prevented the conception of tourism as a road to development. Indeed, no reference is made to the tourism potential of the region either in the 8th *Five Year Development Plan* or in the *The Urgent Action Plan of the 58th Government*. In full awareness of all discouraging factors that stand to thwart success, however, we are convinced of the significance of tourism for the region. The essential natural and cultural basis for integrated nature/winter tourism in the East and history/culture/faith tourism in the Southeast already exists. Significant development should be forthcoming when that basis is sustained by physical infrastructure and promotional effort.

The extent of tourism relations between Eastern Anatolian provinces and Iran may serve to illustrate the present state of development in the face of all hardships. Based on data published by the Ministry of Culture and Tourism, Turkey was the destination of about 290,000 Iranian tourists in 2001. This figure places Iran in 10th place, immediately after Israel, among 103 countries of origin. In terms of the number of nights spent in Turkey, Iranian tourists rank 12th. One half of the Iranian tourists stayed in Istanbul, 48,000 stayed in Ankara, and 34,000 remained in the region, going nowhere else after crossing the border. About 30,000 of the latter group stayed in Ağrı or Iğdır. Ağrı has a capacity of 950 hotel beds in seven hotels, two of which are 2-star and five of which are 3-star hotels¹³. Iğdır has five 2-star hotels with a total capacity of 462 beds¹⁴. Again according to the Ministry of Culture and Tourism data, average stay of Iranian tourists in Turkey is 5.44 days. Based on this figure, it may be suggested that all accommodation facilities in Ağrı and Iğdır devoted full capacity to Iranian tourists for 115.6 days a year. Thus, improving the quality and increasing the capacity of hotels even without any promotional activity may result in higher number of Iranian guests in these two provinces.

Data suggest that Georgian and Armenian tourists stay mostly in Eastern Black Sea provinces and in Istanbul. In this context, it is worth noting the tourism potential, especially in Eastern Anatolian provinces, of the Armenian Diaspora, which may have been overlooked for political reasons so far. The number of ethnic Armenians outside of Armenia is estimated at 1,700,000-1,850,000¹⁵. About 1,300,000 ethnic Armenians who live in the USA, Canada, France or Argentina are known to enjoy much better material means of existence than do the remaining members of the Diaspora. These people who may be interested in visiting the lands of their ancestors constitute a potential tourist population, and attracting them to the region is important not only for economic reasons, but also for improving inter-social relations.

the Undersecretariat's attention only through the declaration of exporters. In a similar vein, the employee training program of the Undersecretariat of Customs that will be implemented among 4,805 employees covers no subject relating to border trade or border trade centers, except for passenger transactions: <http://www.gumruk.gov.tr/Gumruk/DosyaUpload/egitim/hizmeticiplan/2006/planlar.doc>

¹³ <http://www.agri.gov.tr/ilimiz/turizm.htm>

¹⁴ <http://www.igdir.gov.tr>

¹⁵ <http://www.armembassy canada.ca/diaspora/diaspora.htm>

5) Suggestions

- a) In its existing form, the system of investment incentives cannot benefit the region. If incentives are to remain in place, they should be based on criteria of region, sector, and even sub-sector, provided for a specific purpose and organized around a scheme developed with the participation of the investors.
- b) Public investment should be increased towards improving infrastructure, and a “community-driven development campaign” should be launched so as to transform the physical appearance of the cities into “livable urban environments” that would attract and keep especially highly qualified human resources.
- c) As trade with bordering countries constitutes a crucial issue in the region, Border Trade Centers should be set up rapidly; their operations should be freed from bureaucratic red tape; and their methods and rules of operation should be set forth in collaboration with local stakeholders.
- d) The region’s feeble tourism infrastructure should be developed through public investment, and means of developing integrated nature/winter and history/culture/faith tourism should be determined in collaboration with local stakeholders¹⁶.

SOCIAL POLICY

While progress in reviving agriculture, trade and tourism would be useful in creating employment and reducing poverty, attainment of all expected results would require several years of time. With more than an estimated 60 percent of its population living in poverty, however, the region is in need of an intervention that would accelerate favorable results. Such intervention is possible through employing instruments of social policy.

Social policy measures proposed herewith go beyond a direct and urgent intervention in the region’s human development indicators that are the worst in the country. Based on the proposition that a peaceful and secure environment is indispensable for economic and social development, these measures aim at laying the foundations that are essential for the social re-integration and economic incorporation of millions of people who have lived through a bitter period of conflict, suffered from broken identities and damaged relational networks, become profoundly distrustful in their relations with the State, left in poverty and deprived of education and healthcare, and in many cases, forced to leave their homelands. In the event that these social policy measures are not implemented, the relatively belated success in areas of agriculture, trade and tourism would run the risk of excluding the regional population from economic and social processes.

Social policy, now the most significant component of regional development policies, has come to enjoy extensive applicability as the inadequacy of price mechanism for solving

¹⁶ According to Ministry of Culture and Tourism data, only 3.3 percent of tourists who come to Turkey in 2001 received information from the Ministry’s tourist offices abroad before coming to Turkey. Judging from that ratio, these tourist offices would not be useful in directing tourists to the region.

regional development problems has increasingly become apparent¹⁷. Social policy is not limited to state intervention towards actively altering income distribution; it is also an instrument by which the state aims at removing the obstacles to the role of price mechanisms and private entrepreneurship in regional development. International experience shows that social policy implementations integrating individuals into institutional relations result in improved levels of individual knowledge and skill, beginnings of joint action on the part of formerly conflicting groups, weakening and gradual elimination of feelings of exclusion, and development and articulation of local demands.

It has been repeatedly proven that increasing public investment constitutes the single most important policy instrument to ensure re-distribution of income and creation of poverty-reducing employment opportunities. There is ample evidence to the effect that this instrument has continued to be used even at the cost of short-term macro-economic stability¹⁸. The effect of poverty-reducing policy implementations on private sector investments and rate of economic growth, however, has been documented only very recently.

A World Bank study published last February¹⁹ asks and answers several questions that have been asked and answered in the past, providing new evidence based on more reliable calculations, while using data from 22 Central and South American countries to arrive at interesting conclusions on poverty, economic growth rate and investment. The study shows that each 10-point change (in either direction) in poverty levels leads to 6-8-point change in investment levels. In case of increasing poverty, this effect becomes much more pronounced in countries where the financial sector is less developed²⁰. In a similar vein, a 10-point change in the level of poverty is reflected as a 1-point change in the rate of economic growth²¹. Revising their calculations on account of the “difference” between countries included in the study and other countries of the world, the authors conclude that changes associated with increasing levels of poverty would involve faster decline in growth rates in other countries²². This finding implies a complete reversal of the conventional conception that increased investment would lead to changes in growth rate, which in turn would lead to changes in poverty levels.

The way in which the authors explain the causality in this relationship has significant connotations in terms of social policy: The poor are incapable of engaging in activities that would increase investments and ensure economic growth precisely because they are poor. This constitutes a vicious circle in that the poor remain poor to the extent that they are incapable of engaging in such activities and they become increasingly incapable of engaging in such activities (e.g. getting bank loans) as long as they remain in poverty. Investment does not go to regions with inadequate physical infrastructure and infrastructure remains constantly

¹⁷ Among numerous sources that analyze the change in the approach of World Bank and International Monetary Fund following the failure of structural reform policies, which led to questioning of even the legitimacy of these two organizations, see particularly, Jean-Pierre Cling, Mireille Razafindrakoto, Francois Roubaud, “New Poverty Reduction Strategies: Old Wine in New Bottles?” *Toward Pro Poor Policies – 2003 Annual World Bank Conference on Development Economics*, Bertil Tungodden, Nicholas Stern, Ivar Kolstad, eds., Washington D.C., 2004, p.111-131.

¹⁸ For a report drawn for UNDP and ILO on examples of such practices in African countries, see Carlos Oya, John Weeks, “Investment for Poverty Reducing Employment,” Center for Development Policy and Research, SOAS, University of London, May, 2004.

¹⁹ G.E.Perry, J.H.Lopez, W.F.Maloney, O.Arias, L.Serven, *Poverty Reduction and Growth: Virtuous and Vicious Circles*, World Bank, Washington D.C., 2006.

²⁰ *ibid.*, p.119-120.

²¹ *ibid.*, p.123.

²² *ibid.*, p.117.

inadequate because investment is not attracted; education of children is neglected because poor families are deprived of the means to invest in the future of their children even though they may believe in education. This neglect is aggravated by the fact that benefits of education would be reaped only much later. Termed as the poverty trap, this state of being poor for reasons of poverty needs to be shattered through intervention from the outside.

Social policy measures proposed for the 21 provinces covered in this study are intended to identify the substance of this necessary intervention.

1) Education

Contrary to widespread conceptions, findings suggest that poverty and insufficient educational investments, rather than the cultural makeup of the region, constitute the greatest impediment to attaining the objectives of education in the region. This is evidenced by the Conditional Cash Transfer Program, which, although deficient in certain aspects, is being successfully carried out within the World Bank supported Social Risk Mitigation Project; further reference will be made to this program under direct income transfers, below.

As the foremost component of investment in human capital, increased investment in education should continue in the region, and include opening of new schools and capacity improvements in existing ones. Expanding practices of free-of-charge textbook distribution and bussing to secondary education; switching to single session teaching in primary education and free-of-charge provision of hot meals for all primary schoolchildren would eliminate some of the expenses that poor families are unable to meet and make it easier for them to send their children to school.

Measures to improve the content and form of education will not be discussed here as they are detailed in *The Role of Social Policy and Suggestions for the Development of Eastern and Southeastern Anatolia*. Aimed at making education an instrument of social policy, this policy would also constitute the initial steps of re-establishing state-citizen relations on sound grounds.

2) Health

The region is particularly disadvantaged in terms of medical and health care investments and services. State of secondary health services is distressing. It is inconceivable to expect people to feel secure and thus act so as to contribute to economic development when they are deprived of a basic citizenship right, that is, the right to healthcare. It is necessary to increase investment in both primary and secondary healthcare services in the region with priority given to migrant destinations; to remove obstacles to getting Green Card that result from existing criteria for eligibility and ensure widespread access to Green Card; to abolish the requirement of paying premiums as a condition for receiving primary healthcare services; and to employ Kurdish-speaking assistant nurses at every level of medical facilities to assist patients and other people who come for examination or controls.

3) Direct Income Transfers

Social policy in Turkey is almost entirely geared to employment in the formal sector. People in formal employment constitute a small minority in the region. In general, the share of formal employment in total employment is falling. If instruments of social policy are intended to benefit as many poor people as possible, there is no way this policy can be managed by relying on employment. In many countries, income transfers not connected to employment constitute the main armament of social policy in the battle against poverty. It is therefore essential for direct income transfers to serve as the most effective instrument of social policy in the region.

The practice of Conditional Cash Transfer based on parents' keeping children in school and taking them to periodic health controls should be continued and expanded; criteria for assessment, however, should be modified and made transparent. Such programs are criticized on several grounds. Objections ranging from aid addiction to prospects for increased birth rate and reservations about parents' spending the aid money for their own consumption seem to disappear in the face of evidence, especially from the experience of Central and South American countries²³.

Paying for electricity and water consumption is hardly a widespread practice in the region. As legitimizing the present situation and saving the poor who cannot pay for such consumption anyway from being viewed as thieves on the part of the state would reinforce relations between the state and the citizen, the poor should not be made to pay for electricity and water consumption up to a certain limit²⁴. Likewise, it is worth recalling that modifying the criteria for qualifying for old-age and disability pension and widely publicizing its availability would reduce, albeit incrementally, the poverty of social segments that have the greatest need for aid.

One of the most controversial programs of social policy implementation is the "Citizenship Income" scheme, which involves provision of direct income to all individuals that meet certain criteria. The controversy is centered on the question of whether or not the individual is entitled to such a transfer of income by right of citizenship. While some argue that this form of transfer is an unconditional universal right of all citizens²⁵, Brazil was the first country to legislate it on conditional terms in 1991²⁶. Playing an indisputable part in reducing poverty, increasing household income and creating demand, "Citizenship Income" would serve not only as a key instrument to eliminate feelings of exclusion that exist in the region, but also as the best indicator of positive discrimination that the region desperately needs.

²³ Guilherme Sedlacek, Nadeem Ilahi, Emily Gustafsson-Wright, *Targeted Conditional Transfer Programs in Latin America*, World Bank, Washington D.C., 2000; Laura B. Rawlings, *A New Approach to Social Assistance: Latin America's Experience with Conditional Cash Transfers*, World Bank, Washington D.C., 2004; Steven R. Tabor, *Assisting the Poor with Cash: Design and Implementation of Social Transfer Programs*, World Bank, Washington D.C., 2002.

²⁴ A similar program is being implemented in Lithuania since 1996, whereby poor people whose heating, electricity, water and gas consumption exceeds 25% of their monthly income receive cash assistance equal to the amount in excess. A study in 2000 designed to assess the program points to very favorable results, especially during winter months: Steven R. Tabor, *op.cit.*, p.19.

²⁵ Philippe Van Parijs, "A Basic Income for All," *Boston Review*, December, 2000.

²⁶ Eduardo Matarazzo Suplicy, "Legitimizing Basic Income in Developing Countries: Brazil," IX International Congress of the Basic Income European Network, Geneva, Sept. 2002.

4) Income Transfer for Social Employment

The area of social services is defined by social needs that cannot be met through the market mechanism and are collectively provided for by the state, local governments and non-government organizations. Broadening this area would not only help improve living conditions, but also strengthen individuals and facilitate their social integration. Programs to assist children, the elderly and the ill, organizing social and cultural activities in neighborhoods, and carrying out such activities through community centers that are seen to be so successful not just in the region but also in many other parts of the country should be among social service priorities.

Programs designed to provide these services, as well ensuring income and employment, would contribute to the knowledge, skills and institutional experience of the participants. Also covering projects such as the above mentioned ones for improving the physical appearance of urban environments, these may be focused on community centers, municipalities, schools and primary health units. Increasing the number of community centers and organizing activities for children and the elderly in these centers, expanding cultural activities, opening municipal soup kitchens that can serve 1,000 meals a day, running extra-curricular activity programs in schools, and employing assistant nurses to assist and guide people at primary health units would not only help improve the quality of life, but also create employment opportunities and generate income for people that will work in these areas.

Designing and implementation of social policy measures here proposed have met with many questions that range from concern over compromising economic efficiency to whether or not they are ethically sound; furthermore, there is widespread debate as to what kind of programs would yield favorable results in which countries²⁷. International experience (along with results of implementation) provides answers to most of these questions.

5) Suggestions

- a) Educational investments should definitely be increased; free-of charge textbooks and bussing should be introduced also in secondary education; primary schools should switch to single session teaching and all primary schoolchildren should be served one hot meal a day.
- b) Investment in health services should be increased; barriers to getting Green Card arising from existing criteria for eligibility should be removed and widespread use of Green Card should be ensured; paying premiums should cease to be required as a condition for receiving primary healthcare services; Kurdish-speaking assistant nurses should be employed at every level medical facilities to assist patients and other people who come for examination or controls.
- c) The practice of Conditional Cash Transfer should be continued and expanded with assessment criteria being modified and made transparent; poor families that meet the conditions to be determined should be paid a monthly Citizenship Income of TRY 150.

²⁷ Hyun H.Son, Nanak Kakwani, "Economic Growth and Poverty Reduction: Initial Conditions Matter," International Poverty Centre, UNDP, Working Paper No.2, Brasilia, 2004.

- d) New community centers should be opened; socially targeted employment programs should be implemented and be focused on municipalities, community centers, schools and primary healthcare units.

6) Estimated Annual Social Policy Budget

Criticism pointing to the very high administrative expenses involved especially in conditional cash transfer programs and to diminishing program effectiveness with rising expenses was the subject of research covering Mexico, Honduras and Nicaragua²⁸. Administrative costs of the Nicaraguan *Red de Proteccion Social* program reached 21.2%-24.5% of total transfers representing the highest cost observed, while the respective range was calculated at 4.1%-4.6% for the *PROGRESA* program in Mexico and at 6.8%-16.1% for the *PRAF* program in Honduras. The fact that the Nicaraguan one was a pilot program may have been responsible for the higher administrative costs as compared to the other countries.

We are unable to provide any estimate of the initial investment costs or of the training costs of individuals to be transferred income in return for social employment that would be involved in implementing the policy measures proposed in this study. This should not, however, stop us from roughly calculating the costs involved in running the program.

The budget includes the following items:

- a) Citizenship Income
- b) Conditional Cash Transfer
- c) Social Employment and associated training
- d) Constructing soup kitchens and community centers with simple fitting
- e) Daily food expenses of soup kitchens
- f) Expenses for hot meals in schools

Rough cost estimates can be made for each of the above items. Given the regional population of 10,000,000 and assuming that the number of poor people who would qualify for Citizenship Income is 5,000,000 and that poor families have 7 members on average, about 714,000 families would qualify for a monthly Citizenship Income. The report "*The Role of Social Policy and Suggestions for the Development of Eastern and Southeastern Anatolia*" proposes this monthly income to be YTL 150. However, since all these families would also qualify for the Conditional Cash Transfer Program, a monthly payment of YTL 90 (YTL 60 for the father and and YTL 30 for the mother) seems to be a more realistic figure. This adds up to an annual cost of YTL 771 million.

Further assumptions are needed to estimate the budget for the Conditional Cash Transfer program that is proposed to be continued with improvements. Assuming that each family of seven has five children, two under school age and therefore qualifying for health benefits only and the remaining three, one boy and one girl attending primary school and one girl in secondary school, receiving both educational and health aid on a 12-month basis, the total cost for this item would add up to about YTL 969 million. (This cost would rise if children then under school-age are to start school before the oldest sister graduates from high school.)

²⁸ Natalia Caldes, David Coady, John A. Maluccio, "The Cost of Poverty Alleviation Transfer Programs," International Food Research Policy Institute, FCND Discussion Paper No.174, Washington D.C., 2004.

Social employment of 31,000 persons would involve YTL 18.6 million in training expenses over a 3-month period and YTL 74.4 million per year in wages based on a monthly wage of YTL 200.

Assuming construction of 250 soup kitchens at YTL 150,000 each and of 120 community centers at YTL 250,000 each, total cost of construction would be YTL 67.5 million.

Total cost of soup kitchen meals would be about YTL 119 million at YTL 1.3 per meal for 1,000 meals per day per soup kitchen. Assuming the same unit cost for primary school meals, total cost of hot meals for 150 days a year for 1,500,000 schoolchildren would be YTL 293 million.

The total cost of all these items adds up to YTL 2.3 billion or USD 1.7 billion at an exchange rate of $\text{YTL}1.33=\text{USD}1$. Assuming that the Citizenship Income program would use the existing Green Card infrastructure and adding an estimated 10 percent of the annual cost of each program to cover the administrative cost of the Conditional Cash Transfer program that is already being carried out, the total cost would be 0.53 percent of the GNP for 2006, which is estimated at USD 350 billion.

7) Significance of the Increase

While this overall cost would not exceed 0.53 percent of the GNP even if both programs are carried out on a very large scale, it would help the region to take the first step out of poverty, as well as securing a very important gain for the regional economy by increasing purchasing power and changing the level of demand. The effect of just the Citizenship Income and Conditional Cash Transfer programs would create a YTL 2,436 increase in the total yearly income of a poor family of seven; that is a YTL 348 rise in net per capita disposable income. To appreciate the significance of a YTL 348 (or USD 262) rise in the per capita disposable income of a poor family, it is sufficient to remember that in 2001, the highest and the lowest per capita GDP levels in the region were USD 1,584 in Tunceli and USD 568 in Ağrı (although the figures may not be strictly comparable).

THE ROLE OF INVESTMENTS IN THE DEVELOPMENT OF EASTERN AND SOUTHEASTERN ANATOLIA

Executive Summary

Dr.Ayşe Kudat, Ece Sanal Kılıçözlü, Ertan Karabıyık, Dr. İsmet Yalçın, Serkan Ünverdi

-Regional disparities have always been on the agenda in Republican Turkey. Several approaches aimed at reducing these have not been effective in the past and differences in welfare and income between the East and the West have developed into a huge gap. Twenty-one of Turkey's most underdeveloped cities are situated in the Eastern and South-Eastern Anatolian regions. This situation does not comply with the principles of social justice. Moreover, there are increasing risks of underusage for 35% of the national land area and natural-cultural riches, the possibility of a political vacuum in the region, and ongoing poverty for 15% of the population. Once the regional growth potential is realized, Turkey's strategic geo-political situation will grow stronger, and the region, which is very close to oil-producing countries, will be prevented from being isolated. The preservation and improvement of strategic water resources can only be achieved through regional investment. This report contains short-term policy proposals for the development of these twenty-one provinces.

-In order to narrow the inter-regional gap, the following measures need to be adopted:

- The State must carry out its responsibilities.
- Resource mobilization is a must.
- The whole population needs be convinced of an altruism which will only have an orientation towards a small percentage of the national electorate.
- Obstacles in the way of trade with neighbouring countries need to be removed.
- It must be borne in mind that the same cure will not prove effective for each and every problem.
- The population must be trusted and a community-driven development initiative launched.
- The purchasing power of the poor should be increased.
- Efforts should be directed to turn the region into "a place to live in".
- The success obtained in the field of education should be sustained and extended to the health sector.

-In the near future Turkey should create optimal policies that will serve both to alleviate the sufferings of these people through social programmes and also to diminish regional disparities. Diminishing regional disparities and relieving others from these sufferings requires a focused effort. Rapid success can only be possible through focusing on the problems of a small number of provinces rather than spreading public funds and incentives across more than half the country.

-It is not realistic to rely on the leadership of the private sector. Only a full-scale mobilization led by the state will remove infrastructural deficiencies and not only help the development of the private sector but also attract other companies to the region. Furthermore, the construction and building materials sector will rally, demand for housing will increase, and people in the region will receive training and job opportunities.

-Cities and towns should be made better places to live in through the transfer of funds to local authorities. This will have a strong effect on expanding and developing the construction and building materials sector, and will boost recruitment. A boom in the construction sector, the improvement of the infrastructure, the reorganization of the cities and towns, and the restoration of tourism and cultural riches will not only create employment opportunities for local people, but also attract labour from other regions, and thus create reverse migration. In this context, the availability of grants and loans from the World Bank and the EU for projects providing temporary employment should be made available to local authorities.

-In order to reduce regional disparities, adequate political support and necessary sources should be provided. Along with that, social help programmes to alleviate poverty and labor intensive temporary employment projects should be supported. Complementary to ongoing programmes such as the successful green card programme, payments to the old and the disabled, it is important to bring the Conditional Cash Transfer (CCT) project to its intended context and maintain it at that level. More than half of the people who benefit from CCT live in the region where these twenty-one provinces are located. Similarly, more than half of the payments are made to this region. CCT strengthens the hope that poverty will not be inherited by future generations. While CCT was aimed at the poorest 6% in the country, it only covered a mere 4%. A majority of the people who failed to get CCT live in this region.. The number of new applicants from the Marmara region is close to none. Once the program reaches its original aim of 6%, those to benefit from it will be from these twenty-one provinces. Moreover, solving the implementation problems of the CCT project, while promoting it more efficiently in the rural areas of these twenty-one provinces, will increase its benefits in the spheres of child education, nutrition, and health, as well as making a considerable difference in poor families' income levels. Finally, increasing the payments made to girls in 6th-8th grades, as well as high school, will create a continuous benefit. The state's and society's mobilization to aid urgent completion of girls' dormitories will be an added benefit. It has been proven that this programme played an active role in the behavioural pattern change of the poor, its content can be enhanced to be used as a pilot programme in these twenty-one provinces for increasing female literacy. Teachers to support this programme can also be rewarded with a satisfactory supplemental salary.

-The rate of poverty is very high and population density low in the region. If the purchasing power of the people does not increase, even the tendency to open grocery stores will be limited. The continuation of the present situation can cause an increase in the flow of population towards the west of Turkey and Northern Iraq.

-A campaign can be launched to attract national and foreign companies that wish to operate in the neighbouring countries. Incentives to facilitate this should become 'purpose oriented' with the participation of these companies. Instead of formulating general incentives, companies that truly desire to operate in the region will benefit from the formulation of specific incentives. In the same way, special incentives for the development of sectors and sub-regions, rather than general incentives, should be defined in a **participatory** manner.

-Economic **incentives** to date have largely been implemented outside these twenty-one provinces. In addition, current incentives are also **out of the region**. Narrowing the scope of the incentives in the regions that enjoy the advantages of these incentives with certain methods, such as increasing the number of compulsory employment from 10 to 30 people, has pushed the governmental support out of these twenty-one provinces. Economic activity in the

region, limited as it is, has not been brought about through the working of the incentives system.

-The Plan aimed at reducing regional disparities / narrowing the inter-regional gap can only be realized through the state's self realization and actualization of its own responsibilities and the mobilization of a considerable amount of the already planned resources for development to these twenty-one provinces through a 4-5 year time frame. Before launching the **mobilization for narrowing the developmental gap initiative**, the underlying reasons should be fully explained to the public and necessary support should be raised to assemble considerable public resources to only 10% of the electorate.

-The fact that the security problem is presented in such a way that it is perceived as being spread across all of the twenty-one provinces keeps investors and trained workforce away from the provinces that do not experience this issue. Locals point to the necessity of distinguishing the reality of terror and **prejudice about terror**. Examples from all over the world have drawn attention to the close connection between poverty and terror and demonstrate that development is one of the most important facts that can change this. Mobilization for public sector investment in the region is an important contribution to the change towards both the reality of security and its perception.

-**Migration back** to the villages which have been vacated for security reasons needs to be accelerated. Compensation to those afflicted by terror in the past should be distributed immediately. This process will activate production factors that have been idle, incorporate a section of the poor and unemployed, and provide them with income and property.

-Trained workers flee from the region and additional financial support from the government fails to convince skilled people such as managers, doctors, teachers, etc. to work in the region. The main cause of this is the perception of the region as "**uninhabitable**". Nobody wants to force their children to live in such a place. Short-term changes in this perception can be achieved through improving the educational and health infrastructure, developing cultural activities, and changing the physical appearance of the cities.

-The successful "100% Support for Education" campaign for improving the education infrastructure should be extended to cover the health infrastructure. The CCT programme should also urgently be extended within the framework of the abovementioned proposals to cover the poorest 6% of the population and should be sustained continuously.

-Reflecting the preferences, tastes, and contributions of local people through '**changing the face of the region**' by renovating government buildings, historical sites, and Community Driven Development are all useful. If such restructuring efforts as Organized Industrial Zones and Border Trade Centers reflect local architecture and cultural riches, it will become easier to solidify a perception that "**This is a place to live in**". Social forestry, afforestation, and environmental developments will not only help the constitution of a new image, but also provide local people with new employment opportunities.

-Inhabitants of the region have not been given the opportunity to define developmental priorities of their own for many years. The benefits of the self-realized and actualized development observed in other countries indicate that Community Driven Development will be rewarding and beneficial for the region. One of the lessons from international experiences show that once this is implemented, the provinces will be more "**inhabitable**." Thus, it is

important to transfer resources and provide the villages and councils with financial support from the EU and development bank funds, along with directing support for temporary employment to the twenty-one provinces for a **certain period of time**.

-Inhabitants of the region suggest that the trade in goods and services with **neighbouring countries** should be freed from bureaucratic obstacles, and trade and tourism opportunities be improved. Intermingling with the people of the six neighbouring countries will bring social and economic advantages. Economic activities with a high multiplier effect such as tourism increase employment opportunities and contribute to the perception that **“This is a place to live in”**.

-Customs facilities should be improved in order to free border trade and prevent illegal trafficking. Moreover, Border Trade Centers should urgently be given operational capabilities, and, if necessary, the number of customs points should be increased and the bureaucracy of entry and exit procedures should be eliminated. In addition, an effective tourism campaign targeting neighbouring countries should be launched to increase the flow of tourists while creating diversification in tourism and improving accommodation with the leadership of local people and businessmen through a Community Driven Development approach. Cultural and linguistic diversity is an important asset for improving both commercial and tourism relations.

-A government funded and Community Driven Development with a construction-agriculture-husbandry-tourism-trade-oriented approach can be more effective than an industrial investment-oriented approach.

-To sum up the steps that are advised to be taken in the short run:

- i. Direct public resources to the twenty-one provinces; complete the electricity, communication, transport, and fresh water infrastructure to fulfill state responsibilities; develop the construction and building materials sector; reinvigorate local initiatives and attract out-of-region investors.
- ii. Adopt a Community Driven Development approach. Transfer resources to the local administrations to make city and town centers better places to live in. Help municipalities to make the cities more inhabitable through temporary employment projects.
- iii. Invite to the region national and foreign companies that want to do business with neighbouring countries. Design participatory methods and purpose-oriented incentives. Make the Border Trade Centers more operational.
- iv. Sustain the programmes while increasing the amounts of Conditional Cash Transfers, temporary employment and other schemes that contribute to the purchasing power of the poor.
- v. Promote temporary employment projects in the region. Ensure that recipients of social security benefits are not excluded from the programmes provided for the poor.

- vi. Create the necessary financial resources for accelerating migration back to the villages emptied for security reasons. Pay compensation to those who have suffered from terror and ensure their participation to the production process, increase their wealth and income.
- vii. Direct a campaign similar to the successful “100% Support for Education” campaign for improving the education infrastructure to the health infrastructure of these provinces, and improve the social environment of education and health staff.
- viii. Launch a campaign that includes neighbouring countries to improve the tourism sector. Fund individual and institutional initiatives that will both create tourism diversification and improve accommodation facilities.

THE ROLE OF AGRICULTURAL POLICY IN THE DEVELOPMENT OF EASTERN AND SOUTHEASTERN ANATOLIA

Executive Summary

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This study aimed at baseline assessment of agriculture in Eastern and Southeastern Anatolia. The issue of what should be done was addressed by relying on actual data as much as possible, but suggestions discussed during various meetings held along the course of the study also provided insight.

Agriculture remains significant in both of these regions. In fact, it is crucial. More appropriately, however, a distinction should be made in reading this fact: the primacy of agriculture is not the reason why these regions are less developed than the others. The problem derives primarily from the absence of other sectors. Improvement in agriculture is certainly possible in these regions. But advances in agriculture alone cannot bring about the desired leap in level of development that would close the gap. Such an expectation would not be realistic. The reasons are rooted partly in the character of the region and partly in the globalization of agricultural policies.

Agricultural development seems to be marked by stagnation or slight volatility in both of these regions. More significantly, increasing support provided for both crop and animal production within the framework of general agricultural policy in Turkey is not observed to yield similar results. This study had been designed to arrive at suggestions that would reduce the development gap between these two and other regions in the country. One of its main conclusions is that inequalities within the region constitute just as important a problem as regional inequalities in terms of agriculture.

Suggestion: Intra-regional as well inter-regional differences should be measured with a view to eliminating them. Agricultural relations (trade, input use) may be improved among provinces in these regions to attain that goal.

The single most important implication of the above statement is that no miraculous medicine can be prescribed to ensure development of agriculture in these regions. Thus, emphasis on rural development rather than on agricultural policy may be preferable. Such a preference seems more consistent with Turkey's harmonization with the EU. It is worth noting, however, that experience on this "new" rural development remains limited and formulating respective projects would not be exactly painless. Furthermore, agriculture-related rural development would also entail non-economic social and environmental targets consistent with its nature.

Suggestion: Rural development should be given priority over agricultural policy because it can respond to a variety of needs at once. To formulate rural development projects in the region, local stakeholders should be ensured technical capacity (from outside) that would function in line with their calls.

Clearly, the level of development in crop production in the west of Southeastern Anatolia is not any lower than national averages. Can the so far incomplete Southeastern Anatolia Irrigation Project still create the anticipated miracle even if it may have been

delayed? As the study tries to explain, the “optimum” production value attainable upon completion of irrigation in the Southeast is calculated at about twice the respective value for the year 2003.

Suggestion: Progress in the Southeastern Anatolia Project will continue to benefit agriculture in the region. Irrigation not only improves crop productivity, but also increases land value, thus generating rent for the region. Rising land value, in turn, leads to a rise in the amount of loans available for agriculture in the region. Irrigation made possible by water collected in the dams at present may be almost doubled. Irrigation priority may be given to basins that do not require infrastructure and already have irrigation water.

Project achievements so far fall quite short of the “optimum” production pattern that was foreseen earlier. Revision, however, is required in the study of production pattern itself. Concrete suggestions for agriculture at the crop level can be derived only from such a study. Furthermore, that optimum does not seem readily attainable within the framework of general agricultural policy. Instead of general policies, differential water pricing may be an option for arriving at an optimum production pattern in the region.

Suggestion: The sooner the irrigation project is completed, the greater its benefits will be to the region. Given irrigation, the production pattern that would best serve regional goals has to be identified, which requires recalculating the GAP Authority “optimum production pattern study.” Steering towards the most suitable production pattern in the region should be ensured not through general agricultural policy, but through differential water pricing for reservoir irrigation and differential energy (electricity) pricing for various types (groups) of crops under private irrigation. High electricity prices appear to be the main factor that discourages private irrigation efforts in the region. Irrigated land area may be rapidly expanded through additional support for irrigation from wells.

The region (Turkey) lacks the institutions to bring the water to the field. While the variously renamed Toprak-Su continues to exist, it has lost most of its experienced staff. The GAP Authority reached the end of its term and got an extension for another two years. Increasing institutional capacity for irrigation is an important proposition. It is equally important for such institutionalization to be complete with greater authorization and competence on irrigation-related issues such as the environmental dimension, drainage and land ownership.

Suggestion: Structure and reinforce the institutionalization that would bring irrigation to the field in the region (and generally in Turkey). Such structuring and strengthening should be understood as redefinition and legislation of rights to water use and related environmental issues (drainage) within the framework of EU harmonization. A parallel redefinition of GAP irrigation projects as “river irrigation basins” would be beneficial.

Also important in this context is the competition between the region and other regions in agriculture. Cotton production, for example, is gradually shifting to the Southeast, while animal production is moving west. Any policy that might benefit the region might well be at a price to other regions or *vice versa*. Measures that would help develop agriculture in the region alone without any adverse effects on other regions, such as greater support for products specific to the region, are limited.

Suggestion: Target increasing products specific to the region, products in which the region enjoys a firm relative advantage, and above all, the degree to which these are processed.

High quality products, especially animal products specific to the region, rather than large volumes of production, would contribute to more enduring development. Processing these products to a greater degree would be equally important. It is not realistic to expect a miracle in animal production, especially in Eastern Anatolia. Turkey may not be able to continue providing the excessive protection and generous support for much longer. Organizing the supplementary efforts necessary to sustain the present level of animal production in the region seems more realistic than planning on bold ventures.

Suggestion: Government support to animal production in Eastern Anatolia does not yield the anticipated results for various reasons. Foremost among these is that traditional small-scale enterprises comprise the sector in the region. In addition, the region has other specific problems in animal production (partly rooted in neighboring countries), such as animal smuggling, animal diseases partly due to such smuggling, and remoteness from the national marketing chain that jointly preclude any radical progress in the short term. Steps towards eliminating each of these problems are crucial for the region. Improving veterinary medical services, border security, domestic and international marketing channels are all important for the future of the region. Even if modest, every long-lasting measure is an investment in the region's future.

Continuing to explore new breeds of cattle that can be successfully introduced in the region is just as important as keeping up the partly accomplished breed improvement. In terms of EU harmonization, on the other hand, Turkey has a better chance of holding its competitive edge in animal production by focusing on small animal (sheep) production that is especially widespread in Southeast Anatolia. Here again, full advantage should be taken of products, including meat, milk and by-products (wool, hide).

Attracting greater resources from outside the region, in the form of private sector investment in agriculture, for example, may accelerate favorable developments. Overall macro-economic stability (e.g. interest and exchange rates) in the country will be decisive in whether or not present and future investment in agriculture can result in permanent development.

The global trend in agriculture points to reduced protectionism. Turkey's ability to sustain its competitive power has been more a matter of reducing costs than of increasing production. Turkey has to address the long-delayed structural problems as a condition for reducing costs.

Suggestion: Give priority to productivity-increasing measures so that support to agriculture may have enduring effect. Prioritize measures that would reduce costs rather than increase prices. Deal with accumulated structural problems.