



STRATEGIC COHERENCE FRAMEWORK



ABBREVIATIONS

ADSL	Asymmetric Digital Subscriber Line
ALMP	Active Labour Market Policies
CBRT	Central Bank of the Republic of Turkey
CPI	Consumer Price Index
DABLAS	Danube and the Black Sea
EC	European Council
EU	European Union
EUROSTAT	European Statistical Institute
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
ICT	Information and Communication Technologies
IFI	International Financial Institutions
IPA	Instrument for Pre-accession Assistance
IPARD	Instrument for Pre-Accession Assistance for Rural Development
IT	Information Technology
İŞKUR	General Directorate of Turkish Employment Agency
JAP	Joint Assessment Paper
JIM	Joint Inclusion Memorandum
LFPR	Labour Force Participation Rate
MIPD	Multi-annual Indicative Planning Document
MoNE	Ministry of National Education
NUTS	Nomenclature of Territorial Units for Statistics
NGO	Non-governmental Organisation
OECD	Organisation for Economic Co-operation and Development
OIZ	Organized Industrial Zones
OP	Operational Program
PISA	Program for International Student Assessment
pNDP	Preliminary National Development Plan
PPP	Purchasing Power Parity
SCF	Strategic Coherence Framework
SEDI	Socio-economic Development Index
SME	Small and Medium-sized Enterprise
SPO	State Planning Organisation
SSIE	Small Scale Industrial Estates
SWOT	Strengths, Weaknesses, Opportunities, and Threats
R&D	Research and Development
TEN-T	Trans-European Network for Transport
TEU	Twenty-Foot Equivalent Unit
TINA	Transport Infrastructure Needs Assessment
TURSTAT	Turkish Statistical Institute
UCTE	Union for the Coordination of Transmission of Electricity

CONTENTS

ABBREVIATIONS	2
Introduction.....	5
1. Preparation of the SCF.....	6
1.1. Policy Context	6
1.2. National Preparation Process and Timetable.....	6
2. Analysis of the Economic and Social Situation	6
2.1. Recent Economic Developments and Forecasts.....	7
2.1.1. Recent Developments	7
2.1.2. Forecasts.....	8
2.2. Socio-economic Developments in Main Areas	9
2.2.1. Competitiveness	9
2.2.2. Transportation.....	14
2.2.3. Environment	17
2.2.4. Human Resources Development	20
2.3. Regional Disparities	28
2.4. SWOT Analysis	32
3. Objectives and Consistency	34
3.1. Objectives to be pursued under IPA Regional Development and Human Resources Development components	35
3.1.1. Sectoral Concentration.....	35
3.1.2. Geographical Concentration; The “Growth Centers” Approach	36
3.2. Consistency with Community Priorities.....	39
3.3. Consistency with National Priorities.....	42
4. Operational Programs	43
4.1. Regional Competitiveness.....	43
4.2. Transportation.....	44
4.3. Environment	45
4.4. Human Resources Development	47
Human Resources Development.....	47
5. Indicative Breakdown of The Financial Allocations Between The Underlying Operational Programs ..	49
6. Key Elements of Implementation.....	50
6.1. Management	50
6.2. Internal Consistency, Complementarities and Synergies Among OPs	50
6.3. Coordination with Other IPA Components.....	51

Tables

Table 1: Main Economic Indicators.....	9
Table 2: The Rank of Turkey in International Competitiveness Comparisons.....	10
Table 3: Selected Business Environment Indicators.....	11
Table 4: Transportation Investment.....	14
Table 5: Comparison of Railway Densities.....	15
Table 6: Container Traffic in Mediterranean Ports.....	16
Table 7: Comparison of Road and Motorway Densities.....	17
Table 8: Sewerage Network and Wastewater Treatment Systems According to Population Groups in Turkey in 2004.....	19
Table 9: The Main Employment and Labour Force Indicators.....	22
Table 10: Sectoral Distribution of Employment for 15+ Age Group.....	23
Table 11: Youth Education Attainment Level and Early School Leavers.....	24
Table 12: Trends in the Percentage of the Youth Population in Education and not in Education.....	26
Table 13: Poverty Rates.....	27
Table 14: GDP per capita Index in NUTS II Regions.....	29
Table 15: SWOT Analysis.....	33
Table 16: Eligible NUTS II Regions.....	38
Table 17: SEDI Ranking of Central Districts in Some NUTS II Regions.....	39
Table 18: Eligible NUTS II Regions and Growth Centers.....	40
Table 18: Eligible NUTS II Regions and Growth Centers.....	50

Figures

Figure 1: Socio-economic Development Index Ranking of NUTS II Regions.....	30
Figure 2: Urbanization Rate of NUTS II Regions.....	30
Figure 3: Sectoral Distribution of Employment For NUTS II Regions.....	31
Figure 4: Adult Literacy Rate For NUTS II Regions.....	32
Figure 5: In-Migration And Out-Migration NUTS II Regions.....	33

Annexes

- 1) NUTS II Regions
- 2) NUTS Regions According to Socio-Economic Development Ranking
- 3) NUTS Regions According to GDP (under & below 75% threshold)
- 4) Growth Center Identification
- 5) Macroeconomic Indicators
- 6) The Strategy of The Ninth Development Plan (2007-2013)
- 7) Selection Criteria Variables

**Strategic Coherence Framework
IPA Components III and IV
(Regional Development and Human Resources Development)**

Introduction

Instrument for Pre-accession Assistance (IPA), covering the 2007-2013 period, aims to assist candidate countries to align progressively with the standards and policies of the EU, and where appropriate with the adoption of the acquis, including cohesion policy and its instruments with a view to membership.

IPA as a financial framework for EU funds sets five components; institution building, cross-border cooperation, regional development, human resources development and rural development.

The Strategic Coherence Framework (SCF) is a strategic document which provides a "frame of reference" for the operational programmes under regional development and human resources development components of the IPA.

In line with the Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance, the SCF has been prepared by Turkish authorities in close cooperation with the Commission. Management, implementation and monitoring mechanisms for the SCF will be finalized after the enactment of IPA Implementing Regulation.

The SCF, as a major strategic document, takes into account the priorities of the Republic of Turkey and those of the EU as stated in major policy documents, especially in Multi-annual Indicative Planning Document (MIPD) adopted by the Commission on April 30, 2007.

The SCF has been prepared on the basis of the Ninth Development Plan, which is the fundamental policy document setting out Turkey's approach for the solution of its main economic and social problems for the 2007-2013 period. Other national documents such as Medium Term Program, Annual Program, Pre-Accession Economic Program and sectoral strategy documents, which are consistent with the Ninth Development Plan, have also been taken into account in preparation of the SCF.

SCF is prepared with a realistic approach. A significant degree of macroeconomic and social impact is not envisaged with limited resources vis-à-vis the scale of Turkey. However, a strong thematic and geographic concentration shall generate visible impact for the relevant activities and locations. Considering the volume of resources and accreditation process, the first phase of IPA until 2010 would rather generate learning and capacity building in relevant institutions as well as potential beneficiaries across society. Building on this experience and increased amount of funds for the second phase of the IPA, more extensive and visible impact is expected. Performance indicators should be developed accordingly for each OP.

The SCF has been prepared under the coordination of State Planning Organisation (SPO) as the Sectoral Coordinator for the Regional Development and Human Resources Development Components of the IPA. Preparation process of the SCF has been carried out in close cooperation with the Operating Structures and key stakeholders.

In order to have maximum impact and ensure effective use of national and the EU funds, policies aiming at socio-economic development and the EU accession shall be complementary. In compliance with other IPA components, implementation of the SCF will contribute to the accession and development process of Turkey and prepare Turkey for the Structural Funds.

1. Preparation of the SCF

1.1. Policy Context

The Helsinki European Council in December 1999 declared that Turkey is a candidate country. With the new status, Turkey started to benefit from pre-accession assistance to stimulate and support its transition. In line with the European Council decision of December 2004, accession negotiations started on 3 October 2005 and as a first step the screening process was completed in 2006.

In this framework, the nature of EU assistance for Turkey has considerably changed in terms of scope and procedures under the context of IPA. For the 2007-2013 period, Turkey will benefit from all of the five components of IPA. The IPA Regulation for 2007-2013 addresses measures to improve the strategic focus for utilizing EU pre-accession funds, including the requirement for Candidate States to draw up SCF. The SCF is the key national policy document providing a general framework for preparation of the Operational Programs (OPs) under Regional Development and Human Resources Development Components of the IPA. In terms of the areas covered and methodology adopted, it also sets out the main priorities of Turkey for preparing future Structural Funds Programs.

1.2. National Preparation Process and Timetable

Preparations for SCF have been launched by the SPO as Sectoral Coordinator in the beginning of 2006. During the preparation process of SCF a strong partnership mechanism was established. In this context, several meetings have been organized in order to improve coordination and collaboration with the Operating Structures and key stakeholders.

To strengthen the capacity of the line ministries involved in formulating and implementing the strategies, training projects were designed. Within the scope of these projects, training programs were organized so as to include all Operating Structures and other related institutions.

Thematic working groups were established at the SPO and Operating Structures. These working groups worked in collaboration with each other to draft SCF and OPs.

For the sectoral analysis and SWOTs, Ninth Development Plan Ad hoc Committee Reports have also been used extensively. During the plan preparation process, 57 ad hoc committees, which consist of representatives from the public and private sector, NGOs and universities, were formed for various sectors and areas. Ad hoc committee reports also cover thematic areas of SCF.

2. Analysis of the Economic and Social Situation

In recent years, Turkey has made significant progress in implementing structural reforms and achieving macroeconomic stability, and developments have been observed in socio-economic indicators. These developments have made remarkable contribution to the EU accession

process as well. However, further efforts are needed in many areas to ensure long-term economic growth, full employment, social cohesion and sustainable development.

This chapter presents the recent macroeconomic developments of Turkish economy including economic forecasts for IPA period, socio-economic analysis and SWOT analysis. The key areas; transportation, environment, regional competitiveness and human resources development were focused in these analyses. A brief analysis of regional disparities is also included in this chapter.

2.1. Recent Economic Developments and Forecasts

2.1.1. Recent Developments

Turkish economy has recorded a remarkable progress after the 2001 crisis. During the period of 2002-2006, the macroeconomic policies and structural reforms being introduced after the crisis have played a dominant role in this progress with positive contribution from international developments, despite limited success in employment and deteriorated current account balance.

Growth and Employment: Gross Domestic Product (GDP), which grew by 8.9% in 2004 and 7.4% in 2005, recorded a growth rate of 6.1% in 2006 implying an ongoing high growth performance. The highest contributions to growth come from services and industry sectors. Productivity increase was rather high compared to former two decades due to policies and structural reforms carried out after 2001 crisis. As regards the demand side, the ratio of total investment expenditures to GDP increased from 22.8% in 2003 to 24.8% in 2005 and realized as 23.9% in 2006 with increasing share of private sector during this period.

The unemployment rate was slightly down to 9.9% in 2006 which was 10.3% in 2005. Turkish economy has displayed limited success in lowering the unemployment rate due to still high labour force increase and decreasing agricultural employment. The unemployment rate is much lower in rural than in urban areas, particularly due to the widespread practice of unpaid family workers in agriculture.

Fiscal Policy: In 2005, the ratio of general government borrowing requirement to GDP has turned to a 0.2% surplus from a 10% deficit in 2003 and is expected to improve further to 2.7% surplus with a positive contribution of high general government primary surplus of 11.1% in 2006. During the period of 2003-2006 the ratio of public sector net debt stock to GDP fell from 69.7% in 2003 to 44.7% in 2006 implying a dramatic reduction due to declining real interest rates and high growth rate.

Monetary Policy: In 2005, The Central Bank of the Republic of Turkey (CBRT) continued its implicit inflation targeting policy, in line with its primary objective of maintaining price stability. In recent years, considerable progress has been made in terms of attaining declared end-year targets, breaking inflation inertia, achieving price stability and enhancing the credibility of the monetary policy. Annual increase in Consumer Price Index (CPI) was down from 18.4% in 2003 to 7.7% in 2005, which implied an increasing confidence in Turkish economy. The CBRT has introduced to explicit inflation targeting regime as of the beginning of 2006 and announced its CPI inflation target as 5% for the year of 2006. Due to the impacts of the fluctuation in financial markets arising from the contraction in the liquidity flow in the international markets during of May and June, the CPI target could not be achieved and the CPI inflation for 2006 realized as 9.7%.

Balance of Payments: Deterioration in the current account balance has continued throughout the 2002-2005 period and remained as an important risk for Turkish economy, reaching from 3.3% deficit as a share of GDP in 2003 to 6.4% in 2005 mainly due to sharp rises in oil prices and real appreciation of the domestic currency. It was further deteriorated in 2006 with 7.8%. During 2003-2006, export revenues to GDP remained around 23% while imports to GDP increased from 26% in 2003 to 31.6% in 2006.

In recent years, a substantial amount of capital inflows was realized as a result of stability achieved in the economy and continuation of positive expectations. Especially, the performance towards attracting foreign direct investment (FDI) has been substantial in the recent years. As a matter of fact, the gross foreign direct capital inflows, which were 5.1 billion dollars during the 1995-2000 period, rose to 18.9 billion dollars during the 2001-2005 period. In 2006, on the other hand, the net foreign direct capital inflows in GDP reached a historical level of 4.8%.

2.1.2. Forecasts

The period of SCF (2007-2013) coincides with that of the Ninth Development Plan. In preparing this section it has been taken as the main reference document.

With an uncompromising pursuance of the ongoing reform process and tight monetary and fiscal policies during the SCF period, the sustainability of the previous economic performance will have been ensured to a great extent.

Growth and Employment: GDP is expected to rise at an annual average rate of 7% during the SCF period and total factor productivity and export growth will mainly contribute to this performance. Annual average increase in total factor productivity is expected to be 2.3% for the 2007-2013 period. Besides, private sector will be supported by public sector infrastructure investments and structural reforms. In this context, total and private fixed capital investment growth will be 9.3% and 9.4% at constant prices respectively. Private sector will be encouraged to concentrate on high value-added sectors.

In accordance with the expected growth and investment increases, the annual average increase in employment is estimated to be 2.7% and the average unemployment rate will be realized as 7.7% at the end of the SCF period.

Fiscal Policy: Tight fiscal policy will be continued in the period of 2007-2013. In the framework of fiscal discipline, reforms regarding public expenditures will be continued. The continuation of structural measures, economic stability and high rate of growth will have positive impact on public finances. In this context, the ratio of general government borrowing requirement to GDP will decline to -3.6% while general government primary surplus to GDP is expected to be 5.5% in 2013. The ongoing decline in the ratio of net public debt to GDP is expected to continue during SCF period.

Monetary Policy: CBRT will carry on directing monetary policy independently by taking into account the future inflation expectations. The main target of the monetary policy will be ensuring the price stability. In this framework, explicit inflation targeting policy, which raises the transparency and accountability, will be maintained. As a result, inflation will continue to decrease and is expected to stabilize around 3% by the end of 2013. Besides, floating exchange rate regime will be maintained.

Balance of Payments: The upward trend in international trade of Turkey, depending on macroeconomic stability and structural reforms, is expected to continue. In this framework, it is estimated that export will grow by 14.2% annually on average in the 2007-2013 period and export revenues is estimated to reach 210 billion dollars in 2013. Imports will increase by 11% annually on average and are estimated to be 275 billion dollars in 2013. The shares of exports and imports in GDP are expected as 24.6% and 31.7% on average for 2007-2013 respectively. Moreover, tourism revenues are estimated to reach 36 billion dollars in 2013. Consequently, the ratio of current account deficit to GDP is estimated to improve from 7.8% in 2006 to 2.9% in 2013.

Table 4: Main Economic Indicators (percent)

Indicators	2002-2005	2006	2013	2007-2013 Average
GDP Growth	7.5	6.1	7.3	7.1
Total Investment Expenditure/GDP	23.6	23.9	26.5	25.6
Unemployment Rate	10.4	9.9	7.7	9.6
General Government Borrowing Requirement	7.2	-2.7	-3.6	-1.6
General Government Primary Surplus/GDP	7.6	11.1	5.5	5.5
CPI (End Year)	21.7	9.7	3.0	3.4
Current Account Balance/GDP	-3.9	-7.8	-2.9	-5.6
Exports (FOB) /GDP	21.2	22.6	26.8	24.6
Imports (FOB) /GDP	27.2	31.6	31.7	31.7
FDI (Net) /GDP	1.0	4.8	1.2	1.9
Tourism Revenues (net) (Billion US Dollars)	13.9	14.1	31.3	23.8

Source: SPO

* More detailed figures are presented in the Annex 5.

2.2. Socio-economic Developments in Main Areas

In order to converge to European countries in terms of economic and social indicators and narrow the inter-regional disparities for sustainable and balanced development two complementary sets of conditions need to be satisfied in Turkey. The first is that Turkey must have sufficient infrastructure especially in areas of transportation and environment and the capacity to innovate and to use both existing know-how and new technologies effectively. The second condition is to develop human resources and especially to have a labour force with appropriate skills that is necessary for knowledge society. The current situation of main areas within the context of SCF will be briefly explained under four subtitles below.

2.2.1. Competitiveness

In recent years, some improvements have been observed regarding enterprise operations and strategies, quality of the business environment and technology. These factors enhanced competitiveness of Turkish economy, but the need for further enhancement still continues.

Table 5: The Rank of Turkey in International Competitiveness Comparisons

Criteria	2003	2004	2005	2006
The Number of Covered Countries	102	104	117	125
Global Competitiveness Index	-	-	71	59
Growth Competitiveness	65	66	66	-
-Technology	54	52	53	52
Business Environment Competitiveness	52	52	51	46
-Enterprise Operations and Strategies	51	44	38	41
-Quality of National Business Environment	55	55	51	46

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

Manufacturing industry constitutes 14% of total enterprises and generates 32% of total employment. Total exports of manufacturing sector have increased to 68.8 billion dollars by 2005, from the 2000 value of 25.5 billion dollars, representing 93.7% of total exports. The food, textile-clothing and ferro-steel sectors maintain their importance in manufacturing, whereas the automotive, machinery, electronics, metal goods, petroleum products and rubber-plastic sector have increased their shares. The share of high technology exports increased from 5.9% in 2000 to 6.3% in 2005 while the OECD member EU countries' average was 21,5% in 2003.

The services sector is very important since it accounts for 64% of the GDP. The growth rate of services sector is higher than the overall growth rate. The share of services sector in the total employment increased from 46.3% in 2000 to 51.1% in 2005. However, it still remains below the EU-15 average of 69.4%.

The share of Turkish tourism in the international tourism revenues has increased from 1.6% in 2000 to 2.9% in 2005. During the same period, number of foreign tourists rose from 10.4 million to 21.1 million and tourism revenues rose from 7.6 billion dollars to 18.2 billion dollars. Turkey comes 12th in the list of countries that receive the highest number of tourists in the world and 8th in the revenues. On the other hand, there is a need for improvement in the tourism infrastructure, service quality and the advertisement and marketing capacity.

Recently, significant progress has been made within the context of Business Environment Reform Program. In this framework, establishment of an enterprise in a single day has been made possible, the minimum capital requirement amount for FDI has been abolished, the distinctions between foreign and domestic investment before the establishment of the enterprise have been removed and the rules of permissions given to foreign workers have been determined. Despite all these developments, still there is a need to improve business environment especially in the lagging-behind regions.

Despite the progress made in improving the business environment related country-level problems, there are still constraints in the lagging behind regions because of their disadvantaged socio-economic level. Due to low access to labor and product markets, low education level, weak skill base, predominance of economic activity of SMEs operating in inefficient sectors which depend on low-level technologies in production systems and

negligible R&D effort, rare inter-firm association, lack of technology transfer and coordination institutions, insufficient managerial capabilities and inadequate entrepreneurship, these regions cannot benefit from the positive impact of developments achieved in country-level. In order to improve the situation in these regions, regional development programs are held, incentive programs are developed and in addition to other national and internationally financed projects, IPA sources are concentrated in these regions. The Law on Development Agencies enables the creation of Investment Support Offices where permission applications would be made, followed and coordinated in provinces. The indicators regarding business environment are presented in the following table:

Table 6: Selected Business Environment Indicators

	Starting a Business		Difficulty of Hiring-Firing Index		Registering Property		Enforcing Contracts		Closing a Business	Paying Taxes	
	Number of Procedures	Time (Days)	Hire	Fire	Number of Procedures	Time (Days)	Number of Procedures	Time (Days)	Time (Years)	Payments (Number)	Total Tax Rate (% Profit)
Turkey	8	9	56	30	8	9	34	420	5.9	18	46.3
OECD Average	6.2	16.6	27	27.4	4.7	31.8	22.2	351.2	1.4	15.3	47.8

Source: World Bank, Doing Business, October 2006.

SMEs: SMEs have an important role in social and economic development of Turkey since they have a high potential of creating employment, decreasing the disparities among regions, supporting regional development and competitiveness. SMEs constitute 99.8% of total enterprises and 76.7% of total employment. SMEs produce 26.5% of total value added created in Turkey. When compared with EU averages, capital and turnover assets, average number of employees, productivity levels and share of total value added of SMEs in Turkey are lower. Approximately 90% of manufacturing industries in Turkey are micro-enterprises having 1-9 workers while this ratio is between 70% and 80% in most European countries. SMEs in Turkey are in need of increasing productivity, value-added and number of qualified employees.

As of 2006, there are 87 Organized Industrial Zones (OIZ) and 393 Small Scale Industrial Estates (SSIE). 107 OIZs and 65 SSIEs are under construction. As of October 2006, there are 22 Technology Development Zones, 10 of which are active and 18 Technology Development Centers. There is need to enhance infrastructure for SMEs.

One of the major problems of SMEs and new entrepreneurs in Turkey is obtaining the necessary financing in start-up and development phases. Financial sources and access thereto are limited for SMEs. Lack of sufficient equity capital and working capital lowers the production, sales, technology and innovation capacities and capabilities of SMEs.

Bank credit utilization rate of SMEs is insufficient. The main reason for this is that it is very difficult for SMEs to provide the required guarantee or collateral because of their size, capital, organizational structure and low levels of production and turnover. Moreover, seed capital,

start-up capital and venture capital, credit guarantee systems and equity finance instruments are not sufficient and effective.

Awareness and capacity of SMEs about issues such as branding, quality and environmental standards are low. Quality and quantity of consultancy and training services for SMEs and new entrepreneurs are not sufficient.

Utilization of technology is limited in SMEs. They usually use old designs, inefficient production methods and old machines and equipment, thus they produce low quality products and create less value added. R&D, innovation and technological activities and investments are insufficient, too.

In order to solve the aforementioned problems, SME Strategy and Action Plan was prepared and adopted.

R&D and Innovation: The ratio of the R&D expenditures to GDP is 0.67% in 2004 and the share of private sector in R&D expenditures is 28.7%. Also, the number of full time equivalent R&D personnel is 18.3 per ten thousand labour force for the year. These indicators put forward the need for increase in the R&D expenditures and qualified researchers, particularly in the private sector. The amount of state support for R&D activities and numbers of new researchers have been increased sharply since 2005 mainly through the new research programs established under Turkish Research Area initiative.

In order to have an innovative, high-technology-based industry and service sectors, active involvement and pioneering role of private sector in R&D is necessary. To this end, several ongoing support instruments such as technology development zones, project-based grants and credits, industry-university cooperation initiatives, tax exemptions, incubators and risk capital have been implemented. However, the effectiveness of these mechanisms, especially the ones related to the establishment of new innovative enterprises has to be improved and efficient evaluation and monitoring systems should be integrated to the support programs.

One of the major and common characteristics of the support instruments for R&D is the lack of the strategic focus. Nearly all of technology areas are of priority which prevents meaningful and critical level of accumulation of knowledge and capability. Support instruments in general have a portfolio of high numbers of small budget projects with low complementation and synergy levels. Also, there is insufficient level of regional focus. Support instruments cover the whole country and allocated in a competitive manner, which challenges the applicants from the lagging regions considering their relatively weaker position to compete with the more experienced, higher skilled and better equipped alternatives from other regions. Another important issue is the lack of coordination and complementarities between the different support instruments. Finally, the knowledge produced from the projects can not be diffused effectively to the users of the knowledge. Further, the scope of the projects may not be so relevant for the users. The low level of benefit incurred to industry from the outputs of academic research can be given as an example.

IPA assistance could have special importance in terms of leading the region specific focus and mutual implementation of various support instruments. Also, IPA assistance can play a substantial role for the formation of diffusion channels in terms of developing networks and cooperative research between the universities and firms, especially the SME, and maintaining the relevance of research for the both parts.

Another major problem is the low level of awareness for science and technology. In this context, most companies are not considering the R&D and innovation activities as a major source of competitiveness.

Turkey needs to increase the benefit from the cooperation with the EU regarding science&technology and innovation area. Turkey fully participated to the Sixth Science and Technology Framework Program. However, the total amount of resources received back from the accepted projects is estimated to be roughly 1/5 of the total contribution of Turkey to the program. This indicates the need for upgrading research infrastructures and establishment of excellence centers, increasing the number of qualified researchers and the integration of Turkish Research Area with the EU Research Area.

Regional Competitiveness OP have important potential to form synergies with the 7th Research Framework Programme (FP7) and Competitiveness and Innovation Programme, which are the mutually reinforcing components of the EU's efforts to reach the Lisbon objectives and support Europe's competitiveness and innovative capacity. Especially the two initiatives namely "Regions of Knowledge" and "Research Potential of Convergence Regions" under the FP7 Capacities Programme have complementary dimensions with the Regional Competitiveness OP.

Information and Communication Technologies (ICT) Utilization: Since ICT plays a critical role in increasing productivity, it is necessary to use it effectively. Most Turkish SMEs are not capable of utilizing ICT for their daily businesses. SMEs with 10-49 employees are computer owners by 86%, have access to internet by 78% and own website by 43%; while these indicators raise to 96%, 92% and 71% respectively for the SMEs with 50-249 employees in 2005. On the other hand, the ratio of SMEs e-commerce sales is 0-3% to total turnover. Ratio of enterprises with internet access raises to 87% for small SMEs and 97% for medium sized SMEs in EU 25 according to Eurostat's 2004 figures.

In Turkey, there are no extensive studies on the ICT usage of enterprises. The main obstacles about ICT usage in enterprises (99.8% of which is SMEs) are security concerns, insufficient competency of employees, high costs and rapid outdated of existing software and related technologies according to a business survey included in Information Society Strategy. Although ICT usage is not widespread, the awareness of enterprises on the importance of these technologies is rising.

The initiation of e-Transformation Turkey Project and Information Society Strategy are important instruments to ensure diffusion and to raise awareness of ICT in the business sector.

The market size of ICT in Turkey is around 14.5 billion dollars and 4.4 billion dollars of this amount belongs to IT. The number of internet users is 10 million while the number of broadband subscribers is 1.6 million by end-2005. The narrow market size of IT and the limited development in the vertical markets harden the accumulation of experience and technical expertise. Also, restricted expansion to international markets and the cost-oriented domestic competition make the growth of the sector difficult.

2.2.2. Transportation

Turkey has not yet fulfilled its infrastructure needs sufficiently. This causes a serious bottleneck in increasing the quality of life of the citizens, closing development gap among regions and the competitive power of the enterprises. Accession of Turkey to the EU will make these bottlenecks more severe with increasing demand for transport. After accession to the EU, a significant increase in the transportation demand of Turkey is expected both because of increasing trade including transit trade, and increasing movement of people. Smooth and safe transport flow over the TEN-T network necessitates well-developed infrastructure giving way to intermodal transportation, interoperability and harmonized rules for easy operation on the network through different member states. Ports as gateways and their rail and highway connections; cross border rail and highways will be important in terms of the flow between the EU and Turkey and from EU over Turkey. Currently, port capacities have serious bottlenecks, railways are not sufficient and highways need to be rehabilitated and upgraded. Accession of Turkey to the EU will also have a multiplying affect on the imbalance between transportation modes.

Failure in timely development of the necessary infrastructure for railway and maritime transport in line with increasing transportation demand, and road transport being the mode best suited for door-to-door transportation have resulted in passenger and goods transports heavily concentrating on the road network in Turkey. The road network, which is already insufficient in terms of physical standards and road density, has further deteriorated as a result of overloading beyond legal limits, and failure in timely provision of necessary funds for maintenance and repair, conversion of pavement into bituminous hot mix. As a result, an inefficient transportation system has arisen in Turkey, with significant imbalances among the modes of transport.

Table 4: Transportation Investment (Million Euro)

	2001	2002	2003	2004	2005	2006	2013 (2)	2007-'13 (2)
	(Current Prices) (1)						('06 Prices)	('06 Prices)
Transport Investment (3) (4)	3.110	3.317	2.787	3.423	5.042	5.114	8.838	49.158
Gross Fixed Inv. (Public) (3)	10.332	12.105	10.258	10.170	14.641	15.462	29.829	163.673
GDP	163.127	194.135	213.471	243.543	291.825	320.179	636.389	--
Transport Inv./GFI (Public)	30,1	27,4	27,2	33,7	34,4	33,1	29,6	30,0
Transport Inv./GDP	1,9	1,7	1,3	1,4	1,7	1,6	1,4	--
Euro/YTL Parity	1,0937	1,4298	1,6853	1,7677	1,6695	1,8000	1,8000	1,8000

(1) Main Economic Indicators - SPO (January 2007)

(2) SPO Projections

(3) Investment workers' payments and investments of local administrations included.

(4) Communication included.

In Turkey, 95% of passenger and 90% of freight transports are realized through highways in intercity domestic transportation, whereas these percentages are 84.9 and 43.5 for passenger and freight transport respectively in the average of EU-25 countries. In the EU countries, 42.9% of the freight transport is provided through maritime and inland waterways transportation, whereas 13.4% is handled through railways and pipelines. ⁽¹⁾

The total railway network in Turkey is 10,984 km of length and 8,697 km of this figure is the main lines. On this railway network, 22% is electrified and 31% is signalised. In terms of railway density, with 11.1 km/1000 km², Turkey has the lowest figure among the European Union member countries. In terms of total traffic per km which shows the utilization ratio of

¹ 2003 numbers; SPO: 2005 Program and EU Energy & Transport Statistics (2005)

the network, Turkey with 1.7 is well behind the 3.2 EU average. Moreover, Turkey also lags behind the 50% EU average with 20% of electrified lines which is important for block-train operation.

Table 5: Comparison of Railway Densities (2003)

Countries	Km of railway / 1000 km²	Km of railway / million population	Electrified Railway % 1
Czech Republic	122	941.4	31
Poland	64	520.9	60
Germany	101	437.0	55
France	54	488.6	50
EU-25	50	435.8	50
EU-15	47	396.5	52
Turkey	11	120.8	20

Source: EU Energy-Transport Statistics (2005).

Although 86% of foreign trade in terms of tonnage is realized by maritime, domestic maritime transport is very low with a figure of 3.6%. 3.3 million TEU (Twenty-Foot Equivalent Unit) containers and 200 million tons of cargo were handled in Turkey as of end-2005. Even though the total cargo tonnage handled is not low, the cargo tonnage handled per port is low compared to that of the EU Mediterranean Ports. Since large-scale port investments are not realized on time, increasing trade creates a situation in which small-scale ports and piers are constructed, which in turn disperses freight traffic. Turkey has a rapidly increasing trade, which in turn, boosts the demand for maritime transportation. The freight demand, especially for the containerised cargo, has exceeded/pressurized the capacity of some of the main ports such as İzmir, Mersin and Haydarpaşa. Turkish trade is expected to grow by 12 percent on average until 2013. Turkey's containerised cargo, which is 15 percent of total cargo at the moment, is expected to increase to at least 25 percent until 2015. Besides, it is expected that the trade and transit traffic of Turkey will increase by her accession to the EU. Hence, number of existing ports and the port capacities that are not enough at the current situation will be seriously short of the demanded capacity and new port capacities will be needed.

The share of maritime investments in total transport investments was 2.4% in the last decade. The record of Turkish flag shows improvement in maritime safety, moving to grey list from very high-risk category of black list.

Table 6: Container Traffic in Mediterranean Ports (2003)

Ports	Container (thousand TEU)
Gioia Tauro – Italy	3,149
Algeciras – Spain	2,516
Valencia – Spain	1,993
Genoa – Italy	1,606
Barcelona – Spain	1,652
Piraeus – Greece	1,605
La Spezia – Italy	1,007
Marseille – France	833
İzmir – Turkey	701
Mersin – Turkey	467
Haydarpaşa – Turkey	244

Source: EU Energy and Transport in Figures (2003), TCDD Statistics Annual (2003)

55.5 million passengers have been carried in 35 airports in 2005. Most of this traffic has been realized at Atatürk, Antalya, Esenboğa, Adnan Menderes, Dalaman, Bodrum/Milas, Adana and Trabzon Airports. There will be a need for capacity increase in these airports. There is still lack of qualified pilot and technical personnel. The need for increasing the institutional capacity of General Directorate of Civil Aviation still remains.

Development of action programs aimed at increasing traffic safety, especially in highway transportation, has become a significant issue in the world over the recent years. In Turkey, however, casualties and injuries, as well as economic losses resulting from traffic accidents remain as a serious issue. A total of 621,000 road accidents have taken place in Turkey on urban and intercity highways, with total casualties of 4,525, total number of injured reaching 154,094 in 2005. Casualties per 100 million vehicle-kms resulting from road traffic accidents are roughly five times more than the EU average.

As of beginning of 2006, the total length of motorways, state and provincial road network (excluding rural roads) is 63,714 kms, of which 31,371 kms are state roads, 30,568 kms are provincial roads and 4,424 kms are still unpaved. The total length of roads having hot-mix asphaltic pavements capable of handling heavy axle loads is only 7,080 kms (excluding motorways). Thus, pavement upgrading of approximately 8,000 kms of roads having average daily heavy vehicle traffic more than 1,000 vehicles with hot-mix asphaltic pavements is a primary issue. The multi-lane road network in Turkey currently reaches at 11,500 kms, including 1,775 kms of motorways. The new divided highways have been paved mostly with surface treatment.

Table 7: Comparison of Road and Motorway Densities**(2003)**

Countries	Km of highway / 100 km ²	Km of motorway / 1000 km ²	Km of highway / million population	Km of motorway / million population
Czech Republic	70.3	6.6	5,436	50.8
Poland	56.2	1.3	4,600	10.6
Germany	64.8	33.7	2,805	146.0
France	72.8	19.1	6,614	173.3
EU-25	47.5	14.9	4,045	127.3
EU-15	42.1	17.5	3,472	144.0
Turkey	20.1 (1)	2.3	885	24.7

Source: EU Energy-Transport Statistics (2005), Road Transport Statistics (2003), EUROSTAT

(1) Village roads with asphaltic pavement are included.

Transport Infrastructure Needs Assessment (TINA) Study determining the corridors in Turkey, which will connect Trans-European Network for Transport (TEN-T) network to Caucasian countries, Middle East and Central Asia is being continued.

2.2.3. Environment

Economical and technological development, population growth, rapid urbanization and uncontrolled consumption of natural resources have increased pressures on environment. In order to mitigate these problems, several measures have been implemented in recent years. In the context of EU environmental approximation process, significant progress has been made, especially in urban wastewater management, waste management, nature protection, noise and environmental impact assessment.

Further legislative arrangements and investments are needed for EU harmonization. Transposition and implementation of EU Acquis need to be planned with an integrated approach that should be supported with a financing plan. For that purpose, Turkey's EU Integrated Environmental Approximation Strategy has been prepared. The main objective of this strategy is to create a healthy living environment considering the economic and social conditions of the country and to approximate national legislation to the EU Environmental Acquis. The right of living in healthy and balanced environment, protection of the natural resources, taking measures for environmental protection, user and polluter pay, sectoral integration, sustainable development, public awareness, public involvement and public-private partnership are the main principles taken into account in this strategy.

According to TURKSTAT's 2004 statistics, 85.6% and 45.2% of municipal population are served with sewerage systems and wastewater treatment plants, respectively. The rate of connection to sewerage system and wastewater treatment plants in north-western Europe is above 90%. This rate is around 60% among the new 10 Member States (The European Environment State and Outlook 2005, EEA). The data related to the wastewater treatment are presented hereby.

Table 8: Sewerage Network and Wastewater Treatment Systems in Municipalities According to Population Groups in Turkey in 2004.

Population Groups	Number of residential areas (municipality and village) ⁽¹⁾	Connection to sewerage network (%)	Number of wastewater treatment plants	Percentage of population served with wastewater treatment plant services
>100,000	58	95.9	33	70.5
99,999-50,000	77	89.9	15	26.6
49,999- 10,000	450	81.1	79	17.1
9,999-2,000	2,206	55.1	90	4.0
<2,000	345	53.4	25	1.5
Total	3,136	85.6	242	45.2

Source: TURKSTAT, 2004

(1) Number of district and subdistrict municipalities within metropolitan municipalities are not included as they are served by metropolitan municipalities.

It should also be noted that although 242 municipalities have a wastewater treatment plant, a total number of 319 municipalities are connected to wastewater treatment plant. Moreover the total number of wastewater treatment plants in municipalities in 2004 was 172, of which 137 is secondary and tertiary treatment facilities.

As of 2004, 98.6% of municipal population has access to tap water, and 42.3% of municipal population has access to water -treated by drinking water treatment plants- 40.1% of potable water is supplied from dams, 27.8% from wells, 27.5% from springs, 2.9% from rivers and 1.8% from lakes or ponds. Nevertheless, approximately 50% of the supplied drinking water is lost in the water supply system due to leakages and non-charged uses.

In terms of solid waste management, 2004 statistics show that there exist 16 sanitary landfill areas with total capacity of 278 million tons, 5 composting facilities with total capacity of 667 thousand tons for domestic waste and 3 incineration facilities with total capacity of 44 thousands tons for medical and hazardous waste. Of the 25 million tons of solid waste collected by municipalities, 65.6% is disposed in dumping sites, 28% is disposed in controlled landfills, 1.7% is buried, 1.4% is composted, 0.6% is dumped into lakes and streams, and 0.4% is burned in open areas. . It should also be noted that only hazardous and medical waste are incinerated in Turkey. The ratio of the population served by solid waste disposal sites is around 25%. The percentage of the solid waste disposed in landfills and incinerated are 46% and 17.5% in EU-25 countries respectively (EUROSTAT, 2004). As it is seen from these statistics, the level of waste management service is low in Turkey compared to that of the EU. According to TURKSTAT's 2004 municipal solid waste survey results, the amount of solid waste per capita is 1.30 kg/day and 1.29 kg/day for summer and winter respectively. The amount of solid waste per capita is 1.55 kg/day for EU-15 and 1.43 kg/day for EU-25 countries. (EUROSTAT)

However, some of the previously constructed drinking water, wastewater and solid waste disposal facilities partially meet EU standards and some of these facilities are not operated efficiently.

Municipalities that are responsible for disposal of domestic waste do not pay sufficient attention to this issue due to lack of finance, qualified staff and technical infrastructure. Especially, wild dumping, selections of wrong dumping sites and insufficient solid waste management have led to environmental problems.

Medical wastes are disposed with municipal solid waste, without taking adequate measures. As of 2004, 62 thousand tonnes of medical waste is collected separately from 578 municipalities. Of this amount, 20.4% is disposed of in controlled landfills, and 13.4% is incinerated.

In addition, 877 thousand tonnes hazardous waste were disposed of in 2004 by manufacturing industry. Of this amount 67% was landfilled in controlled landfills sites, 21% was incinerated and 12% was disposed of by other methods.

Inefficiency in solid waste management is mainly originated from three major problems: lack of a policy framework guiding implementation, insufficient information about the composition and quantity of solid waste and lack of public awareness about minimization of solid waste and separation at the source.

To overcome financial difficulties and to benefit from economies of scale in urban infrastructure, a common solution between municipalities was taken into consideration. Law No. 5355 on Local Administration Unions has facilitated cooperation among local administrations for water, wastewater and solid waste services as well as projects for protecting environment and ecological balance. While prioritising urban environmental infrastructure, international conventions such as DABLAS and Barcelona Convention have been taken into consideration.

Extensive urbanization, rapid population increase, industrialization, improper settlement in terms of topographical and meteorological conditions and usage of low quality fuels are the main reasons for Turkey's air pollution.

Erosion, degradation of organic matters, soil pollution, hydrogeological risks, salinization, loss of biodiversity and loss of land are the main factors threatening soil resources.

The infrastructure for marine, water and air pollution monitoring should be developed in addition to clarifying tasks and responsibilities of related institutions. Relevant legislative structure should be established for effective monitoring and enforcement.

Turkey has an important place in the world with its richness in biodiversity and endemic species due to its geographical position. It was identified that the number of endemic vegetative species is more than 3,000. This amount constitutes of 33% of total vegetative species in Turkey. 75% of the total vegetative species of Europe are found in Turkey. Turkey is rich in the diversity of species; however, it is not valid for their population. Sustainable protection of biodiversity is a challenging issue due to pollution of living environment of the species, deficient implementation of legislation, pressure of economic activities, and insufficient coordination in environmental management.

The national biodiversity and genetic resources should be protected, improved and utilized. For this purpose, there is a need for foundation of independent research institutions as reference centres.

Projects for establishment of environmental database have been completed within the scope of the EU harmonization studies. The technical infrastructure of institutions collecting environmental data should be improved to establish an integrated system that enables sharing information. Monitoring facilities will be supported under Component 1.

2.2.4. Human Resources Development

The improvement of quality and competitiveness of human capital plays a key role in achieving higher standards of living. The transition towards a knowledge based economy capable of sustainable economic growth with more and better jobs and improved accessibility and quality of education and labour market bring new challenges to the development of human resources. Developing human capital leads to higher employment, income and also greater social inclusion. Because, by investing in human resources including disadvantaged groups, people acquire new knowledge and skills, achieve equal opportunities and guarantee their all adequate participation in the society.

Turkey used to have a young and dynamic population. However, population increase rate has declined in time and it is expected that this downward trend will continue in the future. The working age (15-64) population will increase and it is expected to reach the highest share (69%) in total population in 2023. This indicates that growth in labour force is greater than growth in general population, which would be a "demographic window of opportunity" for Turkey in the future. To take advantage of this opportunity, human resources development is considered as one of the key intervention areas.

Employment: Low labour force participation and employment rates, high level of unemployment, rapid employment decrease in agricultural sector which still shelters nearly one-third of total employment, low qualifications of labour force, weak linkage between education and employment are major problems of employment in Turkey.

In the framework of harmonization with the EU, the Employment Background Study, which was the first step of participation in the European Employment Strategy, was prepared in 2003. The Joint Assessment Paper (JAP) which is the second step in this process is planned to be completed in the early 2007. JAP will cover significant issues regarding employment and the priorities and policies for employment. JAP provides a diagnosis of the situation and challenges in human resources development, especially in employment.

Compare to EU averages, labour force participation rate and employment rate is low. One of the major reasons behind this is low participation of women in employment and labour force. While the labour force participation rate for men is very close to the EU-25 average level, the labour force participation rate for women is 36 percentage point behind the EU-25 average. Employment rate for women is fairly behind the EU-25 average as well.

Table 9: The Main Employment and Labour Force Indicators**(percent)**

	Turkey					EU-15					EU-25
	1995	2000	2003	2004	2005	1995	2000	2003	2004	2005	2005
Labour Force Participation Rate (LFPR), (15-64)	56.8	52.4	51.1	51.5	51.3	67.2	69.2	70.1	70.6	71.0	70.2
- LFPR (Female)	33.7	28.0	28.1	27.0	26.5	56.6	60.0	61.6	62.6	63.2	62.5
- LFPR (Male)	80.5	76.9	74.0	76.1	76.2	77.8	78.3	78.6	78.6	78.9	77.8
Employment Rate (15-64)	52.7	48.9	45.5	46.1	45.9	59.9	63.2	64.3	64.5	65.2	63.8
- Employment Rate (Female)	31.5	26.2	25.2	24.3	23.7	49.6	53.9	56.1	56.5	57.4	56.3
- Employment Rate (Male)	74.6	71.7	65.9	67.9	68.2	70.3	72.5	72.6	72.4	72.9	71.3
Unemployment Rate (15+age)	7.6	6.5	10.5	10.3	10.3	10.7	8.4	8.1	8.3	8.2	9.0
Youth Unemployment Rate (15-24)	14.7	13.0	20.5	19.7	19.3	21.2	16.1	15.5	16.2	16.8	18.6
Unemployment Rate (15-64)	7.1	6.7	10.8	10.6	10.5	10.8	8.5	8.2	8.4	8.3	9.1

Source: TURKSTAT, EUROSTAT, OECD Employment Outlook 1999 and 2000.

The gap between male and female labour force participation rates is more evident in urban areas than rural areas. Labour force participation of women is low since the women labour force coming out due to the continuous decrease in share of agriculture in the economy. This women labour force is unqualified, and cannot meet the increasing requirements of the labour market in terms of labour force supply. Unqualified women lose their hopes to find a job, cease to look for a job and go out of the labour force. Also, limited child-care and elderly-care services in urban is an obstacle for labour force participation of women.

Unemployment, which is one of the most fundamental issues of Turkey, has been stable in recent years. While the unemployment rate was 6.5% in 2000, it increased to 10.3% in 2005. Especially after 2001 financial crisis, the performance of employment growth has been weak when compared to the high growth rates experienced in the economy. However, the growth rate of non-agricultural employment has been very high in this period. Particularly in 2005, the growth rate of non-agricultural employment (8.1%) exceeded the growth rate of non-agricultural sectors (7.2%). Besides, unemployment rate of non-agricultural sector decreased from 15% in 2002 to 13.6% in 2005. Although Turkey has experienced jobless growth period in term of overall economy, there has been significant job creation when non-agricultural sectors are considered.

Although the share of agricultural employment in total employment is following a declining trend, it still constitutes 1/3 of total employment and is much higher compared to the 3-4% agricultural employment in the EU countries.

Table 10: Sectoral Distribution of Employment for 15+ Age Group (percent)

	1990	2000	2002	2003	2004	2005
Agriculture	46.9	36.0	34.9	33.9	34.0	29.5
Industry	15.3	17.6	18.5	18.2	18.3	19.4
Services	37.7	46.3	46.6	47.9	47.7	51.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: TURKSTAT

Dissolution from the agricultural sector and migration from rural to urban areas due to the reform in agricultural sector, have important effects on the labour market. The emergence of the excess low-skilled labour force, which was previously considered to be employed in agricultural sector, and their migration to urban areas has led to lower labour force participation rates, lower employment rates, lower productivity and higher unemployment especially for women.

The difference in increasing rate of 15+ age population and employment brings a challenge of creating jobs for all the new entrants in the labour market. For example, in 2002-2005 period, while the average annual increase in 15+ age population was 1.9%, the average annual increase in employment was 0.6%. This situation can be inferred also from the youth employment figures in Turkey. When the unemployment rate is categorized with respect to age groups, the unemployment rate of 15-24 age group is the highest and is followed by 25-34 age group. According to 2005 figures, the unemployment rate of 15-24 age group is 19.3%, which is nearly two times of the general unemployment rate. Youth unemployment is higher than the average despite the low labour force participation rate of young.

The low qualification of labour force is an important factor lowering labour productivity. 67.3% of the labour force, 68% of employment and 60.5% unemployment in Turkey consist of people who are below secondary level education.

Unregistered employment, especially in agricultural sector, is an important problem in labour market of Turkey. 88.2% of total agricultural employment and 34.2% of total non-agricultural employment is unregistered. Due to unregistered employment some of the workers have no accessibility to social insurance services. Also people working in unregistered sector are deprived of recognised labour rights, legal health and safety rules. These people are mainly covered by social services and assistance system instead of social insurance.

According to 2005 figures, the region with the lowest labour force participation rate is TRC3 with 33.7%. This situation mainly results from the fact that female participation rate is very low in this region. The same year, the regions with the lowest unemployment rates are TRA2 and TRA1 with 3.2% and 4.7% respectively. Low unemployment rates of the regions TRA2 and TRA1, which are the regions below 75% of average national income, is due to the fact that unpaid family workers consists of the highest part of total employment when compared with other NUTS-2 regions. In 2005, the regions with the highest unemployment rates are TRB1, which is a region below 75% of average national income, and TR62, which is a region receiving intense migration, with 18% and 17.2% respectively.

The institutional and administrative capacity of the Turkish Employment Agency (İŞKUR) has been strengthened since 2003. To strengthen the linkage between employment and

education there are some efforts towards improving the relation between provincial employment boards and provincial vocational education boards and increasing the effectiveness of these two boards. However, further efforts are needed to increase the institutional capacity of Ministry of Labour and Social Security and İŞKUR, especially İŞKUR's local offices, and all relevant actors.

Education and Vocational Training: A well-educated and trained population is important for the economic and social welfare of countries and individuals. The level of educational attainment of the population used as a common proxy for the stock of “human capital” is low in Turkey.

Turkish education system has achieved substantial progress over the past years in accordance with the objectives of Lisbon Agenda. The duration of compulsory primary schooling was extended from 5 to 8 years in the 1997-1998, and enrolment rate in primary education increased to 95.5% in 2005-2006. Also, 220,000 girls, who have never gone to school before, have attended to schools under “Girls, Let's Go to School” campaign that has been initiated to balance the disparity of gender in schooling.

Share of central government education budget within GDP has increased, as it was 2.93% in 2001 and 4.15% in 2006. Ministry of National Education (MoNE) has initiated the “100% Support Campaign for Education” to provide the contribution of citizens and 21,000 classrooms were built in the scope of this campaign. In the context of social assistance system, 1.5 million children have obtained cash transfer support during their education by November 2006. On the other hand, ICT rooms were constructed in all schools that have 8 and more classrooms, and internet linkage was installed in all schools.

Average percentage of 25-64 years olds in Turkey with at least upper secondary education is 26%, which is well below the average of EU with the 65.7%. On the other hand, average percentage of 25-34 years olds in Turkey with at least upper secondary education increased from 31% in 2002 to 33% in 2003. Moreover, the average years of schooling in Turkey (9.6 years) is close to OECD averages (11.8 years), which is a promising figure for future performance of Turkey.

In the framework of lifelong learning, which is one of the priorities of Turkey, as of 2005, 100,000 teachers have received education on information technologies through distance education. As of 2004, 3,451,515 people attended public education centres affiliated to the General Directorate of Apprenticeship and Non-formal Training, as well as the formal or non-formal private education institutions under the supervision of MoNE. This figure roughly accounts for 10% of adult population.

Despite these improvements, problems in terms of educational attainment, quality of education and vocational education still exist. These limitations undermine opportunities for Turkish workers, as well as the nation's competitiveness as a whole.

Unsatisfactory level of quality in education, low enrolment rates in secondary education, lack of incentives for vocational education, inability to establish vocational education-employment relationship, inability of creating sufficient capacity at higher education, lack of alternative paths for secondary education graduates are major problems of education system.

The participation level in the preschool education aged 4-5 is around 20% due to low social awareness, whereas in Europe this indicator is around 85%. In primary education, late

enrolments, drop-outs and problems of girls' access to education are main factors hindering the desired level of increase in enrolment rate. At the end of 2004-2005 school year, while the rate of girls among those graduated from primary education is 45.7% throughout Turkey, this rate decreases to 25% in some provinces. According to 2002 Household Budget Survey, 72.2% of children who do not attend to education are girls. Besides development in enrolment rates, some efforts took place for increasing quality. The new curriculum, that puts an emphasis on "student-centered learning" for primary education, was introduced in the 2005/06 school year throughout the country. Some efforts are being carried out to update secondary education curricula.

Enrolment rate in secondary education is 85.2% in total, 95.1% for males and 74.9% for females. On the other hand, in 2004-2005 school year, the rate of school drop-outs after compulsory primary education is 10.5% for boys, 19.0% for girls and 14.0% in total. Drop-out rates in primary and secondary education are higher, especially for girls in east and southeast regions of Turkey due to traditions and low income of families. For instance, shares of female students in secondary education are 28.48% and 29.75% in TRB2 and TRC3 regions respectively while the average of Turkey is 43.39%. Youth education attainment level in Turkey is low compared to EU-25. In 2005, percentage of the population aged 20 to 24 having completed at least upper secondary education is 44%, which is 77.5% in EU-25. This situation makes transition from school to employment difficult for youth. Turkey is far behind the targets with respect to youth education attainment level (85%) and early school leavers (10%) in Lisbon agenda.

Table 11: Youth Education Attainment Level and Early School Leavers (percent)

	Youth education attainment level *			Early school leavers **		
	2000	2003	2005	2000	2003	2006
	Total			Total		
EU-25	76,6	76,9	77,5	17,3	16,2	15,1
Turkey	38,6	44,2	44	58,8	53	50
	Male			Male		
EU-25	79,5	79,5	80,3	19,5	18,1	17,4
Turkey	46,4	52,6	51,3	65,8	61,3	56,6
	Female			Female		
EU-25	73,7	74,2	74,7	15,2	14,2	12,8
Turkey	32	37,2	37,8	51,2	44	42,7

Source: Eurostat

* Percentage of the population aged 20 to 24 having completed at least upper secondary education

**Percentage of the population aged 18-24 with at most lower secondary education and not in further education or training

Transition rates from primary education to secondary education in 15 NUTS-2 regions are below the average (86.5%) of Turkey. Moreover, 10 of these 15 regions are the regions below 75% of average national income.

In recent decades the access of the school-age population to education has been expanded significantly. However, the quality of education remains low at the majority of schools, which is verified by very low results of Program for International Student Assessment (PISA) seeking to assess how well 15-year-olds are prepared for life's challenges despite high

achievement of selective schools (science and Anatolian schools). Especially in provinces taking migration, number of students per classroom is high, which deteriorate the quality of education. Reduction of regional disparities in the education and training, equal access to education services and improvement of the quality of education services will all contribute to the integration of disadvantaged people into the labour market and the society. The curriculum, structure of education and training, infrastructure, qualifications of teachers and hardware including ICT technologies coherent with reviewed curricula needs to be improved.

Although labour market demands well-trained vocational graduates, unemployment rate among vocational education graduates is also high (13.3%) due to the discrepancy between vocational education and the needs of labour market. This situation creates both unemployment and vacant positions simultaneously. The same problem is also relevant with the deficiency of mid-level manpower. On the other hand, shares of vocational stream in secondary education in 14 NUTS-2 regions are below the average (36.4%) of Turkey. Moreover, 9 of these 14 regions are the regions below 75% of average national income.

Focusing on the key transition period (ages 20 to 24) illustrates the changes both in the prevalence of unemployment and in withdrawal from the labour force – both representing non-employment– among individuals who have left education. Between 1998 and 2004, there is no improvement in the proportion of non-employment, which is very high compared to EU-19 average and OECD average. Also, non-employment rate for age group (25-29), a period youth are expected to have finished their education most probably, increased from 1998 to 2004.

Table 12: Trends in the Percentage of the Youth Population in Education and not in Education

	Age Group	1998			2001			2004		
		In education	Not in education		In education	Not in education		In education	Not in education	
		Total	Employed	Not employed	Total	Employed	Not employed	Total	Employed	Not employed
Turkey	15-19	40,2	32,1	27,7	41,0	26,7	32,3	43,5	21,2	35,3
	20-24	13,4	44,7	42,0	12,7	43,1	44,2	13,0	39,1	47,8
	25-29	2,9	60,4	36,7	2,6	57,1	40,2	3,1	54,0	42,8
OECD average	15-19	80,2	11,2	8,6	80,4	11,4	8,2	82,8	9,5	7,7
	20-24	35,2	46,9	18,0	36,7	46,7	16,5	40,7	42,6	16,7
	25-29	12,8	67,1	20,1	12,6	68,8	18,6	15,8	65,5	18,7
EU-19 average	15-19	83,7	8,5	7,8	83,8	9,0	7,2	86,4	7,2	6,3
	20-24	36,7	45,2	18,1	38,1	45,6	16,3	42,6	41,2	16,2
	25-29	12,8	66,5	20,7	12,2	69,2	18,6	15,9	65,7	18,5

Source: OECD Education at a Glance

In order to increase the sensitivity of education to labour demand via raising human resources in areas demanded by the economy and providing education and labour market with a more flexible structure, development of a coherent and comprehensive lifelong learning strategy, which integrates the principles of flexibility and adaptability in a learner-centred approach and promotion of participation in learning, is necessary.

Also, the accumulation in higher education continues due to ineffective orientation to vocational training, improper establishment of the relation between education and employment and insufficient capacity generation in higher education.

Social Inclusion: Some segments of society are subject to social exclusion in terms of benefiting from health and education services, cultural possibilities, from taking part within labour market and therefore integrating into society at large. Those are, in the meantime, the most vulnerable segments to the poverty risk. To improve the integration of these segments with society is important in both for economic and social respect.

Joint Inclusion Memorandum (JIM), which has been prepared since 2004, provides a first diagnosis of the situation and challenges in human resources development, especially in social inclusion.

Though the values are not known between 1994 and 2002; Gini coefficient, which was 0.49 in 1994, has decreased to 0.38 in 2005. The macroeconomic stability sustained especially after 2001, the decreasing trend in inflation rate, increasing rate of social transfers towards low-income groups and improvements in sectoral policies especially in education and health can be listed as reasons of this improvement.

Even though there have been improvements in income distribution and in poverty reduction, the income distribution and poverty indicators are still behind the EU average. The poverty rate² is 26% on average for Turkey, which is above the EU-25 average of 16%. Although the level of food poverty is not very high, a considerable portion of the population is living close to the food and non-food poverty line.

Table 13: Poverty Rates (Percent)

Methods	Turkey				Urban				Rural			
	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005
Food Poverty	1.35	1.29	1.29	0.87	0.92	0.74	0.62	0.64	2.01	2.15	2.36	1.24
Poverty (food+non-food)	26.96	28.12	25.60	20.50	21.95	22.30	16.57	12.83	34.48	37.13	39.97	32.95
Below 1 \$ (per capita per day)	0.20	0.01	0.02	0.01	0.03	0.01	0.01	0.00	0.46	0.01	0.02	0.04
Below 2,15 \$ (per capita per day)	3.04	2.39	2.49	1.55	2.37	1.54	1.23	0.97	4.06	3.71	4.51	2.49
Below 4,3 \$ (per capita per day)	30.30	23.75	20.89	16.36	24.62	18.31	13.51	10.05	38.82	32.18	32.62	26.59

Source: TURKSTAT

Despite the increasing effect of social transfers on income distribution, there are still problems for poor without social insurance since important portion of social transfers is composed of pensions. The poverty rates before and after transfers indicate that the effects of social transfers in redistribution of income in Turkey are rather limited in comparison with EU-25. The poverty rates before and after transfers are 26% and 16% in EU-25 and 30% and 26% respectively in Turkey. The people who are not under the coverage of social insurance are supported by social services and assistance system. However, there are problems in social services and assistance system, such as lack of coordination among the institutions, insufficient database and inadequate qualified staff.

² The poverty line is set at 60% of national equalized median income. The figure for Turkey is 2004 figure.

The poverty rate decreases as the level of education rises. According to food and non-food poverty line, for people over 6 years of age, the risk of poverty by education level is 37.81% for the illiterate and 0.79% for at least tertiary education graduates in 2005. Besides, poverty is higher in rural areas than urban areas. This situation is supported by the facts that unpaid family workers are the poorest part of the population according to employment statues and agricultural sector is the poorest sector according to employed sector. Unpaid family workers are mostly employed in agricultural sector and constitute the highest part of the unregistered employment, thus they are excluded from social insurance. Besides, there are problems in rural areas in access to basic social services especially education and health services and there are limited non-agricultural activities. Consequently, all these situations pave the way for the impoverishment of the population living in the rural areas and partly for the migration to cities. Migration to cities from the rural areas, insufficiency of social and physical infrastructure in urban areas cause the emergence of unlawful building and slum areas of low environmental quality which is the gecekondü problem. Like other poor groups, the people who migrated to urban and settled in these areas tend to be employed in informal sectors due to their low educational attainment and low skills to be employed in non-agricultural sectors. Although municipalities have recently developed many transformation projects towards gecekondü areas, the challenges faced by their inhabitants are still very relevant.

In order to increase the accessibility of health services especially for the poor and disadvantaged people, Universal Health Insurance Law, which covers the whole population, has been adopted and it is expected to come into force in the beginning of 2008. Although it has been given priority to immunization and preventive health programs in recent years, the need of improvement and financial support for preventive health still remains. Moreover, although some improvements have been achieved in the physical and personnel condition of the primary health care services, there are still needs for further improvements to decrease the intra/inter regional and rural/urban disparities in accessibility of health care services.

In SCF, besides regional concentration, there is also thematic concentration. This prioritisation will be done so that human capital and living standards of all population are affected positively. The focus groups have difficulty mainly in accessing labour market and education opportunities.

Since, the poverty figures are based on household surveys that assume an equal share of the resources, the risk-of-poverty rate for women is close to that of men. Women in rural areas are mostly employed in agricultural sector as an unpaid family worker without social security and women in general have low level of education. Besides, the women migrated to urban areas have low labour force participation level especially because of insufficient qualifications, problems in care of children and the elderly in the household, traditional roles attached to women and prejudices against women. These are the reasons for women to be poor and socially excluded, especially for the women migrated to urban from rural and the women employed in agricultural sector without social security.

Labour force participation rate of people with disabilities is low due to the social life areas restricting their mobility, insufficient work places and limited demand. 36.3% of the disabled by orthopedic, mental, speech and verbal, auditory and visual categories and 24.8% of the chronically disabled are illiterate. Unemployment rate for the chronically disabled is 10.8, whereas the same rate is 15.5 for the orthopedically, mentally, speech-verbally, auditorily and visually disabled.

The negative conditions especially after migration to urban increase child labour, limit educational attainment of children and cause child abuse and neglect. The worst forms of child labour in Turkey are referred to as working on the street, in heavy and dangerous, and mobile and temporary agricultural jobs. According to TURKSTAT Child Labour Force Survey 1999, 10% of 16 million children at the age of 6-17 are working.

2.3. Regional Disparities

IPA assistance under components III and IV aims to support Turkey for convergence with EU, reduction of regional disparities, increasing employment and improving social inclusion. Since reduction of regional disparities is one of the main aims of IPA assistance, it will be useful to depict firstly existing situation of regional development disparities.

Currently, there is significant development gap between Turkey and EU. Table 12 shows GDP per capita levels comparing the most and the least developed regions of Turkey and those of EU-25. It is seen in the table that GDP per capita level of the least developed regions of EU are close to most developed regions of Turkey.

Table 14: GDP per capita Index in NUTS II Regions (In PPS, EU-25=100)

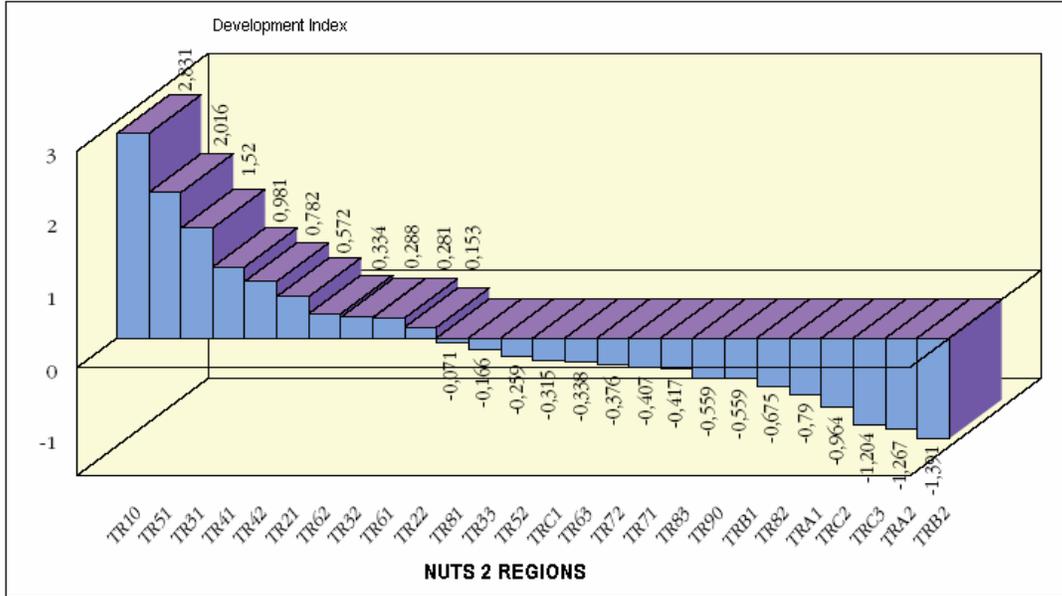
Most Developed 5 Regions in EU			Least Developed 5 Regions in EU		
1	Inner London (UK)	269	1	Podkarpackie (Poland)	33
2	Bruxelles-Capitale (Belgium)	238	2	Lubelskie (Poland)	33
3	Luxembourg	215	3	Warmińsko-Mazurskie (Poland)	35
4	Hamburg (Germany)	193	4	Świętokrzyskie (Poland)	35
5	Île de France (France)	177	5	Podlaskie (Poland)	36
Most Developed 5 Regions in TR			Least Developed 5 Regions in TR		
1	TR42 (Kocaeli, Bolu, Sakarya, Yalova, Düzce)	51	1	TRA2 (Ağrı, Kars, Iğdır, Ardahan)	9
2	TR31 (İzmir)	40	2	TRB2 (Van, Muş, Bitlis, Hakkari)	9
3	TR10 (Istanbul)	38	3	TRC3 (Mardin, Batman, Şırnak, Siirt)	12
4	TR51 (Ankara)	34	4	TRA1 (Erzurum, Erzincan, Bayburt)	13
5	TR21 (Tekirdağ, Edirne, Kırklareli)	34	5	TRC2 (Şanlıurfa, Diyarbakır)	14

Source: EUROSTAT, TURKSTAT, 2001

In addition to the regional development disparities between EU and Turkey, Turkey has imbalances in socio-economic structure and income levels both between its urban and rural settlements and among its regions. As a matter of fact, GDP per capita level of the most developed region of Turkey (TR42) is nearly 6 times that of the least developed region (TRA2).

Regional disparities among the regions of Turkey can also be observed in the figure below showing the Socio-economic Development Index Ranking of NUTS II Regions. This ranking is produced by using 58 socio-economic variables including demographic, employment, education, health, industry, infrastructure and financial indicators.

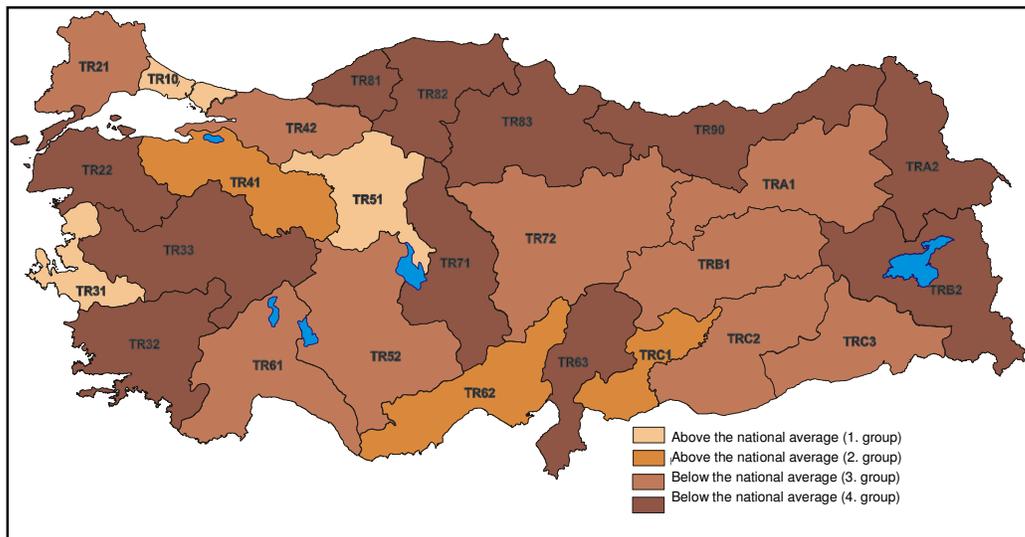
Figure 2: Socio-economic Development Index Ranking of NUTS II Regions



There are several aspects of regional development disparities in Turkey. In order to reveal these different aspects, main social and economic development indicators will be analyzed in this section. This analysis will put the ground for drawing the frame of geographic and sectoral concentration.

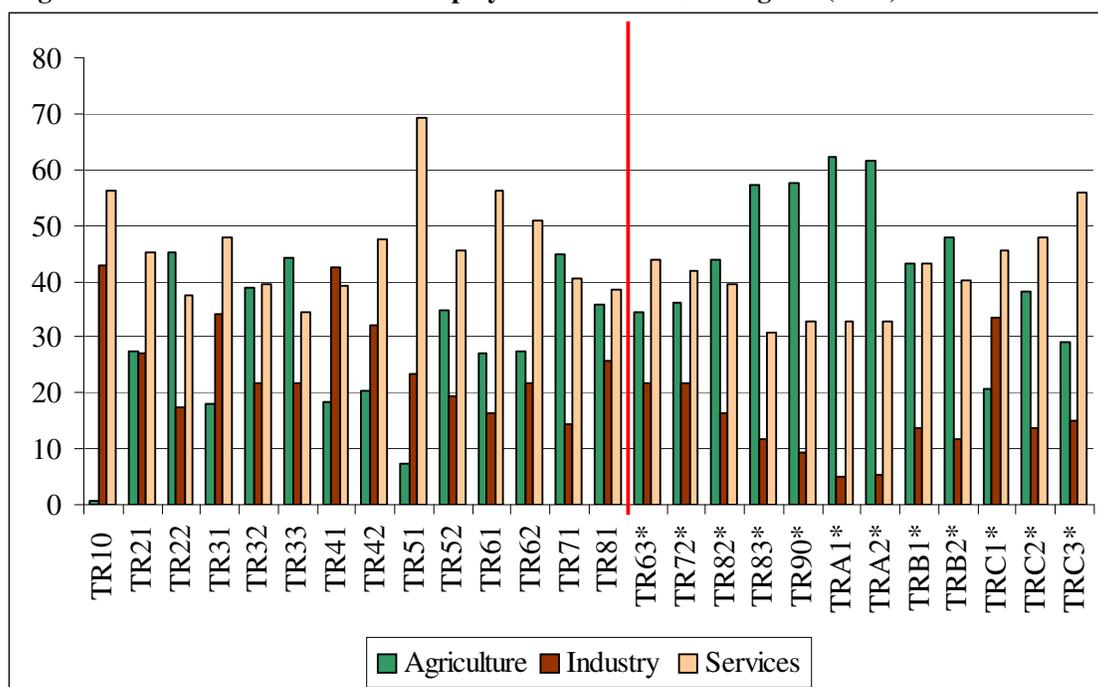
When urbanization rate of eligible 12 NUTS II regions determined by the MIPD criteria are considered and compared with the whole country, it is observed that all the eligible regions except TRC1 have urbanization rates below the national average. The map below classifies the regions according to urbanization rates. Although six of the eligible regions have more rural characteristics as classified under the fourth group, the other six eligible regions are close to national average. Urbanization rate will be one of the determinants of intervention tools for regions having different characteristics.

Figure 2: Urbanization Rate of NUTS II Regions (2000)



In parallel to low urbanization rates, share of agricultural employment is quite high in most of the eligible regions. According to the results of Household Labour Force Survey (2005), none of the eligible regions has industrial employment higher than primary (agricultural) and tertiary (service) sectors. On the other hand, in six eligible regions agricultural employment dominates the employment in other two sectors.

Figure 3: Sectoral Distribution of Employment For NUTS II Regions (2005)



* Eligible NUTS II Regions

High share of employment in agriculture is also highly associated with low productivity of labour force in general. In addition to low efficiency in economy because of domination of agriculture, inefficiency is also seen by taking the number of enterprises employing more than 10 people into account. Although 37% of total population lives in eligible 12 NUTS II regions, only 14% of enterprises employing more than 10 people are located in these regions. Relatively small and low technology enterprises in these regions prevent economies of scale and cause inefficiency.

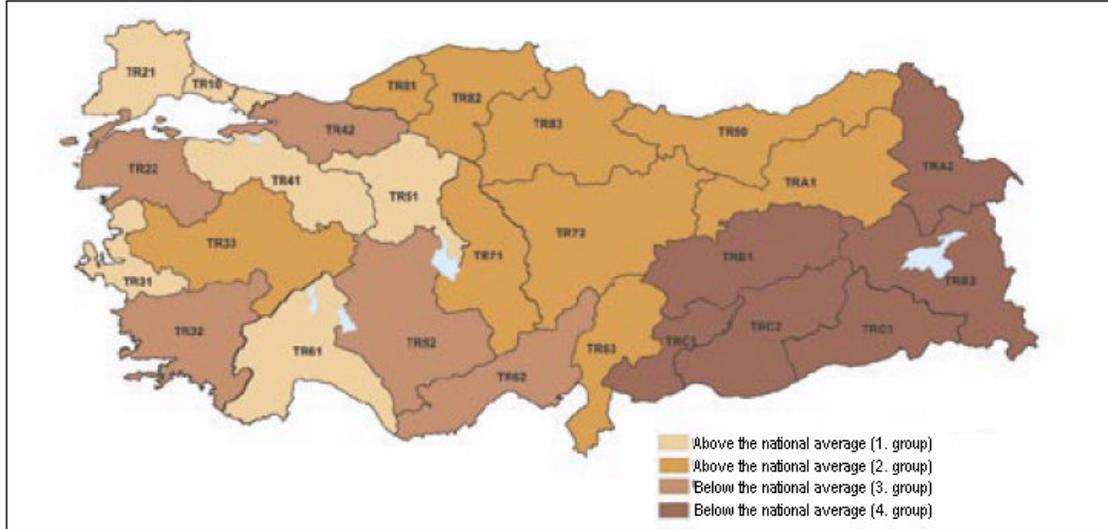
One of the pillars to increase economic efficiency is to catch certain standards for human resources. In this context, literacy rates and the ratio of university graduates over 22+-age population can be used to see the discrepancy in terms of human resources characteristics among the regions.

According to the 2000 Population Census, literacy rate is 87,3% in the 6+ age group throughout country and this rate is 93,9% for men, and 80,6% for women. In the 15+ age group, these rates are 86,5%, 94,4% and 78,5% respectively. Literacy rate is lower for women than for men throughout country and in all NUTS II Regions.

Regarding the eligible regions, it is seen that all eligible regions fall either third or fourth group in terms of adult literacy. Except TRA1 NUTS II Region, all eligible regions in Eastern Anatolia and South-Eastern Anatolia Region are in the fourth group.

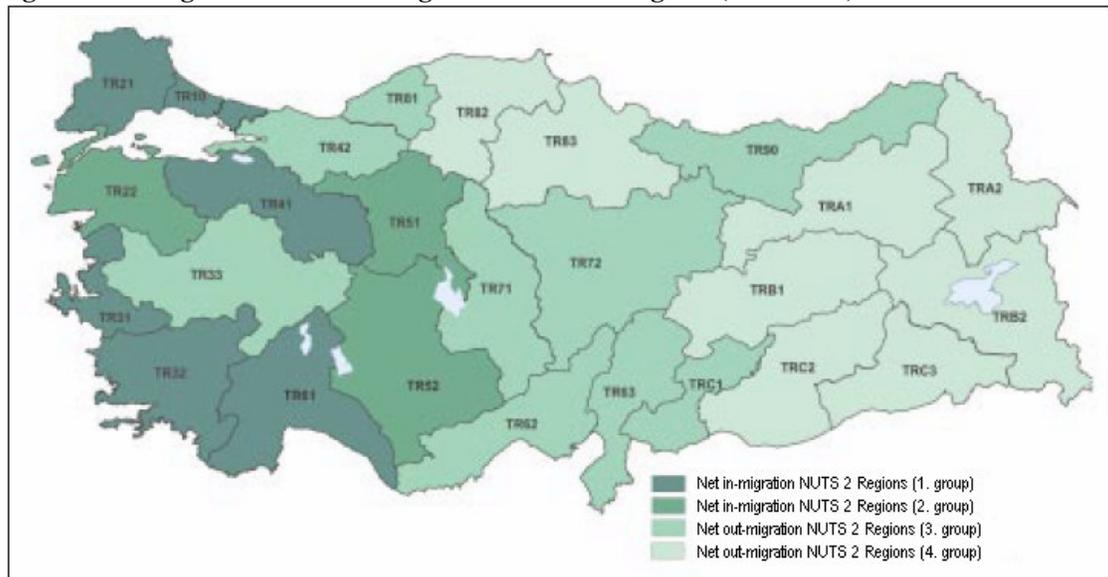
Besides, considering the ratio of university graduates among 22+ age population, the figure is 5,66% for eligible NUTS II regions while Turkey average is 8,42%. The low ratio of university graduates in these regions affects the quality of human resources and entrepreneurship level in a negative way. These figures reveal the necessity to emphasize interventions for human resources in these regions.

Figure 4: Adult Literacy Rate For NUTS II Regions (2000)



This social and economic structure leads internal migration that cannot be absorbed by the employment opportunities of metropolitan cities. According to the 2000 Population Census; for the period 1995-2000, 4.469.952 people migrated from one NUTS II region to another. Considering the eligible regions, approximately 1,5 million people migrated from eligible regions to other parts of country while only 700.000 people migrated into the eligible regions in this period. In respect of net migration rate, none of the 12 eligible regions produced positive migration rates (i.e. net in-migrants) in 1995-2000 period.

Figure 5: In-Migration And Out-Migration NUTS II Regions (1995-2000)



As a conclusion, it can be inferred from this picture that there is a structure in Turkey that requires an integrated regional development policy including the measures differentiated according to the problems and potentials of relatively less developed regions. SCF as a strategic framework for component III and IV of IPA assistance will ensure this integrated regional development approach without undermining the competitive advantages of some high potential centers within 12 eligible convergence regions.

2.4. SWOT Analysis

Table 15: SWOT Analysis

Strength	Weakness
<p><u>General</u></p> <ul style="list-style-type: none"> • Young and dynamic population • Turkey’s strategic geographical position • Increased confidence due to political and macroeconomic stability • Independent monetary policies and strong fiscal discipline • High and sustainable growth rates and decreasing inflation • Wide consensus on macro policies • High levels of trade volume • Increased employment in industry and service sector • Structural reforms in key areas (banking, health, privatisation, social security, decentralization) • New institutions and improved governance (e.g. independent regulatory agencies, development agencies, participatory mechanisms at local level, ombudsman) • Rapidly growing sectors (automotive, electronic, tourism etc) • Transit country position of Turkey on energy corridors <p><u>Competitiveness</u></p> <ul style="list-style-type: none"> • Establishment of development agencies which will mobilize local/regional development initiatives • Availability of systematic R&D support mechanisms • Completed Organized Industrial Zones and Small Scale Industry Estates • Active Technology Development Zones and Technology Centers • Research centers for frontier technologies such as biotechnology, nanotechnology, etc. • Existence of Information Society Strategy • The substantial increase in public R&D investments starting from 2005 and the initiation of Turkish Research Area programs. • Reform Program for Improvement of Business Environment • Advantages of the market size in Turkey • Various industrial subsectors • Diversity in natural resources, historical heritage and favourable climate for tourism 	<p><u>General</u></p> <ul style="list-style-type: none"> • Significant development disparities among regions • Inadequate infrastructure • Scattered and disorganized settlement • Limited capacity of local administrations • Insufficient coordination between institutions at local and national level and conflict of authority • High level of unemployment • Unregistered economy • Low skill level of labour force • High level of current account deficit • Low level productivity, especially in agricultural sector • Decline of competitive advantage in traditional sectors (e.g. textile) <p><u>Competitiveness</u></p> <ul style="list-style-type: none"> • High costs of finance for entrepreneurs and difficulties in access to finance • Inefficiency of SME support mechanisms • Insufficient access to industrial information and consultation • Industry structure based on low technology and low labour cost • Low share of high technology products in exports • Insufficient innovation capabilities and use of old technologies • Insufficiency in design and new brand formation • Insufficient awareness of SMEs on quality, standards, R&D and innovation • The lack of cooperation between industry and universities • Insufficient overall research infrastructure • Insufficient number of researchers • Insufficient R&D investments, particularly by the private sector • Low utilization level of resources of EU Science & Technology Framework Program • The low penetration level of ICT technologies and insufficient e-commerce activities • Insufficiencies in tourism infrastructure, service quality, advertisement and marketing

<ul style="list-style-type: none"> • Proximity to EU and other regional markets <p><u>Transport</u></p> <ul style="list-style-type: none"> • Turkey's strategic position regarding the transit transport between Europe and Asia, as well as Europe and Middle East • The existence of well-organized firms with high capacity fleet in international road transport • Existence of firms with international experience in the construction of transportation infrastructures and skilled human resource in these firms. • The geographical position of existing and potential Turkish ports as convenient nodal and hub points in TEN-T network. • Political support to railways sector. • Existence of experienced firms that construct and repair the rolling stock • Economic advantages due to formerly established free trade zones • Rail transport without transfer after the completion of Marmaray project • Restructuring of TCDD • Starting high-speed train passenger transport • Demand of Turkish population working in Europe for air transport <p><u>Environment</u></p> <ul style="list-style-type: none"> • Rich natural resources and biodiversity • Increasing awareness of large scale industries on environment • Public support on environmental protection • Increasing implementation of the environmental standards (i.e. ISO 14000 series) in the workplaces • Low levels of CO₂ emission per capita <p><u>Human Resources Development</u></p> <ul style="list-style-type: none"> • Young and dynamic population • Efforts in harmonisation of Turkish Labour Legislation to the EU Acquis • Entrepreneurship capacity • Culture of social solidarity • Increasing enrolment rates at all education levels • Increasing coverage of social security 	<p><u>Transport</u></p> <ul style="list-style-type: none"> • Low road and railway density • Worn-out highway superstructure due to high share on roads in freight and passenger transportation. • The imbalance among different modes in favour of road transport • Mostly old single-track rail network and lack of high-speed railways between large cities. • Insufficient transport database • Dependence on imported technology on urban rail transit system construction • Insufficient public finance resources • Insufficient large-scale ports to be transit points to serve in TEN-T network. • Insufficient hinterland access, particularly in terms of railways. • Insufficient pavement and geometrical standards • Underdeveloped north-south transport corridors. • Due to scarce finance, the continuation of imbalanced transport system and delay of completion of projects that are results of TINA <p><u>Environment</u></p> <ul style="list-style-type: none"> • High loss and leakage in water networks • Inadequacy of environmental infrastructure • Insufficient institutional and financial capacity of the central and local administrations related to environment • Insufficient monitoring, inspection and enforcement mechanisms • Inadequate administration, investment and operation expenditures for environmental protection • Insufficiency of environmental finance policies • Limited capacity of the private sector to implement public environmental investments • Insufficiency of the inventory and database related to environment <p><u>Human Resources Development</u></p> <ul style="list-style-type: none"> • Low labour force participation rate of woman • Insufficient public and private employment services • Lack of adaptability to technological changes • The weak link between education and labour market • Inadequacy of vocational education • Low level of educational attainment • High level of undeclared employment • Low participation level in life long learning • Imbalance in income distribution
<p>Opportunity</p>	<p>Threat</p>
<p><u>General</u></p> <ul style="list-style-type: none"> • EU accession process • Initiation of local administration reform process • Implementation of strategic planning approach • Proximity to international markets and global energy corridors • Support from international financial institutions for 	<p><u>General</u></p> <ul style="list-style-type: none"> • Increasing global competition • Economic vulnerability to global fluctuations • Natural disasters • Increased international and regional conflicts • High level of dependence on foreign energy sources

<p>structural reforms</p> <ul style="list-style-type: none"> • Rapidly growing FDI • Increased demand in neighbouring countries • Liberalization of global and regional trade (especially FTAs) • Increasing productivity <p><u>Competitiveness</u></p> <ul style="list-style-type: none"> • Turkish researchers in foreign countries • Increasing awareness of the role of SMEs on improving competitiveness <p><u>Transport</u></p> <ul style="list-style-type: none"> • The increasing demand for the transport services among Europe, Asia and the Middle East • The potential for shifting the passenger and freight transport among Turkey, Central Asian Turkic republics and Middle East to railway transport • The strategic position of Turkey close to emerging markets in Middle East and Caucasia with increasing demand • Increasing potential of Turkish ports to be important transit points by connection of Turkish transport network to TEN-T • Potential of Istanbul to be aviation hub between Europe and Asia. <p><u>Environment</u></p> <ul style="list-style-type: none"> • Being an attractive sector for the international donor institutions and funds • Increasing usage of environmental friendly technologies in production strategies • Improvement of environment through better environmental protection, positively affecting human health and economy • Increasing EU financial assistance to implement infrastructure investments • Preparation of Turkey's Integrated Environmental Approximation with EU Strategy <p><u>Human Resources Development</u></p> <ul style="list-style-type: none"> • Demographic window of opportunity • Increasing access to information • EU accession process • Increasing demand to qualified work force • Increasing FDI 	<p><u>Competitiveness</u></p> <ul style="list-style-type: none"> • The inefficient utilization of increased public R&D investments and the possible decrease in the research quality, effectiveness and efficiency <p><u>Transport</u></p> <ul style="list-style-type: none"> • The future implementation of North-South transport corridor by Russia-Iran-India which may threaten the role of Turkey between Europe and Asia • The regional conflicts which interrupt the transport services with the neighbouring countries • High dependence on imported fuel resources for transport • Severe competition of the other modern container ports in Mediterranean <p><u>Environment</u></p> <ul style="list-style-type: none"> • Unplanned urbanization • Increasing pressure of the rapid population increase, migration and urbanization on natural resources • High cost of environmental investments <p><u>Human Resources Development</u></p> <ul style="list-style-type: none"> • Migration of labour force • Low level of investment for human resources • Rapid dissolution of agricultural sector
--	---

3. Objectives and Consistency

The objective and the priority areas of the SCF have been determined with a view to best utilize the IPA Funds. In this process, socio-economic and SWOT analyses were taken into account as well as the EU guiding documents. When considering the amount of IPA Funds, and scope and needs of the country it is necessary to take “geographical and sectoral concentration” as the basic principle to ensure the highest impact.

3.1. Objectives to be pursued under IPA Regional Development and Human Resources Development components

The overall objective of SCF is *“To contribute both to the Turkey’s approximation to the EU, and to the economic and social development of Turkey by reducing regional disparities and improving the human resources”*.

In this framework, one of the two components, Regional Development, focuses on three areas, namely regional competitiveness, transportation and environment. The other one, Human Resources Development, focuses on education, employment and social inclusion. SCF foresees geographical concentration within the perspective of “growth centers” approach and details are given in this chapter.

3.1.1. Sectoral Concentration

In line with the overall objective of SCF, Regional Development component aims *“to boost Regional Development of Turkey by reducing regional disparities, improving competitiveness and promoting environmental actions and transportation infrastructure”*.

To ensure the mentioned objective, three specific objectives are stated as follows;

- To increase regional competitiveness by supporting enterprises and improving business environment
- To develop environmental infrastructure in line with EU standards
- To improve transport infrastructure considering safety and intermodality on future

TEN-T Network of Turkey

Turkey aims to enhance competitiveness of its regions by improving business environment, strengthening enterprise capacity and fostering entrepreneurship. Since SMEs have an important role in creating employment, decreasing the disparities among regions and improving income distribution, the focus and aim of regional competitiveness strategy will be the creation of dynamic, innovative and competitive SMEs.

The main objective of the transportation subcomponent is to improve the transportation infrastructure considering safety and intermodality on future TEN-T Network, while maintaining an efficient and a balanced transportation system.

The main objective of environment subcomponent is to reach a higher-level environmental protection by meeting urban infrastructure needs in line with both EU Acquis and domestic conditions. Any acquis-related obligations, which have not been adopted in Turkish legislation, related to particular EU co-financed environment projects will be specified in the project’s fiches and documents.

The Human Resources Development component aims *“to ensure the transition to a knowledge-based economy capable of sustainable economic growth with more and better jobs and greater social cohesion”*.

In line with the needs of competitive economy and knowledge-based society, the quality and quantity of human resources should be enhanced. Development of human capital increases

productivity and competitiveness. To increase employment opportunities and more and better jobs especially for disadvantaged groups will help to ensure social integration and cohesion.

3.1.2. Geographical Concentration; The “Growth Centers” Approach

In all development plans, reducing disparities among regions has been defined as one of the priority intervention areas even though their effectiveness were limited in implementation. By taking the huge problem of regional disparities on the one hand and insufficiency of national resources on the other hand into account, adoption and implementation of “growth centers” model has come to agenda for providing balanced regional development.

Given the geographical size of the country, disparities among regions, and the need to set up a balance between competition and convergence aims in the absence of sufficient resources, the best method of spatial concentration has been to direct resources and supports to some strategic growth centers (poles) particularly in regions where both intra and interregional convergence need is higher. These centers are supposed to have high growth potential, economies of scale and external economies derived from agglomeration economies. By benefiting from this approach balanced industrial development would also be achieved with the spanning of industrial development at these centers to their peripheries.

In the past, comprehensive studies were performed to reflect policies compatible with growth centers model in the spatial choices in Turkey. The most important example of these studies is “Hierarchy of Settlements in Turkey”, completed in 1982. This comprehensive analysis, aimed to identify regional development centers and their hinterlands. Consequently, 16 regional centers were determined by this study. But, the effect of this study on investment and support policies was limited.

Methodology and Criteria

Cities that have potential to become growth centers were identified among NUTS II regions having a per capita income below 75% of Turkish national average according to EUROSTAT data. Without prejudice of a future revision of the list, at the light of latest available statistical data as well as of Community and Turkish priorities, eligible NUTS II regions for 2007-2009 period are presented in the following table.

Table 72: ELIGIBLE NUTS II REGIONS

NUTS II REGION	PROVINCES
TRA2	Ağrı, Kars, Iğdır, Ardahan
TRB2	Van, Muş, Bitlis, Hakkari
TRC3	Mardin, Batman, Şırnak, Siirt
TRA1	Erzurum, Erzincan, Bayburt
TRC2	Şanlıurfa, Diyarbakır
TRC1	Gaziantep, Adıyaman, Kilis
TR72	Kayseri, Sivas, Yozgat
TR90	Trabzon, Ordu, Giresun, Rize, Artvin, Gümüşhane
TRB1	Malatya, Elazığ, Bingöl, Tunceli
TR82	Kastamonu, Çankırı, Sinop
TR83	Samsun, Tokat, Çorum, Amasya
TR63	Hatay, Kahramanmaraş, Osmaniye

Source: EUROSTAT

Both quantitative and qualitative indicators were used in the method. The Socio-Economic Development Ranking Study of Districts (2004) was taken as a basis for the identification of growth centers. Within the context of this research, socio-economic development ranking is obtained by using 32 different variables including demographic, employment, education, health, industry, agriculture, finance and other welfare indicators by using the principle component analysis (metropolitan districts of Ankara, Istanbul and İzmir provinces are excluded from the research). The variables used in this study are presented in Annex 7. The first criteria in determining the growth centers is that a provincial center should be among the first 60 in central district ranking in 2004 Study.

It is necessary for the selected center to be a medium size city and also have sufficient population required for agglomeration economies especially for service sector. These centers should have strong trade and social relations with their surroundings and also have chance to create multiplier effect in terms of income and employment. In this context, growth centers were chosen among the cities where the population is between 250,000 and 1,000,000. Considering the possibility of creating negative externalities with additional growth, cities with inhabitants more than 1,000,000 are excluded. In order to provide necessary urban and business services to their hinterland, having a minimum 35% ratio of employment in service sector was determined as another criteria.

Accessibility and science-education infrastructure are also among the key criteria, which contribute critical inputs to the competitiveness of businesses and settlements. In this framework, it is necessary for these centers to have comparatively better accessibility and strong transportation networks. Taking the importance of airways in establishing transportation networks with national and international centers and geographical structure of Turkey in 12 eligible NUTS II regions into account, existence of an airport in these centers has also been an important criteria.

It is very important for growth centers to have a well-established university campus for science-industry relation and to be a focus for science and technology for the functions to be undertaken as the major service point in this area.

Growth centers, which completely meet the above mentioned criteria are called as “supra-regional growth centers” in this document. In this framework, using the above-mentioned criteria, the following 11 cities were determined as supra-regional potential growth centers, for the eligible 12 NUTS II regions having GDP per capita below 75% of the Turkish average according to EUROSTAT data:

- Eastern Anatolia Region : **Malatya, Elazığ, Erzurum, Van**
- Southeast Anatolia Region : **Gaziantep, Diyarbakır, Şanlıurfa**
- Black Sea Region : **Samsun, Trabzon**
- Central Anatolia Region : **Kayseri, Sivas**

Considering the geographical dispersion of the determined 11 growth centers, four of the eligible NUTS II regions namely, TR63 (Hatay Kahramanmaraş, Osmaniye), TR82 (Kastamonu, Çankırı, Sinop), TRA2 (Ağrı, Kars, Iğdır, Ardahan) and TRC3 (Batman, Mardin, Siirt, Şırnak), have no supra-regional growth center. In order to ensure geographical

balance between regions, there is need for further study to determine intra-regional growth centers for afore mentioned NUTS II regions. This additional study is carried out by using the same variables for these regions. Since none of the centers within these regions completely meet the criteria for supra-regional centers, it was assessed to what extent these centers are close to act as intra-regional centers. A scoring system based on the same variables was developed in order to determine these centers. Within the context of this system, the central districts were scored regarding the following criteria;

- having highest ranking in socio-economic development index within their own regions;
- having highest ranking in population within their own regions,
- existence of university campus,
- existence of airport,
- having employment ratio in service sector equal or above 35%,

In case of meeting each criterion, “1” point was given to the central districts, otherwise “0” point was given. As a result of this scoring, following table was achieved.

Table 13: Scoring Table

Region	Provinces	SEDI Ranking Of Central Districts	Population	Share of Employment in Service Sector	Existence of University Campus	Existence of Airport	Total Score
TR63	Hatay	0	0	0	1	0	1
	Kahramanmaraş	1	1	0	1	1	4
	Osmaniye	0	0	1	0	0	1
TR82	Çankırı	1	0	1	0	0	2
	Kastamonu	0	1	1	1	0	3
	Sinop	0	0	1	0	1	2
TRA2	Ağrı	0	1	1	0	1	3
	Ardahan	0	0	0	0	0	0
	Iğdır	0	0	0	0	0	0
	Kars	1	0	1	1	1	4
TRC3	Batman	1	1	1	0	1	4
	Mardin	0	0	1	0	1	2
	Siirt	0	0	1	0	1	2
	Şırnak	0	0	1	0	0	1

As a result of this study, by taking highest-scoring central districts within each NUTS II region, four additional growth centers were determined as **Kahramanmaraş**, **Kastamonu**, **Kars** and **Batman** cities. Thus, with additional four intra-regional growth centers, 15 growth centers were determined in total and the balanced geographical distribution of growth centers and geographical concentration was ensured.

The table below indicates the NUTS II Regions below 75% of the Turkish average GDP per capita and relevant growth centers.

Table 18 : ELIGIBLE NUTS II REGIONS and GROWTH CENTERS

NUTS II REGION	THE PROVINCES (NUTS III UNITS) IN THE REGION	GROWTH CENTERS
TRA2	Ağrı, Kars, Iğdır, Ardahan	Kars
TRB2	Van, Muş, Bitlis, Hakkari	Van
TRC3	Mardin, Batman, Şırnak, Siirt	Batman
TRA1	Erzurum, Erzincan, Bayburt	Erzurum
TRC2	Şanlıurfa, Diyarbakır	Diyarbakır, Şanlıurfa
TRC1	Gaziantep, Adıyaman, Kilis	Gaziantep
TR72	Kayseri, Sivas, Yozgat	Kayseri, Sivas
TR90	Trabzon, Ordu, Giresun, Rize, Artvin, Gümüşhane	Trabzon
TRB1	Malatya, Elazığ, Bingöl, Tunceli	Malatya, Elazığ
TR82	Kastamonu, Çankırı, Sinop	Kastamonu
TR83	Samsun, Tokat, Çorum, Amasya	Samsun
TR63	Hatay, Kahramanmaraş, Osmaniye	Kahramanmaraş
TR52	Konya, Karaman	
TR71	Kırıkkale, Aksaray, Niğde, Nevşehir, Kırşehir	
TR33	Manisa, Afyon, Kütahya, Uşak	
TR61	Antalya, Isparta, Burdur	
TR22	Balıkesir, Çanakkale	
TR81	Zonguldak, Karabük, Bartın	
TR62	Adana, Mersin	
TR32	Aydın, Denizli, Muğla	
TR41	Bursa, Eskişehir, Bilecik	
TR21	Tekirdağ, Edirne, Kırklareli	
TR51	Ankara	
TR10	İstanbul	
TR31	İzmir	
TR42	Kocaeli, Sakarya, Düzce, Bolu, Yalova	

Source: EUROSTAT

*Shaded rows indicate NUTS II regions having GDP per capita below 75% of Turkish national average according to EUROSTAT data.

It should also be noted that this criterion reveals 12 NUTS II regions, 11 of which are same with the priority regions determined in the framework of Preliminary National Development Plan (pNDP) of Turkey setting strategic framework for Economic and Social Cohesion Assistance for 2004-2006 periods. The focus on the same regions would complement the development efforts initiated within pNDP particularly by the EU-supported regional development programs, which produced thousands of local level projects still implemented by beneficiaries in these relatively poor regions of the country.

3.2. Consistency with Community Priorities

The priorities designed under the SCF are in line with the community priorities addressed by Renewed Lisbon Strategy, Community Strategic Guidelines, the MIPD and other policy documents of the EU. As the vision of the Europe, the Lisbon Strategy introduces long-term

economic and social development goal that "Europe will become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion". In line with the focus on competitiveness and convergence under the Lisbon Agenda, Turkey attributes special importance to support growth centers and increase primarily the competitiveness of lagging behind regions in accordance with the convergence objective of the EU. Therefore, taking the state of Turkey's economic development into account, the key objectives of increasing competitiveness and job creation of the revised Lisbon Strategy have been pursued.

The approach adopted by the SCF is also in line with the Community Strategic Guidelines for 2007-2013. Cohesion policy approach adopted under the Community Strategic Guidelines targets the following three priorities:

- Improving the attractiveness of Member States, regions and cities by improving accessibility, ensuring adequate quality and level of services, and preserving their environmental potential,
- Encouraging innovation, entrepreneurship and the growth of the knowledge economy by research and innovation capacities, including new information and communication technologies and
- Creating more and better jobs by attracting more people into employment entrepreneurial activity, improving adaptability of workers and enterprises and increasing investment in human capital.

In line with the above-stated objectives of Community Strategic Guidelines which focus on increasing competitiveness and achieving more balanced development between the economically stronger cities and the rest of the urban network in urban areas, financial resources allocated to Regional Competitiveness and Human Resources Development OPs will be mainly focused on regional poles of growth in the regions.

The SCF covers the principles and priorities of cohesion policy in line with not only renewed Lisbon Strategy and Community Strategic Guidelines, but also with the MIPD. As indicated in the MIPD, sectoral concentration under the SCF has been ensured. In that regard, intervention areas under the SCF address the provision of the more fundamental physical, business, innovation and human resources related investment and infrastructure. Priorities of the SCF are consistent with below stated priorities of the MIPD:

- Supports to business investment, to enhance SMEs competitiveness and to upgrade their technological and innovative basis,
- Railways, links with TEN and multi-modal transport,
- Water and solid waste management sectors,
- Employment, education and social inclusion.

Besides strategic objectives of Community documents, horizontal issues and guiding principles of the EU are regarded as basic pillars during preparation of the SCF. During the implementation, monitoring and evaluation of SCF and Operational Programs the principles of sustainable development, good governance, environmental protection, gender equality,

equal opportunities, non-discrimination, civil society involvement, partnership and geographical concentration will be taken into account.

Operational Programs will attempt to support the disadvantage groups for participating in the labour market to provide equal opportunities and ensure individuals fulfilling their potential. One of the priorities deals with women's participation in economic and social life and foresees to take necessary measures to remove their disadvantageous status, particularly in education and labour market. Equal opportunity principle has also been ensured through addressing women entrepreneurship in some specific measures under Regional Competitiveness. Various organizations for equal opportunities, including the non-government sector will be consulted during the planning, implementation monitoring and evaluation of all envisaged activities. Operational Program Monitoring Committees is to expect to review progress on all aspects of equality and equal opportunities issues.

Sustainable development is a fundamental goal of the EU, which requires interrelated and coherent economic, social and environmental policies. Sustainable development of communities presumes the achievement of stable economic growth, in conjunction with social welfare and full possibilities for social inclusion. Within this context, projects carried out under the OPs will be assessed in the context of their compliance with the principles of sustainable development. IPA Funds should make a significant contribution to environmental sustainability, and promoting sustainable development in Turkey.

At the same time, IPA funds should contribute to building sustainable communities by helping to improve the growth and productivity of local economies. Programs should give particular attention to the needs of deprived areas, helping to increase access to employment and increase the attractiveness of areas suffering from severe social, economic and environmental degradation.

Environmental protection as a horizontal priority is associated with sustainable development, which will be promoted through the integration of environmental issues at all stages of programming and implementation of the SCF and OPs. The OPs will contribute to a robust economy that respects the limits of Turkey's environment, resources and biodiversity. The OP Operating Structures will maintain operational links with the bodies having specific responsibilities in terms of environmental protection. It will be ensured that IPA projects, which are in the process of elaboration and/or approval, undergo environmental assessment in accordance with National Legislation and EU Directives. Turkey's adherence to the *acquis* referred in the SCF will be contingent upon the outcome of the accession negotiations of the relevant chapters. Any *acquis* related obligation such as EIA, Habitat, Bird and Framework Directives related to particular EU co-financed projects within OPs will be specified in the related project fiches.

Application of partnership and other principles of good governance will also be respected for during the implementation, monitoring and evaluation of all Operational Programs.

Finally, geographical and sectoral concentration has been adopted to achieve maximum impact possible with limited IPA resources. As a reflection of this principle, the SCF allocates resources on a limited number of regions with growth and development potential and sectors where the programs' impact and contribution to the objectives will be the highest.

3.3. Consistency with National Priorities

The Ninth Development Plan is the fundamental policy document that sets forth the transformations Turkey will realize in economic, social, and cultural areas in an integrated approach for the period of 2007-2013. The Plan, which coincides with the EU financial programming period, was adopted by the Turkish Grand National Assembly on 28 June 2006.

The Plan will provide the basis for the planning documents that will be prepared in this period. Thus, in determining general framework for the SCF document, the Plan and the EU policies and priorities were taken into account.

In preparing the Ninth Development Plan, a participatory approach was adopted, ensuring the contributions of all public institutions and organizations under the coordination of the SPO. To this end, various Special Ad hoc Committees covering a wide range of areas were established and persons from the public sector, the private sector, universities and non-governmental organisations participated in these commissions.

The Ninth Development Plan emphasizes Turkey's vision of development as "Turkey, a country of information society that is growing stably, sharing more equitably, globally competitive and fully completed her coherence with the European Union". In the framework of this vision, with the aim of sustaining economic growth and social development in a stable structure, five development axes focusing on the fundamental challenge areas have been determined. These development axes are:

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

Under each development axis, prioritised policy areas have been identified in order to achieve the main objective of the development axis in question. In addition, sectoral and thematic policies and priorities have been taken up under these axes and were made correlated with each other in a way to serve the same strategic goal. The priority axes of the Ninth Development Plan are provided in Annex 6.

The SCF document was prepared in line with the Ninth Plan. For instance, IPA's two components of Regional Development and Human Resource Development for which SCF is prepared, are handled in two primary development axes of the Ninth Plan, namely Ensuring Regional Development and Strengthening Human Development and Social Solidarity, respectively and it is observed that the Operational Programs of SCF are also among main priorities of the Ninth Plan. Considering the importance of physical infrastructure in terms of competitiveness, transport and environment sectors are dealt with under the axis of competitiveness.

4. Operational Programs

This chapter contains information about four OPs of the SCF. In determining the priorities of the OPs, SWOT analysis is taken as the basis. Concentration principle and amount of the available funds are also taken into account in setting the scope of the OPs.

Within the SCF period, new priorities and/or eligible activities will be in consideration according to the developments regarding IPA in general and needs in Turkey and in other IPA countries.

There will be technical assistance priority under each OP. Technical assistance is needed for effective preparation, implementation, monitoring and evaluation of the operational programme. The Operating Structure, as well as potential project beneficiaries will be supported through technical assistance in order to increase relevance, efficiency, effectiveness, impact and sustainability of the programme and projects. Apart from positive contribution to the absorption capacity, technical assistance is also expected to enhance promotion and visibility of the activities.

In this context, technical assistance will focus on strategy development, programme and project cycle management, administrative capacity building, training, as well as promotion and awareness raising activities. Technical assistance under the operational programme will not be of a general nature but concentrate on OP specific needs, with a particular emphasis on strengthening capacity for transparent and effective allocation and utilization of resources.

4.1. Regional Competitiveness

Under regional competitiveness, two priorities are identified. The first one is related with promoting better business climate particularly in targeted regions. Business environment will be improved by providing the appropriate physical and technological business-related infrastructure, and better support mechanisms. The second priority concentrates on entrepreneurial, managerial, innovative and financial capabilities at enterprise level.

Priority 1: To improve Business Environment

Business environment will be improved through investing in basic infrastructure needs as well as research, ICT and tourism infrastructures and developing new support models for SMEs. In this context, Organized Industrial Zones, Small Scale Industrial Estates, Technology Development Zones, Technology Development Centers, Technology Transfer Centers, Business Support Centers will be established and conditions of existing ones will be improved.

Access to finance and utilization rate of financing sources will be increased. In order to facilitate access to finance at all levels of business life cycle with a focus on early stages, financing models such as seed capital, start-up capital, venture capital, credit guarantee mechanisms, loan scheme and equity finance will be introduced and effectiveness of the current practices will be enhanced. In this framework, diversified financial support mechanisms will be provided considering development levels and capacities of regions.

Access to information will be improved by mainly strengthening the functionality of existing databases considering the enterprises at the region have rather low access to those databases; and region specific information portals and knowledge exchange interfaces, as an integral part

of the projects that are going to be supported, can be formed to increase awareness about program activities in order to increase/create demand from beneficiaries.

Infrastructure that will contribute to creation of suitable business environment for SMEs in tourism sector will be improved.

Priority 2: To strengthen enterprise capacity and foster entrepreneurship

Entrepreneurial, managerial, innovative and financial capabilities will be improved and institutionalisation and internationalisation of the enterprises will be enhanced.

Production technology of enterprises, R&D and innovation capabilities, and utilization of ICTs will be improved.

Awareness and capacity of enterprises on various issues such as export, quality, productivity, efficiency, technology selection, innovation, e-business applications and environmental issues will be increased.

Networking, clustering and collaboration among enterprises and their cooperation with universities, research institutions and facility structures will be promoted.

Entrepreneurship will be fostered through supporting new business development and improving the capabilities of entrepreneurs particularly on preparation of business plan and strategy, market research, marketing, management and branding. Equal opportunity principle will be ensured through addressing women entrepreneurship.

Priority 3: Technical Assistance

Technical assistance will be provided for effective preparation, implementation, monitoring and evaluation of the operational programme and for enhancement promotion and visibility of the activities.

4.2. Transportation

Turkey aims to connect its transportation network to TEN-T network. TINA Study for Turkey is being undertaken to achieve this aim. Turkey will mainly undertake projects that will complete missing links of Turkish transport network connecting to TEN-T and that will ensure the smooth and safe transportation on this determined network. The share of railways and maritime will be increased to ensure the balance between the transportation modes and to promote intermodal transportation. While the following priorities are being conducted, environmental issues will be given utmost importance.

Priority 1: Rehabilitation and/or new construction of future TEN-T railway network and improvement/construction of ports as nodal and transit points in the TEN-T network

According to the preliminary results of TINA Study, Pan-European Transport Corridor IV (Arad-Sofija-İstanbul Branch) will extend from İstanbul to Kars via Ankara. İstanbul-Kars (Georgian Border) corridor would be one of the backbones of Turkish TEN-T network. By the connection of main ports in Mediterranean, Aegean, Marmara and Black Sea and existing/future railway border gates (Iran, Syria and Iraq) to this corridor and to main axes, the Turkish TEN-T network will be completed.

Rehabilitation, upgrading and/or new construction of railway projects along the above-mentioned network will be financed. Besides, as nodal points of this network, and within the context of Motorways of the Sea, maritime transport infrastructure will be upgraded, existing port capacities will be increased and new hubs and large-scale ports will be constructed in Mediterranean, Aegean and Black Sea regions with their hinterland connections.

Improvement and implementation of railway connected ports will comprise an economic and environment friendly network for attaining smooth transport infrastructure system, and will provide efficient linkages for Euro- Asian transport network. By the port-railway connection, container storage capacity will be increased and distribution will be facilitated through inland container terminals and logistics centers. These logistics centers will facilitate goods transport and organize forwarders and carriers, which will lower the tariffs and increase the competitive power of Turkey. In this framework, logistic centers will be constructed.

Priority 2: Construction and improvement of highway network in conformity with TEN-T

Highways with dual carriageways will be constructed on the missing sections on the future TEN-T Network within the medium term.

The existing infrastructure on the future TEN-T Network will be modernized and upgraded by improving the geometric and pavement standards of roads and the intersections.

Priority 3: Technical Assistance

Technical assistance will be provided for effective preparation, implementation, monitoring and evaluation of the operational programme and for enhancement promotion and visibility of the activities.

4.3. Environment

Environment Operational Program will be in compliance with the objectives of “Turkey’s Integrated Environmental Approximation with the EU Strategy”. During the implementation of Environment Operational Program, projects will respect to sustainable development principles and will meet the adopted EU Environmental Acquis. Due to their significant benefits and the nature of requiring heavy-cost investment, water, wastewater and solid waste services are given priority in Environment Operational Program. The following broader criteria set will be considered to guide in establishing project selection criteria set of Environment Operational Program;

1. Relevance to environmental plans and sectoral strategies and policies
2. Population (Municipalities having higher population will be given higher priority)
3. Shortage of financing capacity of municipalities (Municipalities having capacity of co-financing and meeting operational costs will be given priority)
4. Financial sustainability (cost recovery principles, user and polluter pay principles)
5. Environmental priorities (The infrastructure projects contributing to the following factors will be prioritised)
 - Improvement in public health

- Protection of sensitive areas
- Protection of natural resources

The effectiveness of programs and projects aiming efficient use of natural resources, particularly related to basic household duties, will be increased by involving women's participation in these projects.

Priority 1: Development of water and wastewater infrastructure to progress in environment protection and harmonizing the EU Acquis

In order to realize this priority and to use available resources more efficiently;

- quality of drinking water distributed, by constructing new treatment plants where needed, will be improved
- existing drinking water networks will be rehabilitated and repaired to minimize leakage and losses,
- existing sewerage networks suffering from significant permeability affecting drinking water sources will be repaired
- the sewerage network connection rates will be increased
- wastewater treatment plants will be constructed in the settlements where sewerage networks and/or water supply systems are already well developed
- quality of receiving bodies (underground and surface waters) will be increased
- As appropriate, instead of constructing separate systems for each municipality, cost efficient shared systems will be designed in the regions
- As appropriate, new wastewater treatment facilities will be constructed in phases

Priority 2: Development of waste management infrastructure to protect the environment and harmonize with the related EU Acquis

In order to realize this priority;

- volume and the weight of produced solid waste will be minimized and monitored by increasing public awareness and establishing the capacity for monitoring and controlling the solid waste disposal facilities
- percentage of recycled solid waste will be increased by using appropriate methods and constructing recycling and disposing facilities
- sanitary landfills, which are the most appropriate method for the country in terms of investment and operation cost, will be given priority
- existing dumpsites will be rehabilitated
- hazardous and special waste management will be implemented in compliance with the national legislation and the EU directives

- projects serving to the unions of municipalities will be prioritized to solve the solid waste problems of neighbourhood settlements by using the economies of scale

Priority 3: Technical Assistance

Technical assistance will be provided for effective preparation, implementation, monitoring and evaluation of the operational programme and for enhancement promotion and visibility of the activities.

4.4. Human Resources Development

Human Resources Development

Quality and quantity of human resources will be enhanced through creating more and better jobs, providing higher quality and accessibility of education and training, and realising greater social cohesion which are complementary with each other.

Human resources development is an important complementary part of economic and social development in growth centers. In addition to growth centers, the regions that are below 75% of average national income will be taken into consideration in the formulation and implementation of policies. Because, low labour force participation rate, especially for women, high unemployment rate, limited economic activities, low vocational educational attainment, wide differences in enrolment rates of girls and boys and insufficiency in health infrastructure are the main specific challenges of these regions. Hence, it can be said that the people living these regions are mainly poor and socially excluded when compared with other regions. For this reason, employment and education opportunities mainly in growth centers and the regions that are below 75% of average national income will be increased in the context of Human Resources Development.

Priority 1: To attract and retain more people in employment by increasing labour force participation particularly for women, and decreasing unemployment rates especially for young people

Effectiveness, quality and widespread implementation of Active Labour Market Policies (ALMP) will be enhanced to increase resources and to develop the capacity of ALMP providers, especially İŞKUR.

Job creation will be promoted through training, direct and indirect support for self-employment and start-up businesses to mitigate the negative effects arising from labour force movement to non-agricultural sectors due to restructuring of agricultural sector.

Female labour force participation will be increased through facilitating women's access to new jobs, fostering women entrepreneurship and accompanying measures (e.g. better care services for children and elderly and flexible working conditions) with equal opportunities.

Education and trainings will be improved to integrate young people into the labour market. Policy initiatives should focus on active labour market programs, apprenticeship training, entrepreneurship supports and work experience programs for young people.

Unregistered employment will be reduced through economic, social and administrative tools such as inspection mechanisms and education.

Priority 2: To enhance human capital by increasing the quality of education, improving the linkage between education and labour market and raising enrolment rates at all levels of education especially for girls

Quality of education and enrolment rates in all levels of education will be increased through various efforts such as improving qualifications of teachers, updating the curricula, improving occupational guidance and consultancy services, investing in educational infrastructure and modernizing structure of MoNE. Moreover, in provinces in which drop-out rates are high and rates of transition from primary education to secondary education are low, awareness-raising activities and necessary measures to increase enrolment rates especially for girls will be taken.

Especially in growth centres, vocational training and education that meet the needs of labour demand will be improved by taking account local needs in order to promote linkage between education system and labour market.

Since the effect of mismatch of qualifications acquired through education and demanded by the labour market on disadvantaged groups is higher; vocational training and education that meet the needs of labour market will be improved to promote linkage between education system and labour market, especially for these groups.

Formal and non-formal education opportunities after secondary education such as vocational higher schools with the condition of improving their qualities and continuous training centres will be offered for the graduates who do not have an opportunity of attendance at higher education.

Professional and technical skills and knowledge of workers, engineers, researchers and managers will be improved in line with the needs of the industrial sectors and the market, especially by supporting in-service training.

Priority 3: To increase adaptability of workers, enterprises and entrepreneurs, in particular by promoting lifelong learning and encouraging investment in human resources

Widespread implementation of lifelong learning will be ensured in order to permit career development and to reduce skills mismatch and bottlenecks in the labour market through access to further education and re-training, and program development. All learning activities will be certified by institutions that Vocational Qualification Authority accredit. Beforehand occupational standards will be developed by the Authority.

Flexicurity (flexibility and security) of labour market will be improved through enhancing adaptability of workers and enterprises to changing conditions. To enhance adaptability of workers and enterprises to changing conditions, training activities will be made widespread and so qualifications of workers and adaptability of enterprises will be upgraded.

Priority 4: To promote an inclusive labour market with opportunities for disadvantaged people in terms of their sustainable integration into the labour force and combat with all forms of discrimination in the labour market

To increase social inclusion, disadvantaged groups will be integrated into the labour market. Active labour market measures like vocational training programs will be complemented with rehabilitation, socialization and counseling services to facilitate access to employment of the disadvantaged groups especially women migrated from rural to urban areas and people with disabilities who are excluded from labour market.

The existing efforts towards increasing the coordination and efficiency of social services (e.g education, employment, social assistance) for disadvantaged groups will be improved. This will enhance the situation of disadvantaged people and promote equal opportunities for access to labour market. Supports will be increased for the creation of new and diverse community-based social services, implementation of different skills and qualifications development programmes for disadvantaged people and creating employment.

Priority 5: Technical Assistance

Technical assistance will be provided for effective preparation, implementation, monitoring and evaluation of the operational programme and for enhancement promotion and visibility of the activities.

5. Indicative Breakdown of The Financial Allocations Between The Underlying Operational Programs

For the period of 2007-2009, the financial allocation of the funds to the Operational Programmes is prepared in line with the MIPD and MIFF, and shown in the following table:

Table 19: Financial Allocations of OPs

	2007		2008		2009		Total
	%	million Euro	%	million Euro	%	million Euro	million Euro
Regional Development	100	167,5	100	173,8	100	182,7	524,0
Regional Competitiveness OP	25	41,9	25	43,5	30	54,8	140,1
Environment OP	40	67,0	40	69,5	37	67,6	204,1
Transportation OP	35	58,6	35	60,8	33	60,3	179,7
Human Resources Development	-	50,2	-	52,9	-	55,6	158,7
Total	-	217,7	-	226,7	-	238,3	682,7

As regards the Regional Development component, without prejudice of the financial allocations to be proposed in future MIPDs and MIFFs, the indicative balance between operational programmes during the period 2010-2013 will aim to respect the following ceilings: Regional Competitiveness (25 to 35%), Environment (35-45%) and Transport (30-40%).

Co-financing for the projects will be secured through private sector participation, national and local budgets, as well as national and IFI credit facilities, in particular the European Investment Bank.

In order to obtain maximum impact from the limited IPA resources, both thematic and geographical concentration is of paramount importance.

In order to ensure geographical concentration, as regards the Regional Competitiveness OP, all the resources are to be allocated to the eligible 12 NUTS II regions. In this framework, operations taking place outside the eligible regions will only be financed with the condition that eligible regions, especially growth centers directly benefit from these operations. Resources under Regional Competitiveness OP will be divided in a way that 70-80% goes to

the 15 growth centers and 20-30% goes to their hinterlands and other areas within eligible 12 NUTS II regions.

On the other hand, a different allocation method will be followed for Human Resources Development OP to enable for funding of certain actions at national level. In this scope, up to 20% of the resources under the Human Resources Development OP can be allocated to nation-wide projects. Furthermore, hinterland areas of the growth centers will be paid special attention in Human Resources OP when compared with Regional Competitiveness OP by taking the disadvantageous positions of these areas into consideration in terms of human resources needs. As to allocation, at least 80% of the resources under the Human Resources Development OP are to be allocated to the eligible 12 NUTS II regions. Within that 80% allocation, resources will be further divided in a way that 60-70% goes to the 15 growth centers and 30-40% goes to their hinterlands and other areas within eligible 12 NUTS II regions.

Focusing on growth centers will create spill over effects on their surroundings, which are at the hinterland of the growth centers and have functional complementarities and production and distribution linkages with growth centers.

6. Key Elements of Implementation

6.1. Management

The management, implementation and monitoring mechanisms for the four operational programmes covered by the SCF will be in accordance with the IPA Implementing Regulation. Detailed information on these mechanisms will be provided in each OP. In this regard, in compliance with the IPA Implementing Regulation, internal coordination mechanisms for effective management of the EU funds will be strengthened. Involvement of the relevant stakeholders will be secured in Monitoring Committees. Considering the need for capacity building, technical assistance will be a cross-cutting priority for all operational programmes.

Apart from OP-specific technical assistance covering all relevant stakeholders, integrated technical support will also be provided, particularly for the existing or potential operating structures, in order to secure effective management of IPA and increase absorption capacity. Technical assistance directly linked to the implementation of the programme (e.g. preparatory studies, management, monitoring, evaluation, information and control activities) will be ensured under the scope of each OP and technical assistance aiming to strengthen the capacity of the operating structures and programme beneficiaries in general, including for future preparation for Structural Funds will be financed under Comp I.

Furthermore, environmental concerns will be integrated into the design and management of OPs, with a particular emphasis on enhancing the capacity of Environmental Impact Assessment analysis, taking into account the horizontal nature of environment.

6.2. Internal Consistency, Complementarities and Synergies Among OPs

All areas taken up in SCF have been designed to complement and support each other to the extent possible. Increasing competitiveness of regions, improving transport and environment infrastructure and developing human resources will be the main pillars to support development of the country within the context of SCF.

The scope of the regional competitiveness is the improvement of the inadequate entrepreneurship, advancement of the technical capacity regarding production, management and marketing and enhancement of collective competitiveness potential by strengthening network connections between SMEs in less developed regions, and thus, improvement of their competitiveness in relation to SMEs in relatively more developed regions.

Human resources development OP will complement the interventions in regional competitiveness through supporting particularly the provision of qualified labour force required by SMEs, increasing employment opportunities and enhancing social inclusion in these regions.

Regarding transport OP, the projects that will connect national network to TEN-T will reduce disparities between EU and Turkey regarding transport infrastructure and increase interregional accessibility. This will, in turn, contribute to decrease regional disparities and increase competitiveness of the country.

The quality of environment in general, particularly urban environmental services, provide incentives to development of business climate that means new jobs and opportunities in line with Lisbon Strategy.

- In order to maximize the impact and synergies among aforementioned interventions, support will be concentrated to regions below 75% GDP per capita of Turkey and particularly to growth centers especially for regional competitiveness and human resources development OPs. This integrated approach will serve for solving regional disparities problem, and hence will contribute to the growth, employment and overall development of the country.

6.3. Coordination with Other IPA Components

Component I

Capacity development of the institutions taking roles under the SCF will mainly be supported through the first component (Transition Assistance and Institution Building) of IPA. Besides, the OPs will also have technical assistance components aiming to improve capacities of the related institutions. Complementarities between different technical assistance projects supported by different sources will be ensured.

The capacity of central government will be improved within the context of Component 1. Within this framework, development of human resources, strengthening of technical infrastructure, establishment of laboratories, monitoring network and information system will be carried out, and monitoring and auditing system will be improved.

Component II

In the context of the Component II; Regional and Cross-Border Cooperation, it is mainly aimed at promoting social and economic development of border areas by encouraging entrepreneurship and increasing accessibility of border region. In this regard, the priorities of SCF regarding regional competitiveness, environment, transportation and human resource fields will be taken into account in the Component II programming documents to ensure harmony of the activities and SCF components.

Component V

Ensuring complementarities between regional development, human resources development and rural development policies and implementation is a key issue in Turkey where many underdeveloped regions suffering from development disparities have a rural character. SCF and the rural development components will be complementary especially in terms of supports for SMEs, vocational education and small-scaled infrastructure related projects in rural areas.

SMEs will be supported under component 5 by measures targeting competitiveness of agriculture and diversification of rural economy. The supports for SMEs, both under the Component 5 and Component 3 (Regional Competitiveness OP) will be programmed in a manner to maximize synergies and prevent duplication in implementation. Due to the limited amount of IPARD resources, training activities, for the rural population as well as the urban, will be covered by Component 4 and national resources.

The improvement and development of rural transportation and environmental infrastructure is intended to be financed from primarily national budget, and then if deemed appropriate by related international resources. This would allow for a concentration of the limited resources available under Component 5 on the modernization of agriculture and the diversification of rural economic activities to achieve the greatest possible impact.

The limited IPARD resources and the necessity to develop institutional capacity gradually at the local level require a gradual spread of implementation of Component 5 respecting the cross-cutting theme of geographic and sectoral concentration as mentioned by the MIPD. Without prejudice to the sectoral and geographic priorities of the modernization of agriculture –i.e. farm investment and processing and marketing measures-, concentration of rural development funds in the initial phase of IPA implementation in the regions for IPA components 3 and 4 is expected to increase impact of component 5, taking into account the need for gradual accreditation.