FEMISE Country Profiles Project
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Political Economy of Governance Failures, Crises and Opportunities for Reform

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1. Introduction

Turkey has been governed, at least formally, by a multi-party parliamentary system with competitive elections since 1950. However the democratic process has been interrupted in almost every ten years. In 1960 and 1980 there were military coups and the parliament was dissolved. In 1971 the government was forced to resign with pressure from the military. These interventions were followed by periods where basic political freedoms were suspended. Interruptions in the democratic process often took place in the midst of deep economic crisis and social unrest. There have also been other instances of economic crises, most recently in 1994 and 2001, where the democratic processes did not break down, but serious economic dislocations and falls in income occurred.

Political or economic crises provide evidence that the institutions of governance, that is, institutions through which state power is exercised in a country are inadequate to cope with the challenges that the country faces. Of course, countries may differ in the ferocity of challenges that they face at a particular point in time, and hence the degree of competence that its governance institutions need to display to attain a particular level of welfare may change from one country to the next. For example, a country with deep ethnic or religious cleavages will possibly require stronger institutions of conflict management to attain similar levels of social peace and cohesion. In some cases, it may be the deterioration of institutions of conflict management that may escalate political or cultural cleavages.

This chapter will steer away from such complications. Moreover, when thinking about governance and institutions in the case of Turkey, the emphasis will be on economic and developmental challenges and outcomes rather than other spheres of social life. This chapter will try to evaluate governance institutions in Turkey and relate them in a general way to economic and developmental outcomes.

Any evaluation of governance has to start with a notion of what is desirable about governance, or what good governance is expected to accomplish. We presume in this chapter that the socially desirable function of the state is to produce good public policy. Hence the institutions of governance will be examined and evaluated with

[1] Sabanci University, and Bilkent University, respectively.

respect to how effective they are in producing good public policy. The term public policy is intended to cover a wide range of goods and services, the provision of which need some collective initiative or authority and which normally cannot be delivered through the market mechanism. It is useful to classify these under 5 headings:

- Maintain macroeconomic stability
- Address market failures at the sectoral level (including regulatory functions in financial markets of network industries)
- Provide public goods and services such as defense, health and education
- Provide justice, rule of law, protection of property rights.
- Conflict management

It is generally believed that the presence of these public policies, everything else constant, help countries attain higher long term growth. The first three areas listed above are self-evident. Macroeconomic stability is widely regarded as a crucial necessary condition for long-term growth. Addressing market failures and provision of public goods and services are among the textbook definitions of functions of the state.

Justice and rule of law is different from the first three in that the judicial system regulates not only the relations between the state and the citizens but relations among citizens as well. Regarding the former, when rule of law is upheld and property rights are protected, those who are not favored by the current political power would not fear of being expropriated. Regarding the latter, the effectiveness of the justice system would determine, for example, the extent to which contracts are enforceable and promises are credible. Both help create an environment that is conducive to investment.

Finally, conflict management is less obvious as an area of public policy, it nevertheless is important for a number of reasons. One important reason is that the term often there will be disagreement among the community about what constitutes "good public policy". It is possible to identify two problems. On the one hand, there may be disagreements among citizens or social groups about what types of objectives public policy should have. These disagreements may arise because of differences in interests or differences in values. Second, even when there is an agreement about the nature or objectives of good public policy, there may be disagreements about what type of specific policies would be effective to reach those objectives. This may occur, for example, because individuals or groups may have different opinions about how the economy works (what North (1990) calls "mental constructs of the world"). Hence, societies that have developed mechanisms of consultation or discussion through which these differences can be resolved through concessions, and common understandings can be reached, will be more successful than others.[2]

Note that the definition of governance provided above is more restricted than other usages in that it does not explicitly include the protection of human rights. The chapter will have less to say on the evolution of human rights in Turkey but will

[2] See Rodrik (2000). Note that the effectiveness of institutions of conflict management become especially important when an economic loss has to be distributed among social groups, for example, during periods of serious economic downturn, or when it is necessary to cut down expenditures.

concentrate on economic and social policy, and refer to human rights whenever they are relevant in explaining the dynamics behind evolution of public policy; hence the restricted definition. Note that the protection of basic human rights may be subsumed under rule of law. In addition, some aspects of human rights issues will be addressed in section 5 under the discussion on the judicial system.

Before examining nature of governance institutions in Turkey, it will be useful to provide a brief assessment of what type of outcomes they have produced. Performance in terms of the macroeconomy and growth is examined in the chapter on Macroeconomic Performance and the overall assessment has to be that Turkey could have done much better if public finance could have been better managed and crises could have been avoided. Tables in the Annex provide some social indicators in an internationally comparative perspective. Annex Table 1 shows that while Turkey's education statistics have improved over the last decade, most are low relative to not only Europe, but also relative to eastern European and South European countries, as well as, in some instances, middle income countries. The only statistic that fares better than Latin America and middle-income countries is primary school enrolment. Note that public spending on education, as percentage of GDP, is also lower than all comparators. Health statistics are provided in Annex Table 2. Infant mortality rates are relatively high. Some indicators in Turkey (e.g. immunization) are better than averages of middle-income countries, but they are lower than Western and Eastern European countries. Regarding income distribution (Table 3), Turkey is better than Latin America but worse than Korea, Eastern or Southern European countries.

It is also useful to evaluate Turkey's position with regards to indicators that attempt to directly measure elements of governance characteristics. Such indicators have been compiled and estimated by Kaufman et. al (2003). Table 4 presents data for Turkey along with samples of other countries from different regions of the world. The indicators estimated lie between –2.5 and 2.5, with higher grades indicating better performance in that dimension of governance. Turkey fares especially poorly with respect to voice, political stability and control of corruption. Indices for regulatory quality and rule of law are somewhat better, but still lower than countries not only in Western Europe, but also eastern and central Europe, Latin America and East Asia.

The relatively poor ranking of Turkey both in terms of social policy outcomes and in terms of governance indicators suggests that there have been failures in the working of governance institutions. Examining these failures requires going beyond the formal characteristics of those institutions and examining actual incentives and constraints that have shaped the behavior of those who hold and share political and administrative power, and their interactions with various social groups and citizens at large.

2. An Analytical Framework

Before examining those incentives and constraints, it is useful to sketch an analytical framework that captures the main relations of accountability and delegation in a typical representative democracy. Taking representative democracy as a benchmark in the Turkish case is useful because it does provide the model after which Turkey's political institutions were shaped especially since 1950, even if the realization of the model in the Turkish context was very imperfect. Indeed, what makes the Turkish case interesting is that it provides an example of a country that has over the years tried to govern in a multi party democracy while lacking some of important political norms and institutions that are necessary to make that model work well, and over time has had to learn that it is necessary to create these institutions.

While good public policy provides a useful benchmark to identify the socially desirable functions of the state, the state has an existence of its own and those who have access to the various instruments of power it has at its disposal do not necessarily face incentives to use those instruments to produce good public policy. This idea that state resources can be used for purposes other than good public policy (such as one's own interest) can be usefully captured by a simple two-layered principal agent model. The first layer captures the relation between citizens and politicians whereby citizens, as principals, transfer authority to politicians, the agents, to use the instruments of state power. The transfer of authority is presumably done through competitive elections through which political parties and their members are appointed to positions of power within the government (that is, the executive and the legislature). The presumption here is that in a perfect world politicians would be accountable to the citizens and use this power in the interest of the citizens to produce good public policy. However, citizens do not have perfect control over the activities of the politicians hence politicians can use state power to further their own interests. The extent to which politicians will behave in the interest of the citizens depends on the effectiveness of mechanisms that exist to make politicians accountable.

Elections are one of the most fundamental mechanisms of accountability, but there are others such as the degree of transparency, the effectiveness of the media and the like. Of these, the role of the media in enhancing transparency possibly deserves special attention. To the extent that the media is independent and professionally competent, it provides crucial information to citizens with which to evaluate the performance of the politicians (and of course, of the bureaucracy as well). This is not only by direct coverage of news, but also by rendering possibly complex matters of policy more intelligible to the citizens. Hence the capacity of the media to follow and interpret policy issues is crucial.

The second layer captures the relation between politicians and bureaucrats. Politicians cannot design and execute policy by themselves, they need the bureaucracy. However, they do not have perfect control over the bureaucracy either. Hence the second layer reflects principal-agent relation between the politicians and bureaucrats. While the immediate concern here is to make the bureaucracy accountable to politicians, the ultimate objective is to make them both accountable to the citizens.

The model is normative and descriptive. It is normative because it is based on a number of presumptions about how the state should behave if the world was perfect. It is also used for normative purposes, that is, it can be used to think about what sort of mechanisms of accountability may be established so that the state produces good public policy. However, the model can also be used for descriptive purposes, that is, to examine the existing rules that influence the actual workings of the state.

Some of the mechanisms that ensure the accountability of politicians consist of formal rules: for example laws that forbid the use of public resources for personal use, whether the political system is parliamentary or presidential, election laws, laws on campaign finance. Informal rules are important as well: for example, it would be very difficult to ensure that bureaucratic appointments are based on merit rather than political affinity only on the basis of formal rules. In practice many informal rules are enforced by public pressure especially as mediated by the public media. The public media both generates the information that citizens need to evaluate the politicians and the bureaucrats, and reflects the evaluations and opinions of the citizens (or of "opinion makers"). Organizational cultures of various organizations such as army, civil bureaucracy, interest groups can also play role in shaping up of informal rules of accountability and conflict resolution in various ways.[3]

There is a dynamic relation between the rules and the behavior of the various agents of the model. In the short run behavior may be largely shaped by the rules and the incentives they provide. In the long run, however, the rules themselves may be shaped by behavior of the agents. Agents may change the formal rules sometimes because they see them in conflict with public or personal interests. Informal rules may weaken if in practice it is seen that their violation does not generate public opposition.

In this model, the budget has a central role to play. First, it is a central mechanism of accountability through which the government informs the citizens about how much financing it is going to raise and how it is going to spend it. In representative democracies, and certainly in the parliamentary versions that is going to be relevant for Turkey, budgets are laws that are expected to bind the governments so that actual expenditures do not deviate from those appropriations decided in the budget. Also, budgets potentially show the citizens the policy priorities of the government; those policies that are given importance by the government receive more funding from the budget. The second role that the budget plays is that it potentially helps resolve common pool problems among the politicians who come to power: Consider the parliamentary version of the model described above: each minister or even parliamentarian will have incentives to use public funds and spend them for their constituencies, or when accountability is very weak, even for themselves, their families and close circle of supporters. When each minister has ability to obtain funds from a common pool of funds that has been raised by taxing the whole country, this is known to result in excess expenditures, excess deficits, and excess accumulation of debt over time. The budget, which normally is designed by negotiations among the ministers and the Ministry of Finance, and if it is binding, is a tool that can be used to contain the common pool problem and prevent excess expenditures.

As a whole, it is hoped that the system described above functions in such a way so as to produce policy that is seen as desirable by a good part of the society. In addition, it is hoped that the governing institutions also generate *credibility and commitment*, that is, they provide citizens with confidence that policies, or more generally, the rules of the game will not change in arbitrary ways. This is important as many types of

[3] For example institutional rivalry among the audit departments within the Finance Ministry is very well known. The recent attempt by the government to reorganize the Revenue Administration has been hindered and finally halted by the in fight among such groups to control the power within the new establishment .This even prevented the government from the fulfilment of such conditionality under the stand by arrangement with IMF. Later, this issue has been resolved with the introduction of an administratively less independent organization.

investments, which are crucial for long term growth, entail sunk costs carry irreversibilities; absent credibility and commitment, such investments will not be forthcoming, even if current policies create a conducive environment.

3. Institutions of governance in Turkey

3.1. A description of formal institutions

Formally, except during periods when democratic processes broke down, the governing institutions of Turkey have been similar to those of parliamentary democracies. The current structure is shaped by the constitution of 1982, which was put together when the military was in power. This is a conservative constitution, with serious restrictions on civic and political freedoms, on party formation and membership even party names. As will be discussed in the last section, there have been significant reforms in the last 2-3 years so that by 2004 Turkey was considered to have accomplished the Copenhagen political criteria for candidacy to European Union membership. However, the legacy that Turkey is now struggling to grow out of has been shaped under the 1982 constitution.

In a parliamentary system political parties compete with each other in an electoral process to gain seats in the parliament. The Turkish parliament, the Turkish Grand National Assembly (TGNA) is composed of 550 deputies elected through universal suffrage for five-year terms. If a party gains the majority of seats in the TGNA, that party typically forms the government. More typically in the Turkish case, governments are formed by coalitions of parties.

The governing coalition typically has a majority in the parliament (minority government has been a rarity in Turkey). Hence the government faces little difficulty in pushing through a legislative agenda if it has such an agenda. In the case of Turkey, one important formal constraint to legislative activity is the constitutional court, which may strike down laws that it deems to be inconsistent with the constitution.

Turkey's electoral system is one of proportional representation. This non-majoritarian system, coupled with fragmentation among political parties has produced electoral results that favor coalition rather than majority governments. With a few exceptions, in the last two decades Turkey has been ruled by coalition governments that have overall been short-lived.[4]

In that respect, the current majority government is an exception, and reflects a fundamental change in the electoral landscape, a point that will be examined in more detail below. Partly as a reaction to excessive fragmentation of votes, the electoral system has been designed so that now it is characterized by a so-called double barrier that impedes entry to the TGNA: In order to win seats a party must be organized in at least half of the Turkish provinces and one-third of their districts, and it must also obtain at least 10 percent of the votes cast nationwide. The effect of this provision has been that many parties with considerable support are not represented in the TGNA,

[4] Between 1923-2003 Turkey has had 59 governments and the average tenure of governments has been less than 1.5 years. This, along with military takeovers, explains why Turkey ranks low in indices of political stability.

particularly if their base is regional. These barriers played an important role in the last elections, which were held in 2002 (see section 5) and which has given the current government a majority in the parliament.

The head of government is the prime minister. The head of state is the president. The president has little formal power. Technically the prime minister is nominated by the President, but in practice s/he is the leader of the winning party or the leading party in the coalition. The president has limited veto power over legislation but it can be used only once, that is, the parliament may decide to override a presidential veto. The president, political parties within the parliament or at least one-fifth of the members of the parliament may take a law directly to the constitutional court.

Very little legislation actually originates in the TGNA; instead, it is drafted by the government for review by parliamentarians. The party leader wields great power, and the prime minister and a small group of advisers make most decisions.

The council of ministers (or the cabinet) is the decision making body of the government. There is a multitude of government agencies that are responsible for conducting economic policy. Fiscal affairs are handled by the Ministry of Finance (responsible for taxes and budgetary appropriations) and the Treasury (responsible for cash and debt management). The Treasury is organized under the Prime Minister but in practice is headed by a minister of state. The State Planning Organization (again, organized under the prime minister but often headed by a minister of state) is responsible for putting together annual programs and for authorizing public investment projects. Hence the budget process in Turkey is fragmented.

The budget is prepared by the Ministry of Finance, with collaboration from the State Planning Organization and the Treasury. It is enacted by the Parliament as a law. Hence, the budget is actually the means through which the executive obtains the consent of the parliament (the representatives of the citizens) to raise revenues and make expenditures. After the end of the fiscal year, the budget is audited by the Turkish Court of Accounts (TCA), which after its audit provides a statement of conformity, which evaluates the extent to which actual expenditures are done according to laws and regulations, including the budget law. The TCA is responsible to the Parliament; hence the statement of conformity is the means through which the Parliament examines whether the government has deviated from what it has declared in the budget about how it is going to use public funds. The Parliament then passes a final accounts bill that finalizes the fiscal year's financial accounts and clears the government.

Since parties that make up the government coalition often also hold the majority in the Parliament, and since individual parliamentarians that belong to a political party very rarely deviate from party positions, the monitoring that is carried out by the parliament has limited value as a mechanism of accountability. Nevertheless, it is important because of its information value: the parliamentary budget process allows the opposition to present their views both *ex*-ante, about the budget law, and *ex-post*, about how public money was spent (whether the budget appropriations have been violated). This parliamentary discussion potentially generates valuable information for the citizenry.

Public policy is the collective responsibility of the Cabinet. In principle, cabinet discussions are where public policy priorities can be determined; the budget is the vehicle through which public policies are financed. Then, policies are executed by the administration of the relevant ministry.

3.2. The legacy of distributive politics and the actual workings of institutions of governance[5]

As was indicated above, features of actual institutions of governance depend not only on the formal rules that characterize the governance system but also on the informal norms and incentives that regulate behavior at both the political and administrative level. Electoral competition in Turkey is characterized by a deep-rooted legacy of distributive politics, whereby the use of public resources to generate political support has become the main instrument through which a political party tries to gain advantage over its competitors.[6] Hence a central characteristic of Turkish polity has been the inability of the state to manage distributive demands emanating from different sections of society. Distributive politics has been one of the main venues through which different social groups have participated in the political process.

The economic policy regime of import substitution that was prevalent up until the 1980s was a suitable environment for this kind of development. Increasingly, state intervention was done not only according to well-defined economic or social criteria (for example, to promote “strategic sectors” or to help the poor) but it became an arbitrary tool used to garner political support from different constituencies. Throughout the 1950s, 1960s and 1970s the Turkish state has provided various forms of implicit and explicit transfers to a large variety of interest groups including farmers, public employees, industrialists, students and small enterprises. This was done through various forms of price and exchange controls, allocation of subsidized credit and, manipulation of prices of products produced by state owned enterprises, and regular amnesties granted to new city dwellers occupying and expropriating government owned land (which had disastrous consequences during the earthquakes of 1999).[7] In fact, in many cases state support was almost non-discriminatory.

This tendency, dubbed “populism” in the Turkish political science literature, was exacerbated by features of the political culture. As discussed by Onis and Webb (1994) a central element of the political culture in Turkey “is the idea of a ‘father state’, an institution that guarantees the livelihood of broad strata of the population” (p. 135). Hence demands for redistribution and economic protection have been seen as legitimate forms of political engagement.

The tradition of distributive politics was pervasive. Hence, while originally public enterprises were foreseen as instruments of sectoral and regional development, they soon became subject to extensive political intervention, and were extensively used for non-developmental and non-commercial objectives (Celasun and Arslan, 2001). Their managerial autonomy was restricted, their prices were manipulated according to

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[5] This section borrows heavily from Atiyas and Sayin (1997) and Atiyas (1995, 2003)

[6] Distributive politics refers to the transfer of public resources in exchange for short-term political gains. As discussed below, distributive politics typically results in excessive fragmentation in public finance. This should be distinguished from redistribution as a form of conscious social policy that might aim, for example, to reduce poverty or raise the incomes of disadvantages social groups. See, for example, Dixit and Londregan (1996) for a discussion of this distinction.

[7] The role of regulatory weaknesses in the human and economic costs of the earthquakes is examined in OECD 2001a.

electoral cycles, and over-employment became widespread. In fact, losses of public enterprises, especially of those active in the agricultural sector, became an important component of fiscal deficits in the 1990s.

Predominance of distributive politics led to the enhancement of the discretionary powers of the executive and emergence of arbitrariness in policy making. Turkey did go through a period of significant economic liberalization in the early 1980s, reforms that eliminated much discretionary authority of the state in the area of trade policy. But reforms did little to change governance institutions in other areas. In fact the reform-oriented governments in the 1980s further weakened rules in favor of discretion in the area of fiscal policy. This was especially true towards the end of the 1980s, with the normalization of political life and re-emergence of multi-party politics. For example, in order to facilitate the financing of government priorities, governments resorted to the establishment of extra-budgetary funds rather than reform and modernize the public financial management system (Sak, 2000) While funds and other off budget activities did introduce the sought-after flexibility, they also further weakened the public financial management system (see below section 4). They created opportunities for rent-seeking and were often used as instruments of patronage to reward municipalities that voted for the party or parties in power (Oniş and Webb, 1994, p. 252).

Another and very striking example of weakening the rules in favor of fiscal policy was the excessive resorting to the Central Bank resources. Although this had been the case for the years even before 1990s when successive governments heavily used political influence over Central Bank, 1990s witnessed increasing tension between Central Bank governors and politicians over the use of monetary policy for political purposes. This had often resulted in resignation of Central bank governors refusing submitting monetary policy to the needs of fiscal policy under the absence of formal institutional independence of the bank.

A tendency to favor shortcuts over institutional reform was evident in governments' approach to public administration. Rather than modernizing public administration, or change rules and incentives with a view towards better public management, governments in the 1980s resorted to excessive centralization in public decision-making. A more consensual approach would have meant dealing with deep-rooted suspicion about liberalization within parts of the bureaucracy. Instead, governments preferred to by-pass the traditional bureaucratic channels as much as possible. While this approach likely facilitated trade and financial liberalization at the time, it also resulted in the fragmentation and politization of the bureaucracy. (Atiyas, 1997; Heper 1990; Öniş and Webb, 1994).

Increasingly, influence, control and patronage became more important than merit and good public policy. The situation was exacerbated by political instability, and by the fact that the 1990s witnessed a large number of short lived coalition governments. During the process of government formation, influence over and control of agencies that could be instrumental in patronage and clientelism became the overriding concern of coalition partners. The importance of coherent public policy became secondary. Negotiations centered around which ministries would get which government agencies, including public banks (capable of disbursing various forms of subsidies and which could act as sources of employment), and key bodies responsible for macroeconomic and sectoral policy, such as the Treasury, and the State Planning Organization.

Excessive concern with influence and patronage often has significant adverse implications for the conduct or regulatory policy. For one thing, ministries were unwilling to devolve authority to independent regulators.[8] More importantly, even when regulatory agencies had legal independence according to the letter of the law, actual independence has been effectively constrained through appointments to top positions within agencies. With professional merit given a secondary role, agency appointments were delayed by protracted negotiations between coalition partners until agreements were reached. This actually imposed a high cost to Turkey as discussed below.

The weakening of the public policy orientation in public administration and the erosion of the merit system had important consequences for bureaucratic agencies responsible for public policy making. Policy making agencies became more concerned about protecting their staff and spheres of influence relative to improving public policy. For one, key policy making agencies became reluctant to engage in significant policy initiatives. Policy initiatives that required inter-agency coordination were especially difficult to undertake due to concerns about turf and distribution of authority. The fact that key government agencies were often put under the responsibility of different ministers, often from different parties, further exacerbated problems of inter-agency conflict and coordination. Note that the division of macroeconomic and fiscal policy making between the Treasury, the Ministry of Finance and the State Planning Organization is not necessarily a bad design; it could provide checks and balances. Instead, in the Turkish case with agencies as sources of influence, coordination problems were exacerbated.

The general weakening of public institutions in the 1980s and 1990s was most visibly reflected in Turkish budgetary institutions. Rather than resolving common pool problems by limiting pressures of distributive politics on the public financial resources and preventing them from leading to macroeconomic imbalances, budgetary institutions in Turkey have accommodated such pressures. In addition, they have evolved so as to provide the executive with a large number of discretionary instruments with which public funds can be allocated without any accountability and in a non-transparent manner (see below section 4)

One should note the rigidities inherent in this regime that makes any change extremely difficult, both at the political and administrative level. At the political level, it is very difficult to steer away from using the instruments of distributive politics when political competitors continue (or pledge to continue) to use these instruments. At the level of the bureaucracy, better policy making requires substantial inter-agency cooperation and coordination. Reform in public management means moving away from emphasis on power and influence, towards better public policy making. When a reform minded agency gives up power and embraces better accountability, and other agencies do not, the reformist agency ends up losing power and influence without any gains in better policy making. In game theoretic terms, distributive politics is an equilibrium that is very difficult to move away from. In the Turkish case, what triggered movement away from this equilibrium, or more correctly, what disrupted the equilibrium was the crisis that finally made distributive politics financially unsustainable.

[8] This recently occurred in the Turkish telecommunications industry, where the Ministry resisted the devolution of licensing authority to the regulatory authority.

At this juncture, it would be useful to provide a brief review of the role of the media in Turkey. Evaluating the Turkish media is not a straightforward task.[9] While the media has been relatively free to report on matters of economic policy (except, of course, during those periods where political freedoms were suspended), there have been a number of taboos, which, when challenged, have resulted in the persecution of a large number of journalists in the last two decades (for example, the Kurdish problem has always been such a taboo, until the last few years). Hence, freedom of the media has had its limitations. More often than not, mainstream media itself has been a protector of these taboos, and a practitioner of self-censorship, especially during periods of conflict escalation. Perhaps more importantly, mainstream media has had its own business interests, which creates significant potential for conflicts of interest (see Finkel, 2000, for examples), and has depended on the state for subsidies as well; hence it too was a participant in the distributive game. At the same time, however, journalists have played a critical role in the uncovering of a large number of corruption cases, especially in the last few years. The overall assessment would be that the media, especially due to its business interests, could not play its role sufficiently to exercise democratic control over governments.

If one were to evaluate Turkey from the perspective of the model of governance described in section 2, what one concludes is that in the last two decades mechanisms which make the political process accountable to general citizens have nearly collapsed. At the same time, politics became very “accountable” to particular groups and persons. As the next section will demonstrate with examples, the state became very responsive to (parts of it indeed captured) to particularistic interests to the almost complete neglect of public policy. The bureaucracy abandoned its role as implementer of public policy and focused on protecting its spheres of influence, and, in some instances, colluding with politicians in the allocation of rents and spoils. What is argued here is not that all agents of the state participated in the game, but that institutions of governance became ineffective in preventing such behavior from becoming widespread and commonplace.

The next section reviews in some detail the most glaring instances of failures of governance, where state power either was directly used for political and personal gains, or it was ineffective in curbing such behavior.

4. Instances of grand governance failures

4.1. Fiscal Management and Governance-The Role of Budgetary Institutions

Fiscal management is closely related to governance. The governance capacity of the government is assessed how efficiently and effectively it manages the resources entrusted to it, which in essence means budgetary decision making. In order to minimize the political and populist rents, budget system plays an important role. This is because the budget system consists of institutions that are built on agency relations mentioned before and which regulate the allocation of public resources. In other words, the budget, and more generally public financial management system is one of the main instruments that can be used to make sure that the state operates in a

[9] See Finkel (2000) for an evaluation.

competent way to contribute to the governance capacity of the state. The budget system should enable the following for an effective government;

- *Macroeconomic stability and aggregate fiscal discipline.* The budget system should resolve collective dilemmas that characterize expenditure demands from the state, prioritize and hence make sure that there is a reasonable balance between total resources and expenditures so that no risk of crises arise from "excessive spending tendencies" which lead to macroeconomic instability.
- *Strategic decision making in resource allocation.* The budget system should encourage that the state provides goods and services which are most valued by the citizens and that resources are allocated to these areas. In other words key policy objectives should be adequately funded with strategic decision-making.
- *Efficiency and effectiveness in the provision of public services.* The budget system should guarantee that services of particular qualities are provided at minimum possible cost.
- *Accountability and transparency.* The budget system should provide principals with adequate information to enable them to evaluate their agents. The system of public accountability should generate incentives for efficiency and effectiveness by public agencies and support achievement of performance objectives. Waste and fraud should be discouraged by the system of control and audits and of transparent fiscal reporting about the true fiscal position of the government.[10]

On all four accounts the Turkish public expenditure management system performs very badly over the past 12 years.

- *Aggregate fiscal management was a major weakness.* The evidence against the effectiveness of fiscal management is most obviously displayed by the record of deficits and mounting debt . Table 5 in annex presents data on evolution of debt and deficits between 1990-2002.

  The evidence also suggests that aggregate fiscal discipline has been compromised by the significant growth of off-budget activity, particularly quasi-fiscal activities. Thus while the official fiscal stance was being defined by the measured fiscal deficit and the corresponding public sector borrowing requirement, actual fiscal policy has been far more expansionary and has contributed rapid build up of total debt. The problem relates to the ineffective and non-transparent management of the full scope of fiscal expenditure by the successive governments. Since what is not measured cannot be managed, the growth of quasi-fiscal activities and acceptance of contingent liabilities is a major contributor to the lack of fiscal discipline. Table 6 is the presentation of such situation where change in central government debt is attributable not only to growing fiscal deficits but also to hidden deficits to a significant degree.

- *The lack of mechanisms for strategic decision making caused waste of resources*. Non existence and/or long time ignorance of sound policy

[10] Atiyas and Sayın 1997 p.xii and World Bank 2001 p.ii

formulations linking fiscal costs of expenditure proposals to priorities stated in 5 -year development plans caused extravagant investments, unfinished and under funded projects mostly motivated by political and populist rent seeking behavior of frequently changing governments. On the one hand, as a result of political considerations and of patronage, airports costing millions of dollars were constructed, with no regular flights in operation,while priority programs such as maternal and child health care received less than one percent of public spending on health on the other. The efficiency of public investment measured by the time to completion has worsened over the years. In 2000 public investment portfolio consisted of 5321 projects with an estimated cost of USD 150 billion, was estimated to completed over 20 years if no rationalization would take place.[11]

- *Excessive Control over Budget Implementation failed to prevent waste and fraud*. Despite rigid internal controls and audit mechanisms, control and audit systems were unable to minimize the waste and fraud in financial management structures. Rigid controls provided strong incentives for agencies to seek to develop off budget sources that further aggravated the problem of inefficiency and fraud risk. External Audit, which is performed by TCA, focused on compliance with regulations and did not offer an assessment of performance.

Based on this poor state of affairs, fiscal management system in Turkey has long been characterized as non transparent meaning that not all financial transactions of government went recorded in the budget. Extra Budgetary Funds, contingent liabilities, revolving funds, state banks' duty losses (see below) which are not represented in the fiscal accounts made formal central government budget that is submitted to Parliament a significant understatement (at least 10 % of GNP in 2000) of the government's fiscal plans and commitments.

Lack of discipline in fiscal policy has also affected monetary policy. Especially until mid-1990s, the Central Bank was seen as a source of financing for budget deficits. The Central Bank could be forced to extend credit to the government and limits imposed on such credit were rendered ineffective. This practice was used less frequently in the second half of the 1990s, and the government started to rely on debt financing to finance budget deficits. However, the mere ability of the government to have access to Central Bank financing and, more generally, the absence of Central Bank independence damaged the credibility of monetary policy.

4.2. State Banks: An Example of Political and Populist Rent Distribution

In Turkey, State Banks play very important role in political and populist rent distribution. Currently there are two State Banks in operation: Turkish Agricultural Bank (Ziraat Bankası) and Artisans' Bank (Halk Bankası). Turkish Agricultural Bank being one of the oldest establishments whose history can be traced back to 19th century is in charge of extending credits to the farmers as well as carrying out commercial banking activities. Farming community having 40 % of total population of 70 million but merely generating 14 % of total value added has been vulnerable to climatic conditions, low productivity which require constant financial support and

[11] World Bank 2001 p.38. Since then State Planning Office initiated a rationalization program to reduce the completion time of the remaining public investment portfolio

small scale landownership which is quite similar to those of Mediterranean countries. The Bank has always been regarded by agricultural community as "extending arm of the Father State". In this respect, agriculture has been one of the crucial vote hunting field for politicians in terms of its electoral size. Another politically important electorate is small artisans. Artisans' Bank is used to provide credit to that sector in various forms. However for both state banks, the most important instrument through which politicians appeal to agricultural and artisan community is "duty losses ".

Duty losses refer to losses incurred by state enterprises on account of a government mandate. For state banks, this mandate is mainly to provide low-interest rate credit to agriculture) and artisans.[12] For state-enterprises, duty losses usually involve the provision of subsidized inputs (such as fertilizer) and purchases of outputs at above market prices. The outstanding stock of duty losses reflects the fact that, more often than not, duty losses are not paid for within the year that they accrue. Accrued duty losses were not transparently appropriated in the central government budget in the year they accrue, thereby accumulating in the balance sheets of public banks as a claim on the government. Until the full securitization of duty losses after the 2001 crisis, state banks had to find alternative ways of financing for the duty losses. For much of the 1990s, this financing took the form of foreign exchange and TL deposits at reasonable rates. Reflecting their increasing illiquidity, however, state banks gradually began to pay higher deposit interest rates than private commercial banks, and also to gradually turn to the interbank and repo market. This way of financing of the duty losses put enormous liquidity constraint on those banks. Together with the fact that state banks also suffered from political interventions to their staffing policies as well as from non performing loans they extended to commercial sector under political pressures, their losses and liquidity problems became an unbearable burden on the economy and contributed to much of the financial crises of 2000 and 2001.

State Banks which once had an important share within the banking sector shrank dramatically after the crises. They had to lay off hundreds of employees, and close many branches. They even cut off their credit lines even to their most creditworthy customers under the fear of the investigations launched for their handling of non performing loans in the past. Table 7 in annex provides information on how state banks' share within the banking system shrank after the crises.

The total cost of duty losses accrued before the crisis but almost doubled after the crisis is estimated to be 12 percent of GNP, almost half of which was due to the effect of crisis on their balance sheets. In other words the November 2000 and February 2001 crises added quite dearly to the costs of duty losses. This high cost incurred during the crises illustrates how costly the combination of lack of fiscal transparency and lack of governance in publicly owned structures used for political and populist rent distribution can be.

[12] Duty Loss receivables of state banks from the Treasury began to generate in 1992 and reached TL 17,4 quadrillion as of end 2000. TL 2,2 quadrillion of this amount was securitized, while the remaining TL 15,2 quadrillion consisted of unsecuritized duty loss receivables. Unsecuritized duty loss receivables and all interest accrued on them were securitized in 2001 through granting special issue government bonds amounting to TL 23 quadrillion (close to USD 21 billions). For a full account of the costs duty losses and their role in crises, see Emil,Yılmaz(2004) and Rijckeghem (2004).

4.3. Private Sector Banking: Financing the State Deficit and Governance Gap

The number of private banks quickly increased after 1989 financial liberalization as the same time when government then tempted to expand budget deficits under the threat of incoming elections and return of politicians banned from politics by the military government back into the political scene. This took place against a very interesting social and political background. First, ruling Motherland Party received a heavy defeat in local elections in 1989 against the rising opposition parties whose leaders were banned from politics during military intervention of 1980. Second mine workers went into strike and launched a march on foot to Ankara the capital city. Their move received popular support from the general public who gradually disliked the ongoing economic policies of the government that predominantly rested upon keeping the wages below inflation. Both the prospects of loosing pre elections called by opposition parties and loosing popular support resulted in that Motherland Party decided to grant increases in wages of workers and public servants over 100 %. This brought about the problem of financing the deficit. However this time the mode of financing had to change from monetary financing towards borrowing from the domestic and international markets. Financial liberalization was introduced at this critical junction, where positive real interest rates were used by banks to channel foreign and domestic funds into the high yielding government securities issued to finance the government deficit.

In Turkey this was called "the chain of happiness". One of the links of the chain was the government. The Government enjoyed having found a new way of running a deficit to distribute populist rents at the expense of mounting debt. In the middle, there were banks who enjoyed making profits from buying and selling government papers instead of extending credits to the real sector. Increased political competition also increased the deficit, which in turn was financed through multiplying number of banks that bring funds from outside with high but risky returns. On the other end, majority of people enjoyed agricultural subsidies, tax exemptions, early retirement benefits, high wage increases and interest income that they earn on government securities.

What was the weakest in this link was the unhealthy structure of the banks that joined to the "chain of happiness". Many banks which obtained licenses from governments carried risky open exchange positions, extended non performing subordinated credits to their conglomerates. They had low capital adequacy ratios and inadequate internal control systems coupled with lack of corporate governance. In sum, the extended credits were merely paid back to the banks deepening their balance sheet problems.

The most striking governance gap in this context was the transforming existing banking system towards financial liberalization without due attention to banking supervision and control. Political leanings (see Box 1), non transparent regulations, and lack of supervision caused delays in dealing with problem banks in a timely manner thereby snowballing of the costs of the sector from one government to another. The accumulated risks of the banks finally come to an end in full-fledged currency crisis in 2001 when total private bank loss reached to 20 billion dollars that had to be undertaken by the State. Total cost of crisis for banking sector (both private and public) was close to % 33 of GNP in 2001, one of the highest in the world. [13]

Box 1: Banks and Politicians

In Turkey, the connections between bank owners and politicians have always been subject to public attention and controversy. Private banking system is somewhat regarded as the instrument for distributing political rents to those in support of political party financing in return for issuing banking licenses and/or turning a blind eye by the authorities on their risky operations. Although, in practice it is sometimes difficult to substantiate such claims, examples below may set a kind of indicator to show how such relations can emerge.

Interbank Case Interbank was a small bank owned by Cavit Çağlar, a textile tycoon from industrial town Bursa. He became member of parliament of the True Path party which then was chaired by Süleyman Demirel, former president of Turkey. Mr Çağlar was soon to be State Minister in charge of public banks. He was also known as becoming very close aide to President Demirel so close that he had always a place in the "family picture" of Suleyman Demirel. In January 1999 Interbank was taken over by Deposit Insurance Fund on the grounds that it was no longer viable. Mr Çağlar was prosecuted and recently sentenced to 3 years in prison.

Türkbank case Türkbank was one of the oldest middle-sized commercial bank. It was taken over by Deposit Insurance Fund in 1997 after its shares had changed many hands of incumbent owners. Deposit Insurance Fund decided to sell the Bank in 1999 through an auction. Bank was then sold to Korkmaz Yiğit a businessman and owner of TV channels and newspapers. However soon after the transaction, allegations were brought to public attention by the media that other bidders were forced to withdraw from the auction in favor of Korkmaz Yiğit who had dealings with a mafia leader Alaaddin Çakıcı who threatened the bidders. Allegations also extended to then Prime Minister Mesut Yılmaz and Güneş Taner, economy minister, on the grounds that they turned a blind eye to intelligence reports which informed them of the link between Çakıcı and Yiğit. Ex prime minister and ex economy minister were questioned by a Parliamentary Investigation Commission and both were found liable to what happened. They are awaiting to be put to trial before the High Tribunal.

İmar Bank Case İmar Bank case was a scandalous event, which may be worth to be taught at Universities. Being a small sized Bank owned by a controversial Uzan family, resources of İmar Bank as well as deposits and T-Bills holders' money were syphooned out by its owners by using very complex accounting and information technology based fraud techniques. Total cost was around 7-8 billions dollars . Owners fled from the country. During the liquidation of their assets left behind to cover at least some of the costs, their extensive gun collections were confiscated and put on the sale. It was later found out that one of the most precious items of the collection was a gun given to them as a gift by former president Süleyman Demirel.

[13] Emil,Yılmaz (2004) p.47

***Egebank Case*:** Egebank was a small sized commercial bank owned by Murat Demirel cousin of former President Süleyman Demirel. The Bank was taken over by the SDIF (Savings Deposit Insurance Fund) in 1999. Murat Demirel was charged with embezzlement of bank's assets and he was recently put under arrest after he had attempted to flee from country. Latest media news uncovered that Former president Demirel wrote personal letters recommending his cousin and presenting his business as trustworthy to the presidents of Turkic Republics in the past.

4.4. Public Administration: Quality of Government and Governance

In order to assess the quality of Public administration in Turkey *vis a vis* issues of governance one has to look at how Turkish public sector would fit into commonly agreed standards of innovative government. [14]

- ***Government that costs less:*** Since so many government reform efforts have come as the result of fiscal crisis, the first focus of many reform movements is on cutting the cost of government. This would imply reform of fiscal management systems. As we discussed in detail above Turkish Budget system does not fit well into the standards of sound resource management on all counts.[15]
- ***Quality Government:*** Quality refers more specifically to reforms that attempt to improve service delivery. Improvement in service may or may not have immediate financial implications but it is critical to the building of citizen support and the restoration of citizen trust in government. Customer satisfaction with the services provided by various institutions has been quite low in Turkey. For example: tax offices, customs offices, local authorities, deed offices, police officers, hospitals were rated an average below 5 and the percentage of the dissatisfied exceed the percentage of those who were satisfied according to a survey conducted for Turkish Economic and Social Studies Foundation (TESEV).[16]

- ***Professional Government:*** This refers to constructing a body of qualified, professional public servants who provide better services to society with important effects on the continuity of public policies, and on the quality and effectiveness of public management. Despite the fact that Turkish Civil service contains strong institutional traditions and some elements of

[14] Elaine Carmack, " Global Government Innovation " November 2003 .

[15] For through discussion of budget system in Turkey and the need for reform see. WORLD BANK 2001, *Turkey Public Expenditure and Institutional Review ; Reforming Budgetary Institutions for Effective Government"* World Bank, August 2001 and "Fiscal Transparency and Public Finance in Turkey" Ad Hoc Committee Report for 8th Year Development Plan, published by State Planning Office, Ankara 1999.

[16] Adaman, Çarkoğlu, Şenatalar "Household view on the Causes of Corruption in Turkey and Suggested Preventive Measures", TESEV Publication, December 2002,Istanbul p.44-45. However updated version of this study in 2004 suggested that those levels somewhat improved.

aspirations for serving the public interest, it still lacks the necessary skills and training needed to run the government. Pay system is inefficient with no wage differentiation with respect to performance and excessive political patronage undercuts merit principles and results in high turnover of government employees especially at higher layers.

- ***Digital Government:*** Digital or e-government has the power to reduce the cost of government, increase citizen input into government and increase the transparency of government transactions. There is an increasing awareness in Turkish public administration of the importance of this matter. United Nations 'World Public Report on e-government 2003 places Turkey at 49th among the 173 countries in terms of e-government readiness index. Most of the government organizations have web sites and tax forms can now be filled in and submitted on line.

- ***De-regulated and simplified government:*** Not only does excessive regulation work as a disincentive to entrepreneurship but also does it breed corruption. Turkish public administration system suffers from complex bureaucratic procedures and red tape like in any other countries. Until recently, establishing a company in Turkey required tens of signatures for a corporation (foreign or domestic) to set a business involving many government organizations instead of one stop agency. Time to spend for managers of such companies to straighten out red tape with government offices is many times higher than those of peer countries.[17]
- ***Honest and Transparent Government :*** The world's governments find themselves dedicated to the reduction of official corruption for number of obvious reasons by creating truly transparent public sector, ensuring rule of law and prosecute public officials, introducing right to information law for their citizens. Turkish public administration also suffer from petty corruption and state capture as evidenced in recent TI Corruption Perception Index 2004 which places Turkey 77th in ranking. There have been number of cases ranging from fictitious exports to public procurements in various sectors such as health, energy and construction where bidders were awarded contracts despite they excessively charged prices. One of the ex minister of Constructions and Settlements Department was recently referred to High Tribunal for charges to that effect. Recently, charges brought against some army officials including former generals shows the extend of corruption which may have taken place even in the army which is one of the most highly respected and trusted institutions in Turkey according to various public opinion polls. The most recent and interesting case was about the energy sector where the top officials of state owned electricity generation company were put under arrest due to their illegal dealings with the contractors. It was interesting because the officials under arrest had been appointed by the current government which declared itself against the corruption both during the election campaign and afterwards; it is generally believed that this anti-corruption stand brought them substantial amount of votes during the elections.

[17] For example time spent by managers of private companies for paper pushing with the government agencies was around 20 % of their total time, while in other countries this ratio is around 5 %.For a full assessment of business environment in Turkey see. Foreign Investment and Advisory Services (2001)

In sum, the Turkish public sector seriously fails in almost all aspects of sound public management, which is a must for good governance. As demonstrated above, the inability of the successive governments to ensure sound governance within the public sector can be seen as one of the important factors playing a catalytic role in the emergence of crises in the recent past.

4.5. Regulatory powers

The overall purpose of regulation can be described as designing and implementing rules that constrain the behavior of market players so as to correct for market failures. For example, competition agencies prevent monopoly abuse, regulatory agencies in network industries do the same in sectors that exhibit strong economies of scale and scope and network externalities (but with ex-ante rules rather than ex-post enforcement of competition law), regulators of financial markets deal with informational asymmetries, and moral hazard and adverse selection problems potential contagion effects (when one bank is in financial trouble the whole banking system is threatened), environmental regulation deals with strong externalities. Regulatory policy ensures that the market system works properly and prevents potential losses of welfare (and, one should add, it also aims at preventing transfer of welfare from those who do not hold economic power to those who do, typically from consumers to firms).

Regulatory intervention is a special form of public policy in that the executive interferes in the workings of the market with a much higher frequency and at a more detailed level than regular public policy; these interventions potentially generate costs and rewards for market players. For two main reasons, regulatory powers are delegated from the executive (ministries) to independent regulatory agencies. First, such intervention requires specialized expertise. It is thought that independent agencies are more able to attract and nurture such expertise then regular ministerial agencies. Second, and perhaps more important, it is thought that there are strong incentives for politicians to influence regulatory decision making in their favor (for example to favor supporters or penalize opponents). Delegation in that case helps in two ways: It insulates regulatory decision making from political influence, hence allows better decisions to be taken. Second, by doing so it provides the market the credibility that regulations will be fair and impartial; hence it encourages investment. At the same time, delegation creates a new problem of accountability since it endows regulatory agencies with significant discretionary power but insulates them from regular channels of accountability (such as elections).

The experience of Turkey with regulatory powers is very mixed for two reasons. First, the importance of effective regulation has not been appreciated by different governments and therefore has been overlooked. Second, even when government has shown willingness to set up regulatory agencies (sometimes at the prodding of the EU or the IMF and the World Bank) they have still tried to maintain political influence. For politicians delegation of regulatory authority to agencies with financial and procedural independence meant the loss of an important source of power that could be used in distributive politics. One means through which they could still maintain influence was through appointments to the decision-making bodies of the regulatory authorities. Some examples of regulatory failures are provided below.

The Law on the Protection of Competition, which established the Competition Authority, was enacted in 1995. However, appointments to the Competition Authority were done in 1997 because coalition governments could not agree on candidates.

In the case of financial system the consequences of regulatory failures were grave. So start with, until the end of the 1990s the regulatory environment was highly deficient. There was excess entry into the banking system, and instances of corruption that. Effective mechanisms to monitor risk taking by banks and to intervene in problem banks were not put in place, even though open capital accounts and high public borrowing requirements provided incentives for excessive risk taking (for example, arbitrage opportunities encouraged banks to hold foreign exchange liabilities and domestic currency assets, increasing foreign exchange risks). Then, when an exchange-rate based stabilization program was launched in 1999, risk taking incentives became even greater. A Banking Regulation and Supervision Agency (BRSA) was formed in 1999 through a new banking law but because of political indecision and infighting among coalition members the Board appointments were not made for another 8 months. By the time the BRSA started functioning, it was too late and the banking system was already on the verge of a crisis. The ensuing banking cum foreign exchange crisis resulted in a deep recession in 2001, with 9 percent decline in GDP.

In the case of electricity, governments in the 1990s tried to attract private investment without first putting in place a regulatory framework that would safeguard competition. As a result, contracts were awarded to private investors in electricity generation that contained typically very high fixed prices and take or pay clauses for 15 years. Hence these contracts eliminated any scope of competition in the private generation industry and increased the cost of electricity. Absent a fair and predictable regulatory environment, this was the only way in which private capital could be attracted to the industry. Later in 2001 law no. 4628 finally established a regulatory framework that envisages competition both in generation and on the demand side (by allowing large consumers the ability to choose their own suppliers). However, contracts awarded during the 1990s continued to hinder the development of competition.

Law no. 4502 that was passed in 2000 envisaged that the telecommunications industry was fully liberalized at the end of 2003 (that is, the monopoly powers of the incumbent fixed line operator would be terminated) and established the Telecommunications Authority as the sectoral regulator. Even though the overall direction of liberalization and regulation is correct, the pace is extremely slow. After a year following full liberalization, the degree of competition is very limited even in international and domestic long distance telephony, which are the segments that are potentially most competitive and easy to liberalize. Despite full liberalization, entry into the local access business has been allowed only very recently. The main reason for the delays is that it is proving very difficult to prevent efforts by the incumbent to thwart competition. The second reason is that Turk Telekom was slated for privatization and actions that increase competition were perceived to reduce the sale price of Turk Telekom. Even though in the long run the additional welfare that competition will generate is much larger than additional revenues that can be raised through maintaining monopoly rents, the political influence exercised by the ministry is preventing the regulator from taking a more competitive stance. Finally, the regulator is also constrained by its capacity and human resources, another instance of governance failure. Upon its formation, it was not allowed to carry out its own recruitment and attract skills that would be necessary to design and implement regulations. Rather, a majority of its staff was forced upon it through transfers from the ministry of transport and communications.[18]

The regulatory institutions can also be evaluated from the perspective of transparency and accountability. Regulatory agencies are much more transparent than the rest of the bureaucracy. They regularly publish online drafts of regulations and solicit comments. Nevertheless, there is also much room for improvement. One important gap is that regulations and decisions of the boards of the agencies are published without justifications, in other words, without making transparent the background methodology or argument that led to the decision in the first place.[19]

4.6. The Judicial System

Turkey's judicial system is characterized by the opposing pulls of, on the one hand, the enlightened reforms passed since 2001 and, on the other, the more traditional attitudes of the court system and especially the judges. The number of cases that the judges need to attend is enormous. Trials take a long time, undermining public confidence in the system. The facilities including buildings, computers, skilled staff, number of judges and salaries are inadequate due to lack of funds. The budget of Ministry of Justice is merely 0.3 % of GNP.

Although the reforms have increased judicial independence, seriously curbed the role of the military in the justice system, removed State Security Courts and fundamentally revised the penal code, as in other areas, implementation remains to be the major stumbling block, although not the only one. According to the constitution (Article 15), everyone has a right to be presumed innocent until proven guilty. Recent reforms give all detainees the right to see a lawyer immediately, free of charge, and according to Human Rights Watch, legal counsel has improved markedly since they were passed. However, some human rights groups have reported attempts to circumvent proper procedures, and a September 2003 visit by the Council of Europe found that only 3 percent to 7 percent of those detained had seen a lawyer, either because they were unaware of their right or because of concern about how it would impact their cases. Trials can drag on excessively, although the portion of this that is due to overburdened court dockets (as opposed to purposeful neglect in cases of human rights abuses) should be reduced by the establishment of appellate courts as envisioned in a law enacted in September 2004. In order to improve implementation of new reforms, judges and prosecutors have been receiving training in human rights and other values that has continued into 2004.[20]

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[18] For a detailed review of competition and regulation in the Turkish telecommunications sector, see Atiyas (2005).

[19] The exception is the Competition Board, whose decisions on competition cases include both a justification and the conclusions of the report of the investigation committee.

[20] Sarah Repucci, Countries at the Cross Roads 2005: Turkey, p. 9, www.freedomhouse.org/research/crossroads/2005/turkey/2005.pdf

The Turkish constitution provides for an independent judiciary, but the court system is not in fact entirely separate from the executive. The executive plays a strong role in judicial training, appointment, promotion, and financing. Training of judges is inadequate, and because there is no proper review of cases, many of those that end up in the courts result in acquittal due to lack of merit. Public prosecutors in Turkey have a status very close to that of judges, both functionally and symbolically, thus placing the defense in an inferior position. The government issues circulars instructing public prosecutors on how to interpret certain laws.

Box 2: Judges and Mafia Relations

In Turkey, judges enjoy certain degree of respect. However, there have been recently cases where judges, even including chairman and some members of the High Court of Appeals, had dealings with mafia people as revealed in telephone conversations tapped by intelligence agencies.

The most striking case was with the Chairman of the High Court of Appeals who had to retire after the incident. He was approached by an intelligence officer through a contractor who renovates his summer house. The officer asked him for a favor for a mafia leader Aladdin Çakıcı (see Box above), whose criminal case was about to be considered by the Court of Appeals. Çakıcı is also known with his connections with intelligence agencies for extending his assistance to them for illegal or cover up state operations. The former chairman apparently informed the officer of the likely outcome of the decision, which may have paved the way for Çakıcı to flee from the country before a warrant was issued for his arrest. The Chairman's conduct of the affair received criticism. Although a committee for inquiry which was established within the Court of Appeals acquitted himself from the charges, the Chairman had to retire. The Public Prosecutor's Office requested Prime Ministry to open an investigation for the head of Intelligence Service for his handling of the affairs.

Another cases involved dealings of some judges in Istanbul receiving benefits from another mafia man, Sedat Peker, in return for favorable decisions for his cases in the courts.

Another member of Court of Appeals has been recently dismissed because of his intermediation of his son's private business that again involved mafia connections.

Above cases demonstrate that reforming justice system does not only have to do with the changing regulations but also with the mentalities within the government sector in general.

However it is comforting to see that public attention and awareness on those issues are on increase and cases are discussed openly in the public thereby contributing to the furtherance of the accountability of the system.

4.7. Corporate Governance

In recent years, the topic of reforming the governance institutions of the state has been paralleled with discussions on the reform of the governance systems of private companies. In a sense, corporate governance reform can be seen as the reflection of governance issues in the private sector.

Traditionally, corporate governance dealt with conflicts of interest between owners and managers in publicly owned companies where ownership is separated from management. These conflicts of interest exist because managers (i.e., the agents), in the absence of perfect information and effective sanctions, can thwart shareholders (i.e., principal) and pursue their own goals.[21]

In less developed markets, the most important corporate governance issue is different. The controlling shareholder generally is a family and takes an active interest in running the company. Family members hold executive roles. Minority shareholders and other investors may be constantly confronted with acts that transfer wealth from them to owners, acts such as contract violations, transfer pricing, targeted issues and repurchases, self-dealing and asset stripping. Hence the dominant conflict observed in less developed markets is between the dominant shareholders/managers and outside investors and creditors. This problem is called the "expropriation problem".

In Turkey, as in many other emerging economies, corporate governance reforms are driven by increasing need of firms to attract capital from sources external to the firm. The most important challenges faced include a rule-based system of governance (as opposed to a relationship-based), dismantling pyramid ownership structures, severing links such as cross shareholdings between banks and corporations, enforcing minority shareholder rights, promoting good governance within concentrated and family-owned ownership structures and cultivating professionalism.

Indeed, the corporate governance debate in Turkey revolves around 3 issues: (i) minority shareholders' and creditors' rights; (ii) enforcement of law and regulations; and (iii) ambiguities and weaknesses in legal/regulatory framework.

In Turkey, anecdotal evidence suggests that both the statutory boards and the executive boards are dominated by family members and they largely overlap. In cases where CEO is not a family member, s/he is usually a long-term acquaintance of the family. Another feature of Turkish corporate structure is the financing system structured around big business groups (a *holding company*) with a group-owned bank. The consequences of such structures self-evident with respect to the financial crises stemming form the non-performing loans of banking sector.

There are severe operational problems with the legal process and law enforcement in Turkey. The legal system is complicated, slow and costly. With the 1999 amendment, the Capital Markets Board is empowered to avoid such impediments by resorting to administrative fines - including suspension and de-listing. However, these new powers are compromised by the general inefficiency of the legal process and the weaknesses in law enforcement.

In Turkey, the fundamental document governing the shareholders' rights is the company's articles of association - which should provide for the rights to participate in the general assembly, to vote and acquire information, to have the company audited, to file a complaint, and to take civil or legal action. There are no mandatory

[21] This part draws heavily on Melsa Ararat (2003), and ROSC Module on Corporate Governance for Republic of Turkey, The Document of World Bank)

provisions in the Commercial Code. In addition, the Commercial Code provides for privileged shares and imposes practically no limit to the extent of privileges that may be granted – including multiple voting rights, pre-determined dividend rate, priority entitlement at the time of liquidation etc. Minority rights start from 5% for public companies and 10% for non-public ones according to the Commercial Code. Shareholders can vote by notarised proxy by appointing a representative through a power of attorney; however the procedure is complicated and costly.

All of these problems severely restrict minority rights and create opportunities for transfer of wealth from minority to majority shareholders. In addition, families find it very difficult to delegate management to professionals; the tendency to transfer management to heirs restricts the talent pool and may over time reduce managerial capabilities of companies.

In this context it is apparent that Turkey also lacks of good corporate governance system that relies on a combination of firm level and institutional control. This is in part a reflection of the legacy of the system patronage and clientelism described above whereby companies grew not necessarily on the basis of efficiency or quality of products and services but on the basis of various forms of subsidies obtained from the state and access to preferential treatment by politicians and bureaucrats. Hence, overall, the business class has benefited from the non-transparent and discretionary system of rent distribution. This in turn has nurtured discretionary and non-transparent management styles, which in turn further prevents family firms from being professionalised. With increasing international competition, an enhanced desire and willingness to attract foreign direct investment, and the path of EU accession, pressures for reform in the area of corporate governance is increasing.

5. Opportunities for reform

The crisis of 2001 was the culmination of years of failures of governance. The crisis brought out the hidden fiscal implications of years of bad public policy. With the consequent doubling of public debt, it also made clear, that the public financing of distributive politics was no longer sustainable. The Turkish case provides an example of "crisis theory of reform" which states that reforms are triggered and are politically feasible only when the sustainability of the prevailing regime is destroyed, generating in the public the idea that there is no other choice.

The public's political response to crisis was actualized in the elections of 2002. A large number and variety of parties participated in active campaigning, but the many of the parties that were associated with the political life of the 1980s and 1990s lost, and opposition parties won seats in the TGNA. Only two parties passed the 10-percent threshold—AKP and the Republican People's Party (CHP)—and AKP, which had much more support than any other party, won just 35 percent of the total vote, but, as a result of the electoral rules, holds an overwhelming 367 out of 550 seats in the TGNA as of January 2005. Hence the public responded with a vengeance and voted out of political existence most of the political parties that took part in the political game that was conducted in the last two or three decades. It voted in AKP and gave it a majority in the Parliament.

The crisis and the unavailability of public funds to continue the game of distributive politics also uncovered new incentives for the government. Perhaps for the first time in the last two decades being pro-reform was much more incentive compatible for the political party in government. The environment has become such that the government has more incentives to conduct political competition less on the basis of distributive politics and more on the basis of promises of better public policy and governance in general. This orientation has been strengthened by the overwhelming public support for EU membership, which requires significant improvements in the policy-making capacity of the state. The new government continued an economic reform program that was launched after the crisis, and put EU accession at the center of its policy making processes not only on economic areas but perhaps more importantly in political and social areas as well. The rest of this section reviews some of the reforms that have been implemented in the last few years and some challenges of reform that still need to be tackled with.

5.1. Reforms in Public Financial Management

Reform of budgetary institutions was launched in 2000 by closing extra budgetary funds and consolidating government accounts. In 2003 Public Debt Management law was put into effect which set borrowing limits, streamlined debt accounting and introduced fiscal risk management including oversight of local government borrowing .In an effort to strengthen accountability, the law required the government to submit quarterly reports to parliament about the public debt stance and to brief the Budget Commission at least once a year of the Treasury's debt operations. In December 2003, Government passed another important law, which is called "Public Financial Management and Control Law". At the outset, law covers the basic components of the new public financial management principles such as fiscal transparency and reporting, multi year-top down budgeting, expenditure ceilings, strategic planning, performance based budgeting, establishment of internal control, audit systems, expanding the mandate of TCA to cover the areas such as auditing of military stocks, audit of presidential accounts, as well as of accounts of parliament. However implementation difficulties quickly emerged even before the law was put into effect, partly due to lack of coordination among the central agencies as well as capacity constraints of implementing agencies. As a result government decided to postpone the implementation of the law for a year.

Another development in this field was to enact Public Procurement Law in 2002 .The law which was designed according to internationally accepted standards was intended to streamline the much controversial public procurement system by creating an Independent Regulatory Authority called Public Procurement Board. However soon after the law started to be implemented, politicians began to complain that it ties their hands and slow down the procurement process due to its rule based nature. So far % 50 of its articles has been changed for relaxing the system.

In this area, very important reform was to Introduce Central Bank Law in 2001 right after the crisis. The Law secured the independence of the Bank by clearly limiting its role to focus only monetary discipline and price stability. This relieved the Bank from responding the needs of the government for fiscal policy purposes. Further, it provided job security for Governors. The decision making process of the Bank was institutionalized. Transparency of its reporting and operations were improved. In sum, by providing the independence, accountability and credibility of the Bank, the system also benefited from low inflation and economic stability in recent years. This was also beneficial to the incumbent government to claim some credit for the economic outcomes of such institutionalization, despite the fact that government circles often complained about such independence of the Central Bank.

5.2. Public and Private Banking Reform:

As mentioned above, banking reform was one of the most challenging one. It actually started in 1999, with the enactment of a new banking law. In addition to bringing new accounting standards for banks, it also envisaged to establish an independent Banking Regulation Supervisory Authority (BRSA). The delegation of powers of the Treasury in banking sector to this authority was welcome by everyone. However, as indicated above (section 4.5), appointments to the Board became subject to a power struggle among the members of the coalition government and within the bureaucracy. When the power struggle had been resolved and chairman and board members of BRSA had been appointed almost a year passed after the law was enacted. This was only a few months before the banking crises erupted. Then, there was very little time left to newly established BRSA to react to the circumstances in a proper manner, which further increased the cost of the crises.

The new banking law was then changed many times to adapt the circumstances of emerging crises. The law required banks to adopt international accounting and disclosure standards, to develop internal control and audit systems, to limit subordinated loans to their subsidiaries. An asset management authority (Savings Deposit Insurance Fund) was established to track down the assets of bank owners whose banks were taken over by the Fund to recover some of the costs undertaken by the state. However despite the safeguards brought to the system, the banking sector was not free from risks as evidenced by the Imar Bank case whose collapse took place after three years of reform attempts. It is now estimated that recovery ratio for costs of banking borne by the state will be small despite substantial efforts in this field.

On the public bank side, reform focused on their governance structures. Their management was consolidated under one managing board. Their internal control and audit system were strengthened. A law was enacted to prevent government to mandate those banks with duty losses unless the cost of such mandate is sufficiently appropriated in the budget in advance. Their balance sheets were rectified by issuing government papers to fill the holes. State banks are now in better position in balance sheet sense. However they are still cautious in extending credits to the private sector and their profits are mainly from interest income on government papers that had been given to them.

5.3. Regulatory Reform and Emergence of Independent Regulatory Authorities

Above, we have touched upon the various aspects of regulatory reform. From the governance point of view, emergence of Independent Regulatory Authorities (IRAs) as part of regulatory reform to minimize the costs of government intervention stemming from distributing political and populist rents, are worth to mention. In Turkey IRAs were set up mostly after the crises. First IRA, Capital Markets Board was founded in 1982 amidst to reactions to so called “bankers’ scandal”. In 1995, Competition Authority (CA) was set up. However, as was stressed before, pressures from both industrialists and coalition governments prevented the CA from becoming fully operational until 1997. BRSA was established in 2000. In 2001, there was a blossoming of IRAs in areas like telecommunication, electricity, natural gas, public procurement, and tobacco and sugar industries. IRAs have been subject to controversy on many grounds. In Turkey, governments reluctantly resorted to IRAs in different sectors. This was due to the fact that creating a new IRA each time when there was a crisis meant that governments had to delegate one of their powers to an agency that will regulate the daily workings of the sector free from political interventions. Despite the formal rhetoric by the governments about the necessity of such organs, their dislike with those institutions provoked them to interfere with the appointments of the board members and especially the chairmen of IRAs. One of the arguments advocated by various governments is that governments have to tackle with the political consequences of the decisions taken by IRAs (such as costs of bank take-overs or pricing in electricity sector etc) which have no political responsibility to the electorate. Instead of making IRAs more accountable to the Parliament by strengthening their accountability mechanism, politicians' dislike with them in terms of not being able to intervene in their daily policy decisions demonstrates the difficulty of introducing an important element of good governance, into practical life[22].

5.4. Improving Business Environment:

This area of reform involved may initiatives. Different governments, including recent ones introduced a variety of legislations to reduce red tape and costs of government actions to private sector. The Foreign Investment Law was changed. Setting up a company was further facilitated. As result of those actions starting a business in Turkey is now taking 8 working days (11 in Bulgaria, 9 in Germany, 15 in Greece), while time for registering a property is 8 days with numbers of procedures are 9 (9 and 19 in Bulgaria, 4 and 41 in Germany respectively) [23]. However there are still complaints by the business community that intra departmental committees established to improve the investment environment are not working efficiently because departments are not ready to delegate or give up their powers in facilitating red tape and bureaucracy. This is sometimes echoed even by the Prime Minister himself who complains about "bureaucratic oligarchy" after having been for two years in power and changing almost all government officials at top layers.

5.5. Public Administration Reform:

The present government initiated a public administration reform in 2004 by drafting a "Public Sector Reform Law" and a "Local Authorities Law". The draft laws seem to encompass the basic elements of reform such as decentralization of power, delegation of provision of services such as health and environment to local authorities, local ombudsmanship for conflict resolution, strategic planning, civil society participation, transparency etc. However it still lacks a comprehensive approach to integrate the different components of such reform. Because the laws were drafted by a small circle of advisers who are close to the prime minister without starting consultative process

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[22] Recently Prime minister announced that he intends to set a supra body to supervise the IRAs as a whole. The details of such a body are unknown. The government also submitted a draft law to the Parliament to allow the cabinet to appoint all members of the regulatory boards. This was reacted by the opposition and other NGOs as political and contradictory to the existing practice which allows different ministries nominate the candidates among which government makes appointments.

[23] For more information see World Bank (2005).

with the remaining parts of bureaucracy and civil society, they were met with reactions by various stakeholders including the President who vetoed the law on many constitutional grounds. This demonstrates that the good governance of the reform process is as equally important as the reform itself.

6. Conclusion

After years of disintegration of her institutions of governance Turkey now finds herself in a transitional period where a majority government can find it in its own interest to pursue the reform of these institutions. A lot will depend on whether the current and future governments can seize on this opportunity to change the means through which they appeal to the public, from populism to competition on the basis of public policy. Such a change would increase demand for high quality competence in policymaking and would therefore provide incentives to governments to improve other spheres of governance such as regulatory authorities and public administration.

Such a change cannot be taken for granted, however. The discussion of the reform initiatives above shows that the process is difficult and faces many challenges. Many reforms of governance institutions entail changes that actually reduce the discretionary powers of the executive either restrict them through rules and regulations or delegate them to agencies that have some form of autonomy from the government as was the case for Central Bank of Turkey. Reforms of fiscal institutions as well as regulatory reform are also clear examples of this. The temptation to resist, in particular from within the ranks of governing parties, will be large. Hence, a lot will depend on whether party leaderships can respond to these challenges or not.

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Table 1: Comparative Education Statistics

	Turkey		Latin America		Middle Income		Korea		Hungary, Poland, Czech republic		Greece, Italy, Portugal, Spain		European Union	
	1990	2001	1990	2001	1990	2001	1990	2001	1990	2001	1990	2001	1990	2001
Illiteracy rate, adult female (% of females ages 15 and above)	33.6	22.8	16.7	11.7	25.3	18.1	6.6	3.4	0.8	0.5	8.0	4.7	8.0	4.7
Illiteracy rate, adult total (% of people ages 15 and above)	22.1	14.5	14.9	10.8	19.0	13.3	4.1	2.1	0.7	0.5	6.0	3.5	6.0	3.5
School enrollment, primary (% net)	89.4	99.3 *	89.3	96.9 ***	94.5	93.0 **	100.0	99.5 ***	93.9	92.8 ***	98.7	99.9 ***	97.5	99.0 ***
School enrollment, primary, female (% net)	na	96.3 *	na	95.8 ***	92.1	93.4 **	100.0	99.9 ***	94.2	92.7 ***	98.7	99.9 ***	97.5	99.1 ***
School enrollment, secondary (% net)	41.4	51.3 *	29.1	64.1 ***	na	na	85.8	90.9 ***	75.3	90.9 ***	82.7	89.2 ***	98.0	89.4 ***
School enrollment, secondary, female (% net)	na	43.2 *	na	66.3 ***	na	na	84.7	90.9 ***	77.6	92.4 ***	83.4	90.9 ***	84.8	90.7 ***
Public spending on education, total (% of GDP)	2.2	3.5 ***	2.7	4.4 ***	3.9	4.5 **	3.4	3.8 ***	5.8	4.7 ***	3.4	4.8 ***	4.6	5.9 ***

(*) : 1996
(**): 1999
(***): 2000
Source: WDI

Table 2: Comparative Health Statistics

	Turkey		Latin America		Middle Income		Korea		Hungary, Poland, Czech republic		Greece, Italy, Portugal, Spain		European Union	
	1990	2001	1990	2001	1990	2001	1990	2001	1990	2001	1990	2001	1990	2001
Life expectancy at birth, total (years)	66.1	69.8	67.9	70.6	68.2	69.7	70.3	73.6	70.6	73.3	77.0	75.3	75.8	77.8
Mortality rate, infant (per 1,000 live births)	61.0	36.0	42.2	27.9	40.0	31.0	8.0	5.0	15.0	6.7	9.1	4.5	7.7	4.6
Mortality rate, under-5 (per 1,000 live births)	74.0	43.0	53.0	34.4	51.6	38.3	9.0	5.0	17.0	7.7	11.3	5.8	9.3	5.4
Hospital beds (per 1,000 people)	2.1	2.6 *	2.4	NA	3.4	NA	3.1	6.1 *	9.0	NA	4.7	4.1 *	8.6	7 *
Physicians (per 1,000 people)	0.9	1.3 *	1.4	NA	1.6	1.9 **	0.8	1.3 *	2.6	NA	3.3	4.7 *	2.7	3.5 *
Malnutrition prevalence, height for age (% of children under 5)	20.5	16.0 *	NA	19.1 ***	NA	25 ***	NA	NA	NA	NA	NA	NA	NA	NA
Malnutrition prevalence, weight for age (% of children under 5)	10.4	8.3 **	NA	9.1 ***	NA	12.6 ***	NA	NA	NA	NA	NA	NA	NA	NA
Immunization, DPT (% of children under 12 months)	84.0	88.0	70.7	88.6	88.4	85.2	74.0	99.0	97.5	98.5	79.8	93.5	86.5	94.3 *
Immunization, measles (% of children under 12 months)	78.0	90.0	76.7	99.1	89.3	85.7	93.0	97.0	97.0	98.0	87.0	76.3	78.8	86.9
Health expenditure, total (% of GDP)	3.6	5.0 *	6.3	7.0 *	5.1	NA	4.8	6.0 *	5.1	NA	7.1	8.1 *	7.4	8.0 *

(*): 2000; (**): 1998; (***): 1996
Source: WDI
NA: not available

Table 3: Comparative Income Distribution Indicators (1998)

	GINI index	Income share held by highest 10%	Income share held by highest 20%	Income share held by fourth 20%
Brazil	59.1	46.7	64.4	18.0
Chile	57.5	45.4	61.3	18.1
Mexico	51.9	41.6	57.6	19.5
Czech Republic (1996)	25.4	22.4	35.9	21.7
Poland	31.6	24.7	39.7	22.6
Hungary	24.4	20.5	34.4	22.7
Korea, Rep.	31.6	22.5	37.5	23.1
Malaysia (1997)	49.2	38.4	54.3	20.3
Greece	35.4	28.5	43.6	22.0
Italy	36.0	27.4	42.6	22.6
Portugal (1997)	38.5	29.8	45.9	21.9
Spain (1990)	32.5	25.2	40.3	22.6
Turkey (2000)	40.0	30.7	46.7	21.8

Source: WDI

Table 4: Governance Indicators (2002)

Country	Code	Voice	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
Africa							
ANGOLA	AGO	-1.39	-1.60	-1.16	-1.33	-1.56	-1.12
BOTSWANA	BWA	0.73	0.75	0.87	0.81	0.72	0.76
IVORY COAST	CIV	-1.25	-2.04	-0.89	-0.36	-1.21	-0.86
GHANA	GHA	0.01	-0.11	0.01	-0.29	-0.15	-0.40
CAMEROON	CMR	-1.10	-0.50	-0.62	-0.88	-1.28	-1.10
TANZANIA	TZA	-0.41	-0.25	-0.51	-0.55	-0.49	-1.00
MENA							
UNITED ARAB EMIRATES	ARE	-0.47	0.95	0.83	0.97	0.95	1.19
BAHRAIN	BHR	-0.74	0.31	0.78	0.96	0.92	0.95
EGYPT	EGY	-0.87	-0.35	-0.32	-0.45	0.09	-0.29
IRAN	IRN	-1.04	-0.62	-0.46	-1.28	-0.58	-0.38
LEBANON	LBN	-0.54	-0.59	-0.41	-0.47	-0.27	-0.34
MOROCCO	MAR	-0.30	-0.14	0.07	0.02	0.11	-0.04
SYRIA	SYR	-1.56	-0.14	-0.57	-0.97	-0.41	-0.29
TUNISIA	TUN	-0.83	0.24	0.65	-0.02	0.27	0.35
WEST BANK	WBG	-1.08	-1.69	-1.04	-1.02	-0.31	-0.99
Latin America							
ARGENTINA	ARG	0.12	-0.74	-0.49	-0.84	-0.73	-0.77
BRAZIL	BRA	0.28	0.17	-0.22	0.26	-0.30	-0.05
CHILE	CHL	1.12	1.04	1.19	1.50	1.30	1.55
MEXICO	MEX	0.33	0.22	0.15	0.49	-0.22	-0.19
Western Europe							
BELGIUM	BEL	1.44	0.97	1.85	1.40	1.45	1.57
GERMANY	DEU	1.51	1.06	1.76	1.59	1.73	1.82
DENMARK	DNK	1.72	1.26	1.99	1.74	1.97	2.26
FINLAND	FIN	1.70	1.63	2.01	1.93	1.99	2.39
UNITED KINGDOM	GBR	1.47	0.81	2.03	1.75	1.81	1.97
FRANCE	FRA	1.29	0.73	1.67	1.25	1.33	1.45
SWEDEN	SWE	1.65	1.43	1.84	1.70	1.92	2.25
Central and Eastern Europe							
BULGARIA	BGR	0.56	0.56	-0.06	0.62	0.05	-0.17
CZECH REPUBLIC	CZE	0.90	1.02	0.70	1.12	0.74	0.38
HUNGARY	HUN	1.17	1.08	0.78	1.21	0.90	0.60
POLAND	POL	1.11	0.71	0.61	0.67	0.65	0.39
North America							
CANADA	CAN	1.50	1.06	1.88	1.63	1.79	2.03
UNITED STATES	USA	1.32	0.34	1.70	1.51	1.70	1.77
Europe-Mediterranean							
SPAIN	ESP	1.24	0.82	1.53	1.41	1.15	1.46
GREECE	GRC	1.05	0.83	0.79	1.13	0.79	0.58
ITALY	ITA	1.11	0.81	0.91	1.15	0.82	0.80
PORTUGAL	PRT	1.31	1.43	1.03	1.47	1.30	1.33
East Asia							
MALAYSIA	MYS	-0.27	0.51	0.92	0.58	0.58	0.38
KOREA, SOUTH	KOR	0.63	0.49	0.84	0.86	0.88	0.33
TURKEY	TUR	-0.47	-0.61	-0.20	0.08	0.00	-0.38

Source: http://info.worldbank.org/governance/kkz2002/tables.asp

Table 5: Public Sector Debt and Deficits (as a share of GNP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
PSBR (Official Definition)	-7.4	-10.2	-10.6	-12.0	-7.9	-5.0	-8.6	-7.7	-9.4	-15.5	-11.8	-16.4	-12.8
PSBR (IMF Definition)	-7.7	-11.3	-12.4	-13.0	-9.1	-5.2	-13.1	-13.1	-15.5	-23.5	-18.9	-21.1	-12.3
Primary Balance (IMF Definition)	-3.6	-6.2	-7.0	-5.6	1.0	3.9	-1.3	-2.0	0.8	-1.4	3.0	5.5	4.0
Net Debt of Public Sector	28.8	35.2	35.7	35.1	54.3	42.1	46.5	42.9	44.5	61.0	58.4	91.9	79.9

Source: Compiled from van Rijkeghem (2004).

Table 6: Public Debt , PSBR and Hidden Deficits
(1990-2002 Average figures as a share of GNP)

Change in Debt	**23.5**
PSBR (Official Definition)	**8.5**
Hidden Deficits	**13.9**
Public and Private bank Recapitalization	1.2
In-kind external credits	0.2
Valuation Losses	9.1
Non Cash Interest Payments	0.4
Deferred - Advanced Payments	0.2
Consolidation Bonds	2
Payments for Contingent Liabilities	0.7
Residual	**1.1**

Source: Compiled from Emil and Yılmaz (2004)

Table 7: The Share of Public Banks Before and After the Crisis

	Assets	Deposits	Credits
1999	35%	40%	28%
2000	34%	40%	30%
2001 (After The Crisis)	27%	30%	18%