

# 3

## The Institutional Framework of Turkey and Turkish Agriculture

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### 3.1 Introduction

This chapter describes the current institutional framework of Turkish agriculture, beginning with a brief account of the key historical developments that have influenced this framework. Specifically, it covers institutional developments that have implications for the alignment of Turkish agricultural institutions with those of the European Union (EU), with the aim of providing insights relevant to the Turkey's possible accession to the EU and to expectations of future developments.

Institutions are humanly devised constraints that shape human interaction, and that provide the structure of formal and informal economic, political and social behavioural rules (North, 1990). Three basic concepts are used in describing institutional developments: institutional environment, institutional arrangements, and organisations. Institutional environment refers to the formal and informal values and basic ground rules of a society, such as traditions, norms and religion. From an economic perspective, the institutional environment includes political, social and legal rules that form the basis for production and market exchange, such as the rule of law, private ownership, the enforceability of contracts and so on (Davis and North, 1971). Taking shape within the given institutional environment, institutional arrangements refer to formal and informal rules of conduct for specific types of interaction. Lastly, organisations are defined as formal and informal entities that rule the governance process.

Four general remarks provide insight into the dynamics of institutional change, and explain the relevance of this assessment of Turkey's institutional setting. First, formal institutions are easier to create or modify than informal ones, for the same reason that it is easier to change specific institutional arrangements than to modify the institutional environment: the latter requires changes in the social fabric that usually take a long time. Second, changes in

formal institutions are easier to implement if they conform with the general informal rules of the society. Third, there are no guidelines or explicit procedures for changing or modifying informal rules. The fourth remark is that the same institutions, formal or informal, might yield different economic, social or political outcomes in different countries. These remarks suggest, first, that one of the greatest challenges Turkey will face if it becomes an EU member concerns the adaptation and re-orientation of its institutions, and second, that it may be unrealistic to expect formal institutions in Turkey to perform as effectively and efficiently as they do in the EU for some years after accession.

This chapter is organised in four sections. After this introduction, Section 3.2 provides a brief history of the development of the institutional environment of modern Turkey. It describes formal and informal rules relating to political, social and economic development, competition, property rights, and education and science. Section 3.3 presents the institutional arrangements in three areas of Turkish agriculture: agricultural resources, agricultural research, technology and innovation, and agricultural production, markets and trade. Section 3.4 concludes the chapter.

## 3.2 Institutional Environment

### *Political, social and economic ground rules*

#### *History and ideology of Atatürk's reforms*

The Ottoman Empire was founded in northwestern Turkey at the end of the thirteenth century. From 1517 onwards, the Ottoman Sultan was also the Caliph of Islam, and the Ottoman Empire was synonymous with the *Khilafa* (the Islamic State). The Turkish elite overthrew Ottoman rule, following victory in the Liberation War (1919-1922) against British, French, Italian and Greek forces. The Republic of Turkey was declared in 1923, and adopted parliamentary democracy in which religion was separated from all state, educational and legal affairs. The ultimate goal was to establish a nation state organised around the Kemalist principles<sup>1</sup> of republicanism, nationalism, populism, reformism, etatism and secularism.

The Kemalist principles were regarded as “fundamental and unchanging”, and were written into the Constitution of the Republic of Turkey in 1937. The principle of republicanism was contained in the constitutional declaration that sovereignty is vested in the nation. Populism included the notion that all Turkish citizens are equal. Accordingly, the *millet* system<sup>2</sup>, which had provided communal autonomy to other ethnic and religious groups, was abolished. Reformism legitimised the radical means by which changes in Turkish political

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<sup>1</sup> Named after Mustafa Kemal Atatürk (1881-1938), the founder of the Turkish Republic and its first President (1923-1938).

<sup>2</sup> The Ottoman Empire divided subject peoples into the domain of the faithful, the Muslims, and the domain of war, the non-Muslims. An individual's obligations and rights were determined by his membership of one of these groups. The non-Muslim community was divided into *millets*, administrative units organised on the basis of religious affiliation rather than ethnic origin. The four non-Muslim *millets* in the Ottoman state were Armenian, Catholic, and Orthodox Christians, and Jews.

and social life were implemented. Etatism emphasised the central role of the state in directing economic activities. This concept was cited particularly to justify state planning and large-scale investment in state-owned enterprises. Atatürk's economic policy aimed to prevent foreign interests from exercising undue influence on the economy. Secularism was also included in the constitutional declaration as an unchanging principle of the Republic. The Islamic *Sufi* orders were suppressed, religious schools were closed and public education was secularised. The reforms summarised in Table 3.1 were initiated in 1923-1935 to support the process of change towards a modern westernised state.

**Table 3.1.** Major reforms during 1923-1935

1923	Republic of Turkey with capital at Ankara proclaimed (October 29).
1924	Caliphate abolished. Traditional religious schools closed, <i>seriat</i> <sup>3</sup> abolished. Constitution adopted.
1925	Fez outlawed by the Hat Law. Veiling of women discouraged; Western clothing for men and women encouraged. Western calendar adopted.
1926	New civil, commercial, and penal codes based on European models adopted. New civil code ended Islamic polygamy and divorce by renunciation and introduced civil marriage. <i>Millet</i> system ended.
1928	New Turkish alphabet (modified Latin) adopted. State declared secular; Constitutional provision establishing Islam as official religion deleted.
1933	Islamic call to worship and public readings of the Kuran required to be in Turkish.
1934	Women given the vote and the right to hold office.
1935	State role in managing the economy written into the constitution.

Source: Sansal, undated

#### *Impacts of Atatürk's reforms: political, social, and economic*

Turkish society has evolved both as a consequence of and a response to the major socioeconomic changes guided by the Kemalist ideology. In 1923, Atatürk founded the Republican People's Party as a vanguard party for the new regime. The single-party period effectively ended in 1946 with the participation of the newly established Democrat Party in the national elections. Immediately after its election victory in 1950, the Democrat Party launched policies to promote private enterprise and foreign investment. However, state investment and involvement remained and even increased.

Traditionally, the military leadership has believed that the army should stay out of politics, with a condition that a major role of the army was to act as guardian of the constitution. Observant of the government's impotence against the rise and increasing popularity of anti-Kemalist and anti-secular ideas by the late 1950s, the military command concluded that the government had departed from the Kemalist principles and that the Republic was in imminent danger of disintegration. With the military intervention of May 27, 1960, the Kemalist

<sup>3</sup> *seriat*: legal system founded on the Islamic religion.

principles and the role of the state in economic affairs were reinstated. The basic principles were once more confirmed in the newly prepared constitution, which further extended civic rights and democratic mechanisms for improving social dialogue.

In a memorandum issued on March 12, 1971, the army demanded a strong government in order to curb violence and implement economic and social reforms, including the land reform stipulated by the 1961 constitution. The Prime Minister resigned and was replaced immediately after the army's warning. Almost 10 years later, continuously worsening economic conditions, rising religious movements and armed clashes between left and right movements led to another military intervention on September 12, 1980. Whereas the 1960 and 1971 interventions targeted institutional reforms, the 1980 intervention aimed simply to restore the order created by the earlier interventions.

The key lesson that Turkish society has drawn from these successive military interventions is that "the army saves the Republic when things go wrong". This expectation, still held by the large majority of the population, reflects strong trust in the army. In the 1990s, the army capitalised on this trust by repeated public warnings to incumbent governments, thereby mobilising civil society organisations around the Kemalist principle of secularism. Anti-secular groups were curbed and a new government was installed shortly after the military-backed political campaign started. This indirect intervention served as a socially and economically less costly means for reinstating the order, while at the same time informing civil society of the change in the rules of conduct. It was the first time that the military relied on the support of civil society organisations.

On the social front, changes have been rather slow despite radical reforms launched in the early years of the Republic. The sympathy for ruling civilian and military elites that impose policies and use force to meet popular resistance has not changed much. Although the reforms aimed to create the pattern of social relations based on secular and economic values, the vast majority of the rural population still subscribes to traditional patriarchal family values and observance of the religious ethic. Again, although women have received unprecedented legal rights, their status still remains a complex issue, largely due to the traditional value system that works against the schooling and labour participation of women.

On the economic front, the Izmir Economics Congress of 1923 suggested a protectionist development strategy, with cautious promotion of the private sector, and recognised the critical role of agriculture in economic development. In 1925, a heavy tax-in-kind on peasants (the tithe) was removed. The Law on Industrial Promotion (1927) led to the growth of the sugar, cotton, flour milling, coal, iron and gasoline industries. Sumerbank and Etibank were established in the 1930s to meet the credit demands of the private sector.

By 1923, landownership was concentrated within a small group with large holdings. The Law on Land Reform was adopted in 1945. The opening of new areas to cultivation also made land available to farmers without holdings. Although land reform was enacted relatively early in the Republican period,

implementation was delayed for several reasons. First, large landowners effectively blocked most action and the government often lacked the will to implement the reform (US Library of Congress, 1995). Second, mainly in the Kurdish-populated areas of the east and southeast, the reform was not compatible with local informal relationships. The underlying structure of these relationships was that feudal-style landlords, who owned the land, also controlled everything in the villages concerned, thereby providing a form of social safety net (Pamuk, 1982, 1985).

In the process of extending land ownership, peasants had to pay for the land they obtained over a 20-year period (Ataturk ve Turkiye Cumhuriyeti, undated). The state-owned Agricultural Bank of Turkey (Ziraat Bank) supported small peasants by providing low-cost credit, although merchants rather than peasants were the main beneficiaries of the Bank's lending until the 1950s. Accompanying this process, peasant cooperatives, agricultural credit cooperatives, agricultural colleges and agricultural institutes were organised. Experimental agricultural stations and agricultural parks were established to introduce new seeds and new agricultural products to farmers.

#### *Evolution of interest groups and formal institutions*

Interest group activities in Turkey gained momentum in the 1950s. By that time, the military had internalised a view of itself as the only national body responsible for safeguarding the Kemalist principles, which defined a broad area for internal military intervention. Even today, with various law-and-order issues still viewed as falling within the realm of national security, the army exerts pressure on elected governments.

Labour unions emerged with the Trade Union Law of 1947. In 1963 a further law legalised strikes, lockouts, and collective bargaining. But all labour unions (except for Turk-is, which had remained outside the political domain) were banned immediately after the 1980 coup. The Progressive Labour Union (DISK), the second largest union at the time, started its activities again in 1991.

In 1952, merchants' and industrialists' associations started to grow, including the Turkish Exporters' Association (TTA), the Union of Chambers of Commerce and Industry (TOBB), the Turkish Confederation of Employers' Unions (TISK) and the Turkish Industrialists' and Businessmen's Association (TÜSIAD). Among these, only the TÜSIAD has been concerned with the widening economic inequalities between regions and social classes, which it perceived as jeopardising Turkey's chances of entering the EU.

Religious movements also grew steadily, particularly after 1970. With increasing economic problems, religious sentiments gained strength especially in rural areas and lower-class urban neighbourhoods. The 1980 coup only temporarily interrupted the trend toward increased religious observance but without interfering with the informally organised sufi religious groups (tarikats) and other voluntary religious associations. In fact, with an article in the 1982 constitution, the army introduced compulsory religious instruction in all schools. After the 1980 coup, the military government regained state control over another

interest group, the universities, by establishing the Council of Higher Education. During the 1980s, universities were strictly controlled by the Council, but this control gradually eroded in the 1990s.

**Table 3.2.** A chronology of policy and institutional developments in Turkey: 1923-present

Period/ motivation	Economic/trade/ agricultural policies	Institutional environment
1923-1945 Catching up with West	<ul style="list-style-type: none"> <li>▪ Closed economy</li> <li>▪ Import-substitution policy</li> <li>▪ Agriculture for food self-sufficiency</li> </ul>	Strong nationalism, etatism and secularism; single party politics; strong military; advanced women's rights and gender equality; limited social dialogue; strong property rights and law enforcement (tangible); moderate state aid to initiate the private sector; strong industrial research-education and supporting institutions; strong agricultural education-extension and supporting institutions; moderate land tenure institutions but weak enforcement.
1946-1960s Collaborating with West, adopting Western institutions (participation & democratisation)	<ul style="list-style-type: none"> <li>▪ Partially open economy</li> <li>▪ Import substitution policy</li> <li>▪ Agriculture supports industry</li> </ul>	Moderate nationalism; intermittent etatism; moderate secularism; strong military control; multi-party politics; strong property rights and law enforcement (tangible); moderate state aid to the private sector; enhanced institutions for industrial and agricultural development; strong social dialogue; improved research and education; weak land institutions.
1970-1980 Establishing social stability by modifying the institutions adopted earlier	<ul style="list-style-type: none"> <li>▪ Partially open economy</li> <li>▪ Import substitution policy</li> </ul>	Weak nationalism and etatism; moderate secularism; strong military control; multi-party politics; strong property rights and enforcement; moderate state aid to the private sector; poor institutions for industrial and agricultural development; weak social dialogue; weak land institutions and enforcement; preparations for a competition framework started.
1980-present Integrating with and competing in international markets	<ul style="list-style-type: none"> <li>▪ Open economy (except agriculture)</li> <li>▪ Export promotion policy</li> <li>▪ Customs Union completed, process of EU application speeded up</li> </ul>	Moderate privatisation, competition and secularism; strong military control; multi-party politics; strong property rights and law enforcement (tangible); moderate state aid to the private sector; improved institutions for industry; subsidised agriculture with old institutions; limited social dialogue; moderate national innovation policy and institutions; establishment of Scientific and Technical Research Council; more religious content in primary education; IPR institutions in place but weak enforcement; Act on the Protection of Competition adopted in 1994.

The ideological and social forces summarised above underlie the complex political balance in Turkey. They shape the background against which Atatürk's legacy has been incorporated and transformed into political, economic and social rules, which have been developing throughout the rest of the twentieth century. The main developments over that period are summarised in Table 3.2.

### ***Competition rules***

In the early 1980s, Turkey embarked on structural adjustment policies at the instigation of the International Monetary Fund (IMF). With these policies, the economic role of the state was substantially restricted and markets were recognised as the means for determining prices. Over the past 25 years, various laws and regulations have been adopted to support and promote competition.

However, success in this area depends not only on appropriate legislation and administrative capacity, but also on how effectively the laws are enforced. The following paragraphs describe the extent to which enforcement has followed.

#### *Competition law and implementing agencies*

The alignment of Turkish legislation with that of the EU started in 1994 with the adoption of Law 4054 on the Protection of Competition. The Law applies equally to all economic activities and all firms (domestic and foreign) that influence market competition. At present, the Competition Board and Competition Authority are responsible for implementing the Law. Appointed in early 1997, the Board exercises the Competition Act's decision-making powers. Its members are appointed by the Council of Ministers from a pool of candidates nominated by several ministries and stakeholders (Turkish Competition Authority, 2003). The Competition Authority, a legally separate entity from the government, became operative in late 1997.

Law 4054 is compatible with EU competition rules in some areas, while in others it lags behind. It does not yet include a clause like Article 86 of the EC Treaty, which explicitly brings public undertakings within the scope of the Law. This gap is especially important as state-owned or state-controlled enterprises still play a role in certain sectors of the Turkish economy, and they will continue to do so until privatisation and liberalisation policies are effectively implemented. On the positive side, Article 6 of the Law prohibits the abuse of dominant power in markets, which is almost identical to Article 82 of the EC Treaty. Article 7 prohibits mergers and acquisitions aimed at creating a dominant position and inhibiting competition in the markets for goods and services (Mumcu and Zenginobuz, 2001).

In the area of State aid, 2003 saw some new action. The Competition Authority prepared a draft law on the monitoring and supervision of state aids, and a new autonomous institution has been foreseen for the monitoring and supervision task (Turkish Competition Authority, 2003). It is important to note that for such aids to be compatible with the Community *acquis*, they need to follow the regional aid guidelines of the EU (European Commission, 2004).

### *Enforcement*

The Board began concrete enforcement of Law 4054 in 2002. Six fertiliser production and distribution firms were fined on the basis of Article 4 of the Law, as they engaged in price-fixing agreements and created difficulties for other importers via a concerted practice (Turkish Competition Authority, 2003). In general, courts in Turkey function slowly due to lengthy processes. The parties involved usually try first to resolve conflicts by themselves without the courts' involvement. With respect to enforcement of the Competition Authority's decisions, the situation is unlikely to be any different, especially as the Authority has been in place for only seven years and the courts require judges specialised in competition rules.

The domestic markets for cigarettes, tobacco products and alcoholic beverages were opened to competition first from imported brands over 10 years ago. Then, joint ventures between Turkish and foreign companies (such as Phillip Morris–Sabanci) started producing a few brands domestically. In addition, arrangements are underway for the privatisation of the Directorate General for Tobacco and Tobacco Products, Salt and Alcohol Industry (TEKEL). A new law on the sugar market has begun reform in that market. Starting from the 2002-3 season, the government no longer sets the sugar price. But the market will still be regulated by the Competition Board (Turkish Competition Authority, 2003).

### *Cultural attitudes to competition*

Competitive behaviour is not yet embedded in social life, and cultural events and artisan groups initiated in the early years of the Republic still support non-competitive behaviour to some degree. Competitive attitudes are not actively encouraged in public schools. Traditional culture is supportive of solidarity-based community businesses especially in rural areas. Some traditional entities such as Ahi Ervan (a form of artisans' association active mostly in rural areas) are still in support of collaborative rather than competitive business (Karaman, undated).

### *Property rights*

The 1982 Constitution gives everyone the right to own and inherit property (Article 35), and freedom to work and contract (Article 748). The Property Law recognises private ownership as an essential principle (Article 618 of the Civil Code). In the Land Title Law (2644) of 1934, private ownership of real estate was extended to foreigners on the basis of reciprocity (Article 35) (National Assembly of the Republic of Turkey, undated). The "reciprocity principle" states that a foreigner can become the owner of real estate in Turkey if a Turkish citizen has the same right in the foreigner's country of origin. However, Article 87 of the Village Act denies foreign legal and natural persons the right to ownership of property outside a village centre. Another restriction relates to the Act regarding Military Prohibited Areas and the Security Areas.

In 1995, Turkey started to build an intellectual and industrial property rights

system. The steps taken by Turkey in the previous decade in the field of intellectual and industrial property rights are embodied in various laws, decree laws and regulations. Effective enforcement of these laws and regulations, however, is weak at present. Moreover, Turkey is a signatory to various international treaties on intellectual and industrial property rights. Following Article 90 of the Turkish Constitution, international treaties duly ratified are treated the same as internal law (PricewaterhouseCoopers, 2003).

The Turkish Patent Institute, a special governmental authority with administrative and financial autonomy and connected to the Ministry of Industry and Commerce, was established in 1994 under the Decree Law 544 for the Establishment and Functions of the Turkish Patent. The Institute carries out the administration of intellectual and industrial property rights. Its scope and duties, as enumerated in Decree Law 544, are to organise, monitor and perform all actions necessary for the protection of rights (Turkish Patent Institute, undated).

There is no legislative arrangement in Turkey to protect the property rights of owners of traditional knowledge of indigenous natural resources. Traditional knowledge indirectly used in the development of a new process or product is not subject to any kind of protection and is not covered by Turkish Decree Law 551 on patenting.<sup>4</sup>

The Breeders' Rights Law, enacted in 2003, aims to protect varieties and plant breeders' rights. Under this law, organisations or persons are able to apply for the protection of their varieties, and plant breeders will be able to demand royalties for the amount of the seeds of the varieties marketed.

#### *Informal rules hindering formal property rights*

Intellectual and industrial property rights embody specialised rules, supported by particular values of Western societies, which have evolved over centuries. In Turkey, rudimentary forms of these values are gradually emerging, especially in economic affairs with respect to industrial property rights. However, the very same values in relation to intellectual property rights encounter resistance from social networks where relationships are essentially motivated by trust and sharing rules. In these networks, knowledge is regarded as a public good and shared freely. Knowledge sharing is regarded as a means of inter-generational knowledge transfer, especially practised in closed rural communities and/or artisans' associations.

### ***Education, science and innovation***

#### *Education*

Education in Turkey has always been at the centre of political dialogue. With the

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<sup>4</sup> This issue may be incorporated in the WTO's Agreement on Trade-Related Intellectual Property (TRIPs), currently under review in the Doha Development Round. However, for a WTO member to benefit from any international agreement on this matter, rights to indigenous knowledge must first be recognised in its own legislation.

adoption of the Latin alphabet, Atatürk intended to distance young generations from the influence of religious movements and to pave the way for westernisation. However, since the 1950s, the curriculum of primary, secondary and high schools included either compulsory or optional religion courses.

In 1997, the duration of compulsory schooling was extended from five to eight years. This is expected to increase enrolment rates to 100 per cent in primary school, 75 per cent in secondary school and 37 per cent in higher education by 2005. In 2003, the enrolment ratios in primary school were 93.6 and 90.2 per cent for boys and girls respectively, whereas these ratios for secondary school enrolment were 50.2 and 42.4 per cent (OECD, 2004a). As well as improving the educational level, a key motivation behind this reform was to protect the secular foundation of the country by keeping pupils longer under the secular education system.

Currently, Turkey has 53 public and 24 private universities, and 2 vocational colleges. Although the ratio of university graduates to the total labour force rose from 5.7 to 7.3 per cent between 1995 and 1999 (OECD, 2004a), the greatest challenge is still to meet the increasing demand for skilled labour in key sectors. In particular, there is an urgent need to meet high demand for qualified labour in the information and communication technologies (ICT), machinery manufacturing and chemistry sectors. The traditional sectors of civil engineering and agriculture record a significant excess of graduates compared to potential demand.

Private sector investment in education increased significantly during the 1990s. A number of private primary schools, high schools and universities have been established, but they are concentrated in few big cities, including Istanbul, Ankara and Izmir. Private universities are polarised with respect to subject range and geographical location. Typically, a private university specialises in business, economics, engineering, informatics and natural sciences, and is located in the west. Public universities are scattered all over the country and education quality varies with region. The Council of Higher Education is responsible for the coordination of all higher education institutions.

### *Science and innovation*

Science and innovation policies were introduced in the 1960s with the establishment of the Scientific and Technical Research Council of Turkey (TÜBİTAK), which is the only organisation responsible for formulating and coordinating national science and technology policies. The State Planning Organisation (SPO), also established in the 1960s, is responsible for preparing national economic targets and allocating funds for projects. The Undersecretariat of the Treasury and the Undersecretariat of Foreign Trade are responsible for implementing innovation policies. Most recently, in conjunction with the preparation of the 8th Five-Year Development Plan (2002-2005), the specialised science and technology committee formulated a major programme for implementing science and innovation policies over the period 2003-23. The role of ICT in the implementation is noted as a critical element, but currently there is no well-defined policy or agency responsible for

activities in this area (Sayan, 2004; Cebeci and Gul, 2003). The General Directorate of Agricultural Research of the Ministry of Agricultural and Rural Affairs (MARA) is carrying out a research master plan partly supported by the World Bank. Within the National Agricultural Research System, this plan prioritises research areas and provides funds for research projects.

TÜBİTAK has indicated the need for new legislation to restructure public research organisations within the innovation system framework. Especially stressed is the need for a framework linking university, public research and industrial research. Efforts have been made since 1993 to create an innovation-facilitating environment. To this end, various Decree Laws were adopted during 1995-1998, covering R&D assistance to industry, establishment of a Turkish Patent Institute, protection of trademarks, protection of intellectual property rights in software and the setting up of university-industry cooperation centres (TÜBİTAK, undated). Two agencies, the Technology Monitoring and Evaluation Board and the Technology Development Foundation, are responsible for the distribution, respectively, of technology-targeted subsidies and of the World Bank loans for industrial R&D projects (OECD, 2004a; World Bank, 2004).

The World Bank (2004) notes significant progress in the development of Turkish technology infrastructure. The progress includes harmonisation of the technology infrastructure with European standards, improvements in the Standardisation and Testing Systems through support to the Turkish Standards Institute, a strengthened the regime for Intellectual Property Rights through support to the Turkish Patent Institute, more use by industry of metrology services as a result of upgrading the National Metrology Institute, and the setting up of the Technology Development Foundation of Turkey (TTGV) to support a number of technology financing programs. At present, innovation infrastructure in Turkey faces the problem that Turkish Telecom, a publicly owned company, is still the key actor in the telecommunications sector. Although legal problems with respect to its privatisation have been solved, the actual transfer of ownership to private hands has not occurred (Sayan, 2004).

#### *Informal education and innovation systems*

The informal education and innovation systems of Turkey have not yet internalised the underlying meanings of such concepts as competition and property rights. In addition, the social value system does not encourage the application of these concepts in social and economic affairs. For a large majority of people, especially in rural areas, basic teachings at home are supportive of “collaboration” rather than “competition”, and of “common use” instead of “private property rights”.

***Institutional environment: summary***

Table 3.3 summarises the information given in this section on the institutional environment prevailing in three “stylised” periods: the late Ottoman period, the early decades of modern Turkey and the period from the 1950s to the present. These institutional environments are compared with that of the EU.

**Table 3.3.** Characteristics of the Ottoman Empire, Republic of Turkey and EU

The Ottomans	Kemalist principles (1923-1950)	Republic of Turkey (1950-present)	European Union
Ruled by Caliphate, religion and tradition; temporary constitutions in 1876 and 1908	Parliamentary democracy; Kemalist principles in the constitution	Parliamentary democracy; the Kemalist principles in the constitution	Multi-level government; EU-level Commission, Council, Parliament, Court
Ottoman Empire	Nationalism – strong state sovereignty	Somewhat weakening state sovereignty	Basic philosophy: mixture of supranational and intergovernmental
Ottomanism - Multi-national Empire; Rule of Caliphate	Republicanism – sovereignty vested in the nation	Sovereignty interrupted by military interventions	National identities respected
Millet system – separation of non-Muslim from Muslim, & religious freedom to non-Muslims	Populism - all people in Turkey are equal and all of them are Turkish citizens	Some rights of minorities recognised only recently	Respect for human rights and fundamental freedoms of minorities
Elite’s rule – mixture of bureaucrats from minorities in all spheres of life	Etatism – state to regulate economic activity in areas where private enterprise is inadequate	Weakening etatism – strengthening market economy, privatisation of state monopolies after 1980	Multi-level government, limited role for state
Minimal scope for change due to traditional and religious institutions	Reformism – radical means to replace traditional with modern institutions	Significant economic reforms after 1980 but in some aspects a stagnant society	Economic integration as a driver of integration in other policy areas
Religion an essential part of governance of the Empire	Secularism - separation of state and religion; of religion from cultural, educational and legal affairs; independence of institutions from religion & religious institutions	Weakening secularism – state often used to support religious thought and institutions for political purposes	Separation of state and “church,” though differences exist between member states

### 3.3 Resource, technology and market institutions

#### *Resource institutions*

This section describes institutions that relate to the use and ownership of land, water, labour and the environment. Specific land and water institutions discussed in the following paragraphs include property rights, formal rules and regulations on water use and ownership rights, and land markets. In relation to labour institutions, the following areas are addressed: employment insurance and benefits, minimum wage setting, employment protection, early retirement and pensions, bargaining and labour unions, severance payments and labour contracts. Finally, formal regulations and informal rules concerning environment quality are described. For presentational simplicity, these institutions are explained, together with the roles of the relevant administering and implementing organisations (Table 3.4).

#### *Land institutions and implementing organisations*

A major problem in Turkish agriculture nowadays is declining productivity. Contributing factors are land fragmentation, land inheritance law, large-scale water resource development unsuitable to the needs of small farms and underdeveloped water use rights (Cakmak and Kasnakoglu, 2002).

Modern cadastral work started with the application of Land Registry and Cadastral Law 2613 in 1934 (updated several times since). The Directorate of Land Registry and Cadastre is responsible for all tasks related to land registration and land surveying. It employs 14 thousand people, of whom 40 per cent work in land registry activities and 60 per cent in cadastral activities (Yomralioglu, 2003). The 1055 Land Registry Offices throughout the country are tasked to perform contract and registration transactions concerning all types of real estate. Progress has been slow and the register is still incomplete. It was estimated that, in November 2003, 75 per cent of all parcels in rural areas were registered and legally occupied, and that of the remaining unregistered 25 per cent, four-fifths were legally occupied and one-fifth illegally occupied. The Ministry of Justice has responsibility for legal issues such as the identification of owners. Difficulty in establishing the details of land ownership has been one of the factors delaying completion of the register. The land register also serves as the basis for land taxation.

The absence of adequate cadastral maps, clearly defined land titles and rights for transferring land continue to hamper land market developments and transactions in some rural areas (Cakmak and Kasnakoglu, 2002). These unfavourable conditions can also make it difficult for farmers to access agricultural credit, which is already limited due to the recent restructuring of the operations of the Agricultural Bank of Turkey and reorganisation of Agricultural Sales Cooperatives (TZOB, 2004). On the positive side, each Land Registry Office has undertaken to digitalise its information (Yomralioglu, 2003), and MARA is in the process of building a digital database to store information on the availability of different types of land, types of land tenure and the procedures for buying, selling and leasing land (Demir and Duman, 2003).

This database has been used to implement direct income support payments and will also be used for all other agricultural support payments.

Land fragmentation has been the reality of Turkish agriculture for a long time. The SPO, the Ministry of Agriculture and Rural Affairs (MARA), and the Food and Agriculture Organisation (FAO) have identified the absence or poor functioning of land institutions as factors behind this fragmentation. Among the

**Table 3.4.** Institutions and governing organisations

Institutional environment	Intended functions of institutional arrangements	Administering and implementing organisations
<p>Political, social and economic rules</p> <ul style="list-style-type: none"> <li>▪ Competition rules</li> <li>▪ Property rights</li> <li>▪ Education, science and innovation</li> </ul>	<p>To organise agricultural resources</p> <ul style="list-style-type: none"> <li>▪ Land (ownership, renting, inheritance)</li> <li>▪ Labour (contracts, social security)</li> <li>▪ Water (use and distribution)</li> <li>▪ Environment (soil, water, air)</li> </ul>	<p>Land, labour, water, environment</p> <p>Directorate of State Hydraulic Works, Water Users' Org., Ministries of Agriculture &amp; Rural Affairs (MARA) and Environment-Forest; Social Security Inst; Public Retirement Pension, Turkish Emp. Org, Labour and Employer Unions, BAGKUR (union for self-employed in agriculture), Public Minimum Wage-setting Comm, High Accreditation Council</p>
<p>To organise agricultural research, technology and innovation</p> <ul style="list-style-type: none"> <li>▪ NARS, Agricultural Knowledge and Information System, R&amp;D partnership</li> <li>▪ Science and innovation activities</li> <li>▪ Technology generation and transfer</li> </ul>	<p>To organise agricultural research, technology and innovation</p> <ul style="list-style-type: none"> <li>▪ NARS, Agricultural Knowledge and Information System, R&amp;D partnership</li> <li>▪ Science and innovation activities</li> <li>▪ Technology generation and transfer</li> </ul>	<p>Research, technology, and innovation</p> <p>Scientific and Tech Research Council, Undersecretariats of Treasury and Foreign Trade, State Planning Org, Council of Higher Education, Ministries of Education, Health, Env.-Forest; Universities; MARA; Agr. Research Orgs, Provincial Ext. Adm, Chambers of Agr., Farmers' orgs, NGOs, Development Orgs</p>
<p>To organise agricultural production, markets and trade</p> <ul style="list-style-type: none"> <li>▪ Farming</li> <li>▪ Marketing contracts</li> <li>▪ Agricultural product markets and trade</li> <li>▪ Seeds, agricultural chemicals, livestock, credit and technology markets</li> </ul>	<p>To organise agricultural production, markets and trade</p> <ul style="list-style-type: none"> <li>▪ Farming</li> <li>▪ Marketing contracts</li> <li>▪ Agricultural product markets and trade</li> <li>▪ Seeds, agricultural chemicals, livestock, credit and technology markets</li> </ul>	<p>Production, markets and trade</p> <p>Turkish Competition Authority, Chambers of International Trade, High Accreditation Council, Ministry of Foreign Trade, Ministry of Trade and Industry, State Planning Organisation, the Court of Appeals, the Council of State, the Inter-University Board; Agricultural Banks, Agricultural Sales Cooperatives, Agricultural Credit Cooperatives</p>

institutions blamed are inheritance and property laws, commercial laws in the rural context, the arrangements for leasing and distributing state land to farmers, land use policies, and the complex structure of agricultural infrastructure organisations.<sup>5</sup> Inheritance Law, amended in 2001, prevents the division of land holdings below a specified level that would provide enough income for a family of four. Farmers' emotional attachment to their land is also a factor contributing to fragmentation; such attachment is likely to make farmers reluctant to accept new tenure arrangements even if these arrangements are economically beneficial. Land consolidation by the authorities started on a very small scale in the 1960s. The Land Consolidation Statute, decision 7/18231 (1979), and Law 3083 (1984) now form the basis for land consolidation programmes that are under the control of the GDRS, and for large-scale irrigation projects, under the GDAR (beginning in 1989) (Gür and Demirel, 2002). Completion of a cadastral survey in the area concerned is a pre-condition for land consolidation. From 1961 to 2000, 255 thousand hectares involving 152 thousand landowners in 26 areas were consolidated by GDRS, whereby the number of plots was reduced from 263 to 138 thousand. From 1989 to 2002, GDAR consolidated 129 thousand. Although 4.5 million hectares have been brought under irrigation, just 8 per cent of this land has been consolidated. Gür and Demirel (2002) concluded that continuing fragmentation has prevented many small holdings from benefiting from irrigation.

#### *Labour institutions and implementing organisations<sup>6</sup>*

The Ministry of Labour and Social Security (MLSS) is responsible for employment and workers. In 2000, three State agencies were brought together under the Social Security Organisation: the Social Insurance Organisation (SSK) for wage and salary earners, Bağ-Kur for the self-employed, including those in agriculture, and the Turkish Employment Organisation, which is in charge of providing public employment services. They all are administratively and financially independent. Approximately 60 per cent of the insured population are under SSK, 25 per cent under BK, and 15 per cent under the Retirement Fund (which is available only to civil servants).

The government sets the minimum wage, the retirement benefits of civil servants and others, unemployment insurance, and social insurance. Minimum wage legislation has been in force nation-wide since 1974, but its effective enforcement is weak especially in rural areas. The Work Law 1475 stipulates that minimum wages have to be adjusted every year by a Committee reporting to the MLSS and remain in effect throughout the year. As of 2004, the monthly minimum wage for age 16 and

<sup>5</sup> For further information see Devlet Planlama Teskilati: <http://ekutup.dpt.gov.tr/tarim/oik534.pdf>; Ministry of Agriculture and Rural Affairs: <http://www.tarim.gov.tr/arayuz/6/menu.asp>; also <http://www.fao.org/>

<sup>6</sup> This section draws on the views of Taymaz and Ozler (2003) and Tunali (2003), and the most recent information on labour market institutions in Turkey. The reader is referred to [www.ssk.gov.tr](http://www.ssk.gov.tr), [www.bagkur.gov.tr](http://www.bagkur.gov.tr), [www.emeklisandigi.gov.tr](http://www.emeklisandigi.gov.tr), [www.iskur.gov.tr](http://www.iskur.gov.tr), and [www.turkis.org.tr](http://www.turkis.org.tr) for more information. It should be noted that in the reviewed documents agricultural labour market institutions are not studied in depth.

above is USD 293 and that for below age 16 is 85 per cent of USD 293. Until mid-1989, a lower minimum wage was set for agriculture and forestry.

To reduce the State's dominance in the provision of retirement benefits, a new personal pension scheme for workers and the self-employed was legislated in April 2001. Based on voluntary contributions, the scheme is designed to supplement public pensions. Employers can also contribute to the system on behalf of their employees. The fund is managed by private pension companies and is overseen by the Treasury. As farmers do not receive the state pension, this scheme represents a new opportunity for them to secure their retirement. However, to date very few farmers take part in this scheme (E. Cakmak, Istanbul, October 2004, personal communication). The new retirement system that started in 2002 sets the minimum age for retirement for a new entrant at 58 for women and 60 for men. The legal framework for unemployment insurance (Law 4447 of 1999) has been implemented from 2002. It covers workers registered with the SSK and does not cover civil servants or the self-employed.

Union Law 2821 on collective bargaining (1983) regulates employee/employer relations. White-collar unions in the public sector re-emerged in 1990. Most civil servants and the regular employees of state enterprises are represented by unions, but are legally prevented from striking. The Supreme Arbitration Board resolves conflicts involving these groups.

Arrangements regarding part-time, flexible work, workplace safety, children's work conditions, were made to align Turkey's labour market legislation to that of International Labour Organisation and EU standards. But Turkish Labour Law still does not adequately protect part-time and fixed-term employees, who are especially numerous in agriculture (Tunali, 2003). The changes introduced mainly address the short-term concerns of employers by facilitating labour market flexibility. According to OECD (2004b), about 50 per cent of Turkey's workforce operates in the unregistered economy with minimal legislative protection.

### *Water institutions and implementing organisations<sup>7</sup>*

Since the 1926 Civil Code on water use, only one special law has been enacted on surface water use for hydropower production and thermal waters. Various customary rules and regulations developed locally are applied when conflicts arise among water users. The court settlement is final but the court does not have a reference regulation to solve the problems.

A draft Law concerning water resource use was prepared in 1968 but has not been enacted yet. The 1982 Constitution states that water resources are 'natural' wealth and under the authority of the state. However, legislation on water rights and ownership is complex. Water resource development is the responsibility of the state, except for some privately owned small springs and other water resources. Again, a special law arranges groundwater use, and licenses that cover only user rights

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<sup>7</sup> For detailed information on water developments in Turkey, see Unver and Gupta (2003) and [http://www.fao.org/ag/agl/swlwpnr/reports/y\\_nr/z\\_tr/tr.htm#waterr](http://www.fao.org/ag/agl/swlwpnr/reports/y_nr/z_tr/tr.htm#waterr).

are issued by the General Directorate of State Hydraulic Works (DSI) upon users' request. Water use rights can be neither transferred nor sold.

Water User Associations have various problems with respect to finance, administration and machinery. Sub-surface drainage and other on-farm land improvements are carried out by the General Directorate of Rural Services (GDRS), but are poorly maintained by farmers as ownership is not assigned. There is no monitoring and evaluation of the small-scale irrigation schemes realised by GDRS. Research findings on improved irrigation techniques are not effectively transferred to public extension service and farmers. Water management advice is not clearly included in the existing extension programmes for improved water management.

Governmental and non-governmental organisations are involved in water resource development in Turkey. The DSI under the Ministry of Public Works and Settlements deals with major irrigation projects, hydropower development and water supply to cities. The GDRS under MARA deals with the construction of village water supplies, small-scale irrigation projects and research on soil-water-plant relationships. The Electrical Power Resources Administration under the Ministry of Energy and Natural Resources conducts surveys hydroelectricity generation. The MARA assists in the development of water resources through research and planning. Non-governmental organisations include user organisations such as irrigation cooperatives and water user associations, and they operate and maintain irrigation schemes transferred to them.

The 1954 Law concerning the organisation and duties of the DSI allows the transfer of management responsibility for publicly constructed irrigation schemes to local authorities and water unions. In 1997, the DSI initiated a process of drafting new and generic legislation governing the status and operation of water users' unions. In recent years, the process of transferring water management to water unions and farmers' groups has begun. These unions have to register all irrigators in their areas as members, though it is unclear what the term "irrigators" means. Farmers pay only an annual crop- and area-based fee towards the cost of operation and maintenance of water resources (Unver and Gupta, 2003).

#### *Environment institutions and implementing organisations*

The 1983 Environmental Law adopted the Polluter Pays Principle. A large number of regulations endorsed since then, in support of the Law, specify emission and discharge standards, and require polluting industries to obtain discharge permits (OECD, 1999). National environmental administration is the remit of the Ministry of Environment and Forestry (MoEF)<sup>8</sup>, in affiliation with the authority for the Management of Specially Protected areas. A 1992 regulation introduced mandatory environmental impact assessment (EIA).

Future environmental institutions are likely to grow around three issues. The first issue is that all appropriate sectors of economic activity and all relevant

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<sup>8</sup> The Ministry of Environment (MoE), created in 1991, was merged with the Ministry of Forestry (MoF) in 2003 to become the Ministry of Environment and Forestry (MoEF).

governmental policies should take environmental concerns into account. To this end, Turkey adopted the EIA regulation for all relevant sectors. However, it is hardly applied; for example, there is *no* irrigation project using the established guidelines. The absence of skilled human resources seems to be the main reason for this. The second issue relates to the enforcement of environmental laws and regulations, which has implications for behavioural changes at the individual and community levels. Enforcement is especially demanding, as environmental concerns require the collaboration of multiple organisations under different jurisdictions. The third issue concerns stakeholders' participation in priority-setting processes, which requires changes in the dominant environmental policy and management perspective (Okumus, 2002).

The SPO has prepared the National Environmental Action Plan (NEAP) in cooperation with the MoEF. Furthermore, environmental protection foundations are established in every city with a MoEF provincial branch. They generate income from paid services such as measuring industrial emissions, vehicle exhaust emissions and noise levels to fund local environmental projects. A large number of NGOs specialise in environmental issues in Turkey. They are mostly involved in public awareness and public participation activities. Universities are also beginning to establish themselves in this field. Today, 22 environmental research centres and 11 environmental engineering departments are in place. The Ministry of National Education is aware of the need for environmental education in biology, geography and philosophy programmes, but has taken no action. Private sector investment in the environment and compliance with regulations are woefully short (Markandya, 2003).

Partnership approaches involving government and the private sector are increasing. Examples include voluntary agreements between the cement industry and the government to reduce particular emissions, as well as between the automobile industry and the government (OECD, 1999). However, similar partnerships between the government and grassroots associations do not exist, because grassroots activities and their collaboration with international agencies are tightly controlled and limited by law (Okumus, 2002).

### ***Technology institutions***

#### ***Agricultural research policy, priorities and implementing agencies***

The organisation of agricultural research policy is spread over a large domain. TÜBİTAK, MARA, SPO and the Ministries that control the state-enterprise research organisations all address aspects of national agricultural research policy. TÜBİTAK and SPO identify national research priorities in all domains, including agriculture, forestry and veterinary science, and provide financial support to individual and collaborative research projects. The General Directorate of Agricultural Research (GDAR) under MARA and the General Directorate of Rural Services (GDRS) organise and implement agricultural research programmes through their respective research organisations. The GDAR has

identified high priority research areas such as oilseeds and food legumes, dairy and beef, industrial crops, cereals, fruit and vegetables. The GDRS, on the other hand, carries out research on soil, water, irrigation, land and mechanisation. Research priorities identified recently include catchment areas, soil, water and investment management. There is a strong need for much greater coordination between the bodies in charge of agricultural research policy design and implementation.

Agricultural research priorities are identified in the context of conventional priority-setting workshops with the participation of public research administrators, staff from various national and regional research institutes, and stakeholders from the private sector (Yalvac, 1999). Research programmes are designed in line with the priorities identified, but research impact assessment is not a common practice yet. The effective implementation of the priorities identified seems to suffer from poor human resources and limited research funds. Furthermore, the allocation of human resources and public research funds shows regional imbalances (Uzunlu *et al.*, 1999). Recently, with increased regionalisation of research, interaction with farmers and agricultural industries has been strengthened, but available resources have been fragmented and overall coordination has weakened.

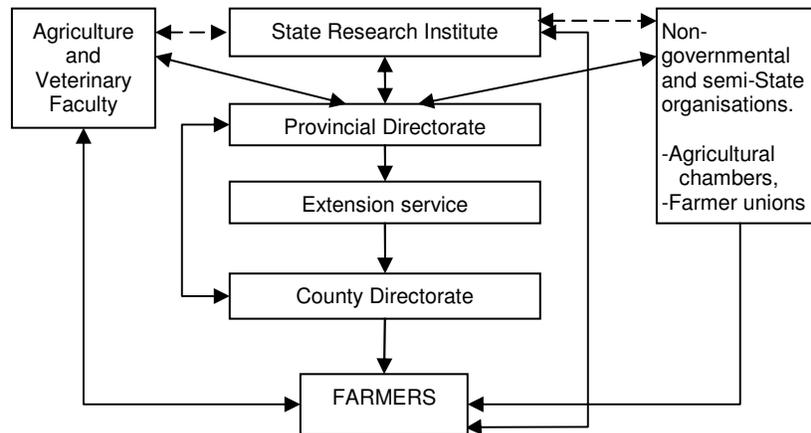
#### *National Agricultural Research System (NARS)*

The NARS (for an overview up to 1999, see Uzunlu *et al.*, 1999), comprises four groups of research and development organisations.

- Group 1 includes 82 public research organisations - 56 are associated with GDAR, 12 with GDRS, 11 with the Research Directorate of the MoE, and three with sugar beet, tea and tobacco state enterprises. The Sugar Beet Research Organisation of the Sugar Factories Enterprise is under the Ministry of Industry and Trade; the General Directorate of Tea Establishments (ÇAYKUR) and TEKEL are both affiliated with the Ministry of Finance and Customs.
- Group 2 includes universities governed by the Council of Higher Education. Most of these universities have, apart from their agricultural faculties, various units or departments specialised in agricultural sciences. Currently, there are 23 agricultural and 19 veterinary faculties. Agriculture-related training and vocational schools are all under the Ministry of Education.
- Group 3 includes independent research organisations established by public-private collaborations: the Marmara Research Centre and the Nuclear Agricultural and Animal Research and Training Centre.
- Group 4 includes various national and international development organisations, including NGOs such as Farmers' Unions and Agricultural Chambers of Commerce. The Southeastern Anatolia Project (GAP) under the auspices of the Prime Ministry manages socioeconomic development in the less developed southeastern region. The GAP administration collaborates with ICARDA in joint projects and proposes to develop a regional agricultural research and training centre in the southeastern region.

### National extension system

For many years, considerable national and international effort has gone into building up the national extension system<sup>9</sup>. Yet there is dissatisfaction with its performance at all levels. MARA organises the national extension services. MARA's effectiveness, however, in coordinating the contributions of the universities, its own directorates and research units, and their links with the extension services has been strongly criticised (see, for example, Tekinel and Yazar, 2000; Ozkatalbas *et al.*, 2004). Critics consider that poor communication between the research and extension services has hampered the dissemination of new technologies to farmers for several decades. Feedback from farmers to extension agencies and then to research organisations is also poor.



**Figure 3.1.** The structure of the Turkish extension system

Source: Güney *et al.*, 1999

Figure 3.1 shows the current structure of Turkey's extension system. The structure is rather formal and uses indirect channels to reach farmers. Village group technicians, the closest agents to farmers, are placed in a group of 4-5 villages and live in the village. They address farmers' problems through the Farmers' Training Division that provides training to the lead farmer, who then disseminates agricultural technology to farmers in the village (Güney *et al.*, 1999; Kumuk and Van Crowder, 1996). Television and radio broadcasts are also used in extension work (Kumuk and Van Crowder, 1996). Extension activities follow a rigid schedule with little input from farmers, with the result that programmes tend to lack relevance to local farm problems. In many cases,

<sup>9</sup> For example, two large World Bank projects, Agricultural Extension and Applied Research Project (AEARP) I (1984-91) and II (1990-97), concentrated on strengthening links between farmers, extension and research.

village group technicians, who are supposed to live in their work areas but often do not, have become essentially little more than purveyors of centrally prepared messages. As well as structural and organisational weaknesses, the extension system has faced farmer reluctance to engage in extension activities because of limited access to credit. More positively, NGOs have recently started to provide extension services, and independent producers' associations and cooperatives have started participating in extension activities.

### *Technology and new institutions*

Biotechnology, and information and communication technologies (ICT), offer new opportunities for agricultural development.<sup>10</sup> However, exploiting such opportunities is conditional on the extent to which countries can adapt their existing legal, regulatory, policy and institutional frameworks. For example, a biotechnology information system is needed in order to set up a biotechnology regulatory framework. Presently, Turkey does not have such a system. The application of intellectual property rights in biotechnology research requires appropriate legislation to prepare the ground for the private sector to invest in biotechnology. ICTs are vital in establishing an agricultural knowledge and information system (AKIS). Only recently did the Turkish agricultural authorities initiate projects aimed to create AKIS (Demir and Duman, 2003).

### *Conventional research and emerging formal research institutions*

The current research and extension systems operate in a very isolated manner. Many public research organisations have become detached from farmers, mainly due to the weak extension system. Traditionally, investment in agricultural research was the sole responsibility of the public sector. This convention still dominates not only among researchers but also among farmers and their organisations. Despite recent examples of public-private collaboration, especially in seed development, many researchers and research managers are still conditioned by the view that agricultural research is the responsibility of the public sector.

Agricultural research systems in EU countries emphasise interactions and feedback between research and development (Kern, 2000). The dominant model of public national agricultural research organisations has given way to that of innovation systems that include a broader range of interacting partners, such as universities, agricultural research institutes, NGOs and the private sector. Currently, rudimentary examples of such interactions, although unplanned, are also taking place in Turkish agriculture in the context of the GAP.

To date, the general tendency among agricultural and research policy-making bodies in Turkey has been to design and implement policies without consulting stakeholders. Through the implementation of internationally funded

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<sup>10</sup> Sayan (2004) discusses the compatibility of Turkey's culturally and ethnically diverse population with the development of information technology infrastructure.

projects, however, this traditional approach is gradually being replaced by one that emphasises stakeholder participation in agricultural research priority setting. The growing emphasis on agricultural innovation systems assigns a critical role to non-governmental and grass-root organisations in uncovering indigenous technologies and disseminating them in a wider knowledge system.

### *Social networks and technology transfer*

Social networks are instrumental in the development and adoption of new or improved technology. Typically, technology is diffused among the members of the network through social relations. Actual application, however, involves imitation of those who have already used it, and depends on the level of trust in the social relations involved. With the setting up of village institutes in 1940, Turkey adopted an agricultural development strategy based on social networks. These institutes used specially trained teachers who lived and worked in their own communities to improve farming methods and promote Kemalist reforms in villages. This model viewed technology transfer as a trust issue. The institutes were closed in 1953 during the period of the Democratic Party. Intermediary agencies, including NGOs, farmers' organisations, cooperatives, international development organisations and marketing associations, form another network that bridges the gap between social and economic networks. Within the innovation system framework, the intermediary network plays the role of knowledge facilitator. In Turkey, economic and social networks are isolated, while the intermediary network is gradually expanding through the participation of NGOs, farmers' organisations, cooperatives and community representatives.

### **Market institutions**

#### *Competition and agricultural markets*

A major goal of agricultural policy is to ensure stable income and living standards for rural populations. This is often in conflict with the aim of competition policies to ensure maximum welfare for society as a whole. Therefore, in many countries competition rules and agricultural market institutions do not go hand-in-hand.

A large number of farms in Turkey are small<sup>11</sup>, with less than 5 hectares of land, and lack the capital for expansion. Farmers purchase inputs in oligopolistic markets, and often suffer from the presence of an oligopsonistic or monopoly wholesale marketing sector (see Chapter 6). General competition rules should be tailored to promote competition in these highly concentrated markets. In the area of agricultural credit, Agricultural Bank and a few private banks started in 2002 to extend low-interest credit to those farms large enough to use their farms as collateral. The agricultural machinery market similarly tends to exclude small farms, which lack the finance and incentives to buy expensive machines. The

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<sup>11</sup> A large majority of agricultural enterprises are small, the number of small enterprises is increasing and the size of an average enterprise is declining (see Table 6.4).

leasing market and cooperatives are therefore better options for them (Turkish Competition Authority, 2003). In agricultural product markets, however, competitiveness is gradually developing.

Agricultural insurance markets are also underdeveloped because of the lack of farm credit. The government has assumed responsibility for preparing a regulatory framework to facilitate the growth of the insurance market. A draft law was prepared in 2002 to promote the development of agricultural insurance system, but still has to be approved by Parliament (Turkish Competition Authority, 2003; TZOB, 2004).

In Turkey, agricultural reforms have often been triggered by large budget deficits, not as part of a market reform strategy. Hence, as soon as budget deficits are reduced, the reforms are relaxed and the old rules re-emerge. The situation is different now since permanent change in Turkish institutions is required for EU accession. In this respect, non-distorting policy interventions and a complete withdrawal of the public sector from agricultural markets are both critical. Under the first of these headings, reduction in market price support and the adoption of a direct income support (DIS) scheme are already underway (see Section 7.2). With respect to public sector withdrawal, there is still a long way to go. Agricultural credit is one such area. Currently, only a few private banks extend credit to wealthy farmers and two-thirds of small farms use credit from (illegal) brokers (Turkish Competition Authority, 2003). Operational restructuring of the state-owned Agricultural Bank in 2001<sup>12</sup>, whereby farm assets and productivity play a greater role in credit assessment, together with the lack of real competition in this sector, could well force small farms to turn more to informal credit markets.

Currently, the asymmetry of competition rules impedes their application in Turkish agriculture. Public agencies, responsible for ensuring the proper organisation of competition rules, also represent public enterprises operating as players in agricultural markets. That is, some players in particular markets have the privilege of designing and applying competition rules, whereas rules that govern these privileged actors' activities are not yet well developed. On the other hand, rules that govern farmers' associations and cooperatives are relatively well organised and monitored (Turkish Competition Authority, 2003).

The Competition Authority is a young organisation. At this stage of its development, one can only comment on its general approach to agricultural markets rather than analyse the implementation of competition rules. Whether the Authority is fully independent at this early stage of its development is questionable. For example, the Authority does not intervene to correct anti-competitive behaviour of tomato producer cooperatives when they try to overcome the oligopsonistic power of agricultural processors. The Authority shows a similar attitude towards the growing practice of contract farming, which

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<sup>12</sup> Strictly speaking, since 2000 (when the Agricultural Bank became a joint stock company) it is no longer a State Economic Enterprise. It describes itself as "a joint-stock company whose structural and operational characteristics are those of a private sector concern but whose capital happens to be state-owned" (Ziraat Bank, 2003).

works against competition policy. The Authority's independent activities are hindered by the fact that public enterprises are also competition policy makers. For example, complaints have been made that the publicly-owned sugar enterprise sets sugar prices too low, which forces private sugar companies out of the market. But the Authority has acknowledged that sugar prices are determined by special laws approved by the council of Ministers. This indicates that the Authority lacks full power in issues relating to the implementation of competition rules (Turkish Competition Authority, 2003).

#### *Adapting institutions to the EU's Common Market Organisations*

The EU's common agricultural policy (CAP) places each agricultural product under a common set of market rules throughout the Union. Institutional prices are being gradually reduced towards world market levels, and being replaced by direct aids as the basic support mechanism for Community farming. The effective implementation of the *acquis* requires that intervention agencies are capable of performing tasks such as regular market and price monitoring, public storage, and sales and stock control. The *acquis* further specifies precise rules for producer organisations (Togan *et al.*, 2003).

Within the framework of the Agriculture Reform Implementation Project (ARIP), launched in late 1999, Turkey has been reforming its price support and input subsidy policies. In this context, the Agricultural Sales Cooperatives Unions (ASCUs) were restructured and the Turkish Grain Board (TMO) acquired new functions. The farmer registration system, which is a necessary tool for the payment of direct income support under the DIS scheme, was launched. It utilises the existing land registry records and MARA's Farm Registry System (providing data on the number of farmers, the demographic characteristics of the farmers, assets, number and the size of parcels, and land use). In 2003, nearly 2.8 million farmers and 16.65 million hectares were registered for DIS payments (see section 7.2). The registration system developed under the DIS is a step towards an Integrated Administration and Control System (IACS) (Togan *et al.*, 2003).

A second key element of the ARIP framework has been the privatisation of agricultural State Economic Enterprises (SEE). The new sugar law, which was adopted in April 2001, aims to open up the sweetener market (defined to include isoglucose) to competition and reduce state interference, whilst maintaining a system of sugar production quotas as in the EU. In the tobacco sector, Parliament adopted a new law restructuring the Directorate General for Tobacco and Tobacco Products, Salt and Alcohol Industry (TEKEL), converting it into a commercial enterprise that will operate under free-market conditions. The processing facilities of TEKEL are to be privatised. A tobacco law was adopted in January 2002, which intends to end state subsidised tobacco purchases and to introduce auction sales, with individual purchasing contracts between producers and buyers. Finally, privatisation of the tea factories of ÇAYKUR was begun in 2001. Some other firms were also liquidated, such as the Turkish Agricultural

Supply Corporation, the state firm responsible for input supply (Togan *et al.*, 2003; Turkish Competition Authority, 2003).

### *Food safety and food quality standards*

Regarding food safety legislation and control systems, Turkey has incorporated some of the *acquis* into its legislation, mainly in the fields of packaging materials and food. The Establishment and Duties of Province Control Laboratories were revised in early 2001. Accreditation has been initiated for some of the laboratories involved in tests organised by the Food Analyses Performance Assessment Scheme (FAPAS) and TÜBITAK. Finally, food legislation in Turkey has been continuously updated since 1985. All stages of food production are targeted for inspection, with legislation aimed to protect public health against all possible food-related diseases. Turkey has accepted the Codex Alimentarius, embodying international food safety standards, in 1997, and subscribes to other international standard-setting bodies (including the OIE and IPPC).

The Turkish Standards Organisation (TSE) has been using internationally recognised certification (ISO) guidelines since 1994. Ninety-three percent of Turkish standards are now based on European and international standards, while over 90 per cent of EU standards have been adopted as Turkish standards. Products that bear EU certificate marks are now directly granted a conformity certificate by the TSE and the Ministry of Health. With the enactment in 1999 of the Law on the Organisation and Functions of the Turkish Accreditation Council, Turkey reformed the institutional framework for accreditation. The Accreditation Council, which began operation in 2001, assesses and audits laboratories, certification and inspection bodies, and certifies the competence of conformity assessment bodies.

### *Agricultural policy implementation agencies<sup>13</sup>*

Four key agencies are responsible for implementing agricultural policies, including MARA, the Ministry of Industry and Trade, the Agricultural Bank of Turkey and the Treasury. MARA's main task is to assist in the elaboration and implementation of agricultural policies. MARA also performs commercial functions through an affiliated state economic enterprise, the Turkish Grain Board (TMO). The TMO functions as a buffer stock agency to stabilise producer and consumer grain prices. The TMO provides signals to merchants about the future directions of the market by announcing purchasing prices, which are later revised based on market conditions. Under the World Bank funded reform programme (ARIP), it is intended that TMO prices will be increasingly linked to world prices so that ultimately state procurement becomes a "buyer of last resort", as is the case in the EU.

The Agricultural Bank is the main provider of agricultural credit for crop and

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<sup>13</sup> This section draws on information from Togan *et al.* (2003), DPT (2000), TZOB (2004), Turkish Competition Authority (2003).

livestock production. The credit is distributed to farmers through the Agricultural Credit Cooperatives (ACCs) and the Agricultural Sales Cooperatives Unions (ASCUs). The farm credit subsidy has been eliminated. Since these changes, credit has been limited to those farmers with enough collateral. A few private banks have also started to provide credit but under very restrictive conditions.

In the past, the ASCUs operated under the control of the Ministry of Industry and Trade. They were authorised to set prices for the members' commodities, and to implement support purchases from producers on behalf of the state. They were also authorised to set up facilities such as warehouses, and processing and packing plants, and to market commodities in accordance with wholesale and retail market practices. Within the ARIP framework, financial aid is granted to assist the restructuring and transformation of ASCUs into genuine cooperative organisations, i.e. independent, financially autonomous and self-managed cooperatives that sell and process members' production.

#### *Trade policy*

The Undersecretariat of the Prime Ministry for Foreign Trade (DTM) acts to formulate, administer and co-ordinate Turkey's foreign trade policies. Private sector concerns are customarily taken into account. Turkey has enacted new legislation on, *inter alia*, customs, anti-dumping and countervailing measures, standards and other technical regulations, banking, energy and government procurement to comply with its obligations under WTO Agreements (WTO, 2003).

### **3.4 Conclusions**

This chapter describes the current institutional situation of Turkish agriculture within the wider economy. Following the description of the economy-wide institutional environment, including a brief summary of historical developments, institutional arrangements for agricultural resource use and technology, and for production, markets and trade are described.

Although Turkey's institutional development process shows several different phases, the process has always targeted western institutions and values. The first phase (1923-1950) started with the establishment of modern Turkey; based on rules that were supported by nationalist aspirations and rather new to Turkish society. The influence of these rules was pervasive throughout society. The second phase (1950-1984) began with the multi-party system and views that openly opposed some of the basic principles of Kemalism. Institutions were shaped by the interplay of internal and external economic developments. This is the period in which market institutions were first introduced to Turkish society; but accompanied by the old formal and informal institutions. Finally, in the last phase (1984-2004), the government has formally announced that the goal is the market system, and that organisational and institutional requirements of this system must be fulfilled.

The economic bottlenecks repeatedly experienced by Turkey and the rapidly changing international economic and political system have made accession to the

EU a vital goal for Turkey. Nonetheless, especially since the start of the Customs Union with the EU in 1996, Turkish governments have been busy with the adoption of purely administrative arrangements, but have made little effort to develop administrative and social capacities. In fact, current weak enforcement should be seen as a sign of the lack of these capacities.

Several conclusions emerge from the analysis in this chapter. In view of EU membership, Turkey may encounter new challenges. The military's task, as spelled out in the constitution, of safeguarding the basic Kemalist principles is at a turning point. Significant changes have recently been observed regarding the conflict between the state and the Kurdish minority and between secular and anti-secular forces. Any proposal for a change in the constitution is most likely to be perceived as a threat to the general character of the Republic.

The state planning approach has a long history in Turkey. Low trust by the state towards the public, a legacy from the Ottomans, has been translated into a large number of laws and regulations with prohibitions, sanctions and fines. Current competition rules and property rights are no exception to this growing bureaucracy. It is ironic that there are no credible sanctions to apply in the case of bureaucratic mismanagement and failures. The bureaucracy has not yet internalised principles such as accountability and transparency. Until now, public officials have generally not been sanctioned for their mistakes. On the economic front, the remaining elements of the command-control approach, such as state planning exercises, create constraints on the growth of competitive markets and their institutions. On the social front, the dominant perspective in social and family relations is still patriarchal.

Critical institutional arrangements that shape the use of factors of production are still not in place or are implemented ineffectively. Land property rights and rules for land transactions, for instance, need to be better defined if they are to support the growth of land markets. Water use, water ownership rights and pricing rules, especially in the context of the Southeastern Anatolia Project, need to be improved considerably. Labour and farming contracts, and their enforcement, should be improved, and labour force regulations should be further modified to protect part-time and fixed-term employees, who are widespread in agriculture. Environmental safeguards need to be integrated into economic activities in all sectors, and the Environmental Impact Assessment regulation should be enforced in practice.

Turkey's agricultural technology system is under-performing. Success depends on much better coordination than at present between bodies responsible for the design and implementation of agricultural research and technology policy. The public agricultural research system should be rationalised in line with current agricultural priorities. At the same time, a major effort is needed to improve the performance of the national extension services, and farmers and their organisations should be empowered to create demand for public extension services. Again, better coordination between the various bodies on the supply side, and with users, is of paramount importance.

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