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## **Viability and Finance of Construction Projects in Turkey**

Choix des projets et financement des travaux en Turquie

Beurteilung und Finanzierung von Bauvorhaben in der Türkei

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### **SUMMARY**

The paper explains in a concise form the types of analysis required in Turkey by users and authorities. Special emphasis is given on criteria used by the State Planning Organization for awarding public support to projects. Shortcomings of these analyses as well as the following aspects that should be observed while preparing them are mentioned: unreliability of statistical information, quality of public administration, unfavorable influences of political cadres, resource scarcities and related factors:

### **RESUME**

Cet exposé explique les différentes méthodes employées en Turquie pour le choix des projets selon les organisations et leurs besoins. Les facteurs considérés par l'Office de Planification sont traités spécialement. Les imperfections de la méthode sont citées ainsi que les critères qui doivent être considérés: la qualité des données statistiques, la qualité de l'administration publique, les influences politiques, la disponibilité des ressources ainsi que d'autres facteurs. Un système d'analyse intégré comprenant tous les facteurs est présenté.

### **ZUSAMMENFASSUNG**

In diesem Referat wird auf die verschiedenen Formen der Beurteilung der Bauvorhaben hingewiesen. In diesem Zusammenhang werden die Faktoren dargestellt, die die staatliche Planungsbehörde zur Beurteilung der Unterstützungsürdigkeit von Projekten benutzt. Die Unzulänglichkeiten solcher Analysen werden erwähnt und die Einflussfaktoren dargelegt, die bei der Durchführung der Beurteilung berücksichtigt werden müssten, wie z.B. unzuverlässige Statistiken, Niveau der Verwaltung, parteipolitische Einflüsse, beschränkte Ressourcen und davon abhängige Aspekte. Abschliessend kommt die Notwendigkeit eines integrierten Analysensystems zur Sprache.



## 1. INTRODUCTION

Preparing viability analysis in Turkey, one has to take into account the considerations of the private and the public sectors which largely deviate from each other as the characteristics of their projects differ. The private sector is interested in financial profit and is therefore concerned in financial tests, whereas the public sector uses economic tests. Financial tests are rather roughly prepared by the private owners - corporations excepted - in agreement with the market conditions i.e. unsatisfied market demand and the lack of competition as a result of capital scarcity.

Financial tests are mainly prepared to obtain credit from institutions like Industrial Development Bank in Istanbul which, in coordination with the European Investment Bank, supports private projects. The State Investment Bank in Ankara finances public projects by getting foreign credits mainly from the World Bank through the Ministry of Finance. The methods required by foreign credit institutions in assessing the viability of projects are enforced by the corresponding Turkish agencies.

On the other side, the State Planning Organization (SPO) which coordinates the technical programmes of the United Nations Organizations like United Nations Industrial Development Organization (UNIDO), considers their methods in assessing project viability. Especially providing and supervising credits in the private sector, the method used by European Investment Bank is very appreciated because of the discipline introduced.

SPO requires also viability analysis from project owners willing to receive public support. The latter includes medium range credits (having five years of reimbursement-free time) and credits of lower rates of interest, tax reductions (of income, corporation and customs) up to 100%. To this end, SPO decides considering the type of project and its regional location compared with a list published in the yearly programmes of the Five Years Development Plan. Those lists indicate regions deserving priority in the development and investment promotion (1). Thus Turkey promotes projects according to their: (a) export potentiality, (b) number of employed persons, (c) potentiality to up-grade technological level, (d) location (whether the project is in an underdeveloped region of the country). Though the lack of an integral system of feasibility analysis in SPO gave the impression that rather subjective factors were involved. This leads consulting offices to assure private owners on public support on the basis of their pretended personal relations. The receipt of public support being the forerunner activity of credit stage, this promise is the prime concern of the private owner. This has led to different reports prepared in assessing viability. The duality exists also on the State Economic Enterprise (SEE) which needs the approval of the High Planning Board, a semi-political decision making authority. SEE's can thereafter apply for credit and finance to the State Investment Bank and the Ministry of Finance.

## 2. FACTORS TO BE CONSIDERED

Beside the above mentioned duality and the shortcomings of the viability analysis of investment projects in Turkey, there are some basic conditions to be considered influencing private sector, public sector or both. They can be given as follows:

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(1) STATE PLANNING ORGANIZATION, "Determination of Regions With Priority in Development and Investment Promotion Measures", June 1973, (Turkish)

**1. Poor or unreliable statistical data:**

This is related with the organizational level of the country. Feasibility analysis of projects related with the production of consumer goods in Turkey use data of countries having similar conditions like Turkey e.g. Spain and Italy. It is proposed to find an institute to prepare consumer statistics and the future trend of consumers in Turkey like CREDOC in France.

**2. Low level of public administration:**

This fact hampers the enthusiastic boom of entrepreneurship in Turkey. Public administration is today far behind the requirements of development due to the lack of adequate and continuous training of personnel, lack of stability through inadequate personnel policy including low level salaries and political decisions. This is the cause of red tape work and personal selfishness in the administration. Unnecessary paper work and delays are being reported in works of all public organizations related with the investment projects, as well as the lack of planning and coordination. Development plans, programmes and legal instruction prepared in this context have limited effects.

**3. Political involvement:**

In countries with the above described conditions, having low level education and a democratic state form, one may hardly see democratic institutions and public opinion developed like in an industrial country. Therefore, especially in public projects, technical, economical, social, environmental and even financial basic criteria do not have the expected weight. There are, for example, in Turkey very large investments in disaster housing which did not achieve their objectives (ghost towns) because of techno-economical reasons. It is a fact that because of political involvement public projects do start without due considerations given to financial resources, the country's balance of payments and shortage of foreign exchange. This short-sighted distribution of financial resources among "politically important" public projects without appropriate assessment of feasibility - especially in years of election - hinders viable projects of high priority to be finished and decreases the overall investment efficiency.

**4. Resource scarcities:**

This includes the scarcity of capital, human and natural resources. The first two resources can be developed in a country by rational planning. Being essential for the realization of development plans and programmes and for the increase of the living standard, comprehensive measures must be taken. Turkey has population explosion, scarce capital, insufficient social services (education, health etc...) and a high rate of unemployment. The method of assessing the employment effect of Turkish projects in the feasibility analysis is a rather subjective one. A quantitative system of evaluation can be seen in the Five Years Development Plan (1957 - 1961) of the Philippines (2).

Skilled labour, managerial personnel and energy are other very significant scarcities which are with capital the derivative factors of the above mentioned conditions. They must be carefully considered in feasibility analyses of the present and future investment projects through integral system assessing their weights and effects.

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(2) HSIEH, C. "Approaches to Fixing Employment Targets in Development Plans"  
I.L.O. Review, March 1968.



### 3. CONCLUSION

"Shortcomings in Feasibility Studies" is one of the main reasons detected by the UNIDO consultants who recently submitted a report on preventing delays in SEE's projects in Turkey (3). This finding is all the more so important as SEE's carry out 50% of state industrial investments in Turkey, and a survey made by SPO shows that out of 100 key projects (3 of them in private sector) which were to be finished in 1975, 30% could be completed. The increase of costs due to those delays amounted to 130% in 62 projects.

Shortcomings in Feasibility Studies being considered as a "problem within SEE's control", the consultants advised the Turkish Government to introduce training programmes on project planning and implementation. They had first to be carried out on SEE's pilot projects. The paper above gives in a concise form the conditions and organizations to be considered in training programmes related with viability analysis.

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(3) UNIDO, "Upgrading the Activities and Improving the Skills of SEE's in Industrial Construction in Turkey". P.A. International Management Consultants Ltd. (Project No. TUR/75/005) Final report.