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ANOTHER DIMENSION OF THE BUDGET IN TURKEY:EXTRA BUDGETARY FUNDS (*)

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SUMMARY

The main objective of the Turkish economy in 1980's was to bring inflation under control which had annually reached to nearly 100%. Following the 1983 general elections, some measures had been taken by Turkish governments as well as some policy measures towards liberalization of the economy.

After 1984 in the financial system of Turkey the most important development has been the growth of the Extra - Budgetary Funds with their large revenue sources and policy implementations and their influence on trade regime.

In this paper I would like to analyze the Extra - Budgetary Funds concentrating on the main characteristics and the main functions of them for Turkish economy and to give some proposals aiming to solve some problems related to them.

INTRODUCTION

The main short - term objective of the Turkish economy in 1980's was to bring inflation under control which had annually reached to nearly 100 %.Because it is certain that a stable economic conditions would make resolving social issues easier. After the 1983 general eleections the new civil Turkish government also confirmed that free market orientation would continue to be pursued while state activities should be confined particularly to the development of infrastructures serving the nation as a whole. Finally administrative and legal procedures would have to be speed up and be made less wasteful.

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In order to achieve these objectives, some policy measures have been taken and implemented by the government since the beginning of the 1980s. Among these measures(i) a reorganization of the administrative machinery; (ii) a substantial import liberalization and a rationalization of export incentives; (iii) a reduction in the financial transactions tax and the witholding tax on interest payments; and (iv) a reaffirmation that, with some exceptions, State Economic Enterprises (SEEs) would be free to set their own prices.

The most important development in the financial system of Turkey after 1984, it can also be regarded as institutional or structural change, is the growth of the Extra-Budgetary Funds (EBFs). As theyhave already had large implications for the fiscal system and trade regime, the Extra-Budgutary Funds should be broadly analyzed.

In this paper I would like to concentrate only on the main characteristics of the Extra-Budgetary Funds, their importance and functions for Turkish economy and on some problems concerning them and proposals aimed to solve these problems.

THE EXTRA-BUDGETARY FUNDS AND THEIR GROWING IMPORTANCE

Public sector in Turkey can be roughly defined as comprising the Central Government and local authorities, the State Economic Enterprises(SEE), the Central Bank and recently Extra-Budgetary Funds (EBFs). As an important element of the public sector, the EBFs, although there are some difficulties in its definition, can be considered as off - budget funds with assigned revenue sources and a mandate to make expenditures in specific areas. According to this definition, we can easily understand that EBFs were organized outside the budget, they have special revenue sources such as levies on particular transactions and they have been empowered to make their own expenditures in prescribed areas bay law generally of a social nature and of infra-structural investments.

From these points we can reach some conclusions that EBFs(i) are not subject to all budgetary control procedures which are obligatory for other governmental expenditures, (ii) expenditures allocated from the Funds are protected from the general budget cuts; and (iii) with functions performed by and levies dedicated to, the EBFs can be regarded as quasi-

independent financial institutions.(*) Let us take the Mass Housing Fund as a characteristic example of the EBFs. This Fund, established in 1984, has its own resources dedicated to, like a share of supplementary VAT on tobacco alcoholic, and non - alcoholic beverages; petroleum product taxes; 50% of levies on luxury goods imports; tax on travel abroad ($ 100 per each); and transfers from other funds. The main fields its revenue sources have been used are housing credit (to cooperatives and individuals); transfers to Development and Support Fund (DSF) for complementary activities and tourism infrastructure.

It can be said the main reason for the development of the EBFs outside the budget process was the lack of confidence of the budgetary process, so to facilitate quick implementation of expenditure decisions in specific projects and their execution. In order to protect priority programmes from budget cuts EBFs ensured, as far as possible, faster allocations to priority expenditures and thus provided a kind of practical solutions to some problems such as the underfunding of the priority projects. However, their growing number and size could impaire the effective management of the public sector that this effect is to be held in following part of this article.

After the government began to multiply the number of EBFs (1) including large ones, to speed up investment execution, their importance for the economy has been rapidly increased. The growth of the funds has moved significant fraction of government social spending and revenues out of the budget as in social solidarity fund. The EBFs have some earmarked tax resources and, as we shall see later, also began to play an im

(*) It is possible to find for some EBFs like Mass Housing and Public Par ticipation Funds (MHF and PPF) their equivalents in many countries. The Federal Home Loan Bank Board, The Tenesseee Valley Authority and The Port Authority of New York and New Jersey are, to some extent, analogs in the USA. Among them, for instance, The Port Authority of NewYork and New Jersey was created in 1921 and has a monopoly on Hudson River crossings and air travel facilities in the New York City area, and takes in net receipts in excess of $ 100 million per year. (See for detail, New York State, Office of the Comptroller, State Public Authorities: Individual Authority Summaries, Albany, NY; 1972) The principal structural difference between these and EBFs in Turkey is the preemtion by the latter of some of the Central Government tax resources and the manner in which the tax rates are set.

(1) Although a few of the smaller funds have been long established, for instance, the Petroleum Exploration Fund (PEF) was established in 1979, the importance of the, EBFs, as a means of reallocating resources, has grown most rapidly since 1984. By 1987 some 80 funds existed controling revenues equal to about 20 % of the Central Goverment's revenue . As comparison, in New York state of the USA there are now 40 state wide off- Budget Enterprises (OBE),and 230, including local OBEs, throughout thne entire state, (See Bennet te and Dilorenzo, p.69)

portant role as public borrowing institutions. Some funds actually depend on resources from the Central Government budget, but most of them have their independent revenue sources.
The EBFs have special financing techniques, particulary through import levies. Dedication of revenue sources to the EBFs gives them revenue sources. Their revenues and expenditures in recent years, as shown in Table 1, have significantly increased and the revenue increases primarily reflect the increased use of levies on imports.

As shown in Table 1, the fiscal performance of the EBFs tends to increase since 1984. While the revenues accruing to the EBFs was 0.8 percent of GNP in 1984, it has been reached to over 5 percent of GNP in 1986 and went on. Their expenditures also rose from 0,3 in 1984 to 6.1 percent of GNP in 1988. The projected increase in the overall EBFs' deficit is the result of the prior financing and expenditure commitments of the Public Participation Fund (PPF). For annual budget of 1989 their revenues have been programmed as amount of nearly one third of the general budget revenues which had been strongly criticized during the parliamentary debate of the budget

From this brief explanation it can be realized that the EBFs have notonly become important financial institutions with revenue sources they have also, as we shall see later, multi dimensional functions.

Table 1.7. FISCAL PERFORMANCE AND PROGRAM, 1984 - 88 (percent of GNP)

				Est	Prog.	Revised prog.
	1984	1985	1986	1987	1988	1988
Central Government						
Revenue	15.3	16.1	17.2	19.9	21.3	17.5
Expenditure	20.6	18.9	20.8	22.1	24.1	21.7
Balance	-5.3	-2.8	-3.6	-2.2	-2.8	-4.2
Extra Budgetary Funds						
Revenue	0.8	1.7	5.2	3.7	5.1	5.0
Expenditure	0.3	1.2	3.1	3.2	6.1	5.7
Balance	0.5	0.5	2.1	0.5	-1.0	-0.7
Local Goverments						
Revenue	1.9	2.5	3.2	3.5	4.1	3.8
Expenditure	1.7	2.3	3.3	3.9	4.4	4.1
Balance	0.2	0.2	-0.1	-0.4	-0.3	-0.3

Source: SPO

II. FUNCTIONS OF THE EXTRA - BUDGETARY FUNDS

Having been reached their numbers to by 80, EBFs have various functions ranging from investment to sport activities. Though they have multi dimensional functions, we are going to focus here only on the most important functions of them, specifically on investment, protection, export incentives and credit functions.

A. Investment Function

The most important function of the major EBFs, like MHF, PPF, DIF, is investment perceived in their special laws. Thus in recent years a major source of higher investment spending has been the EBFs which are financed through levies and a variety of earmarked taxes. They seem to have expanded in 1986 and are expected to account for 33 percent of the increase in investment or may be more. This constitutes about 12 percent of total public fixed investment, up from 5 percent in 1985.

As seen Table 2, the disaggregation of public investment by source shows highly differentiated growth rates between major compenents.

Table 2. PUBLIC FIXED INVESTMENT BY SECTOR AND SOURCE (at 1987 prices)

	Percentage change (%) Revised Proğ.					percentage share (%) Revised Proğr.					
SOURCE	1984	1985	1986	1987	1988	1983	1984	1985	1986	1987	1988
Consolidaled Central Government	-3.0	3.3	15.8	0.0	-3.7	32.5	33.3	27.9	29.4	30.3	28.9
State Economic Enter Prises	-7.1	21.9	-8.6	-11.3	-15.4	59.2	58.1	57.5	47.8	43.7	36.7
Iller Bank	-16.7	52.3	33.1	-10.6	-16.2	2.5	2.2	2.7	3.3	3.0	2.5
Local Govemmets	-2.1	52.2	95.2	36.5	8.3	4.7	4.8	6.0	10.6	14.9	16.0
Revolving Funde	25.6	1.4	57.2	21.5	7.1	1.1	1.4	1.2	1.7	2.1	2.3
Extrabudgetary Funds		3366.7	67.2	-19.5	128.4	0.0	0.2	4.8	7.2	6.0	13.6
TOTAL	0.0	23.2	9.9	-3.0		100.0	100.0	100.0	100.0	100.0	100.0

Source : SPO

While investments by municipalities rose by 95 percent in 1986 and 37 percent in 1987, the investments of the EBFs rose by 67 percent in 1986, and after a aslight declimng 1987, EBFs investments is projected to grow by 128 percent, more than doubling its share of public investement. So in 1988 nearly 30 percent, of public investment is to be account of the EBFs and municipalities compared to 5 percent in 1984, with the rising share occuring largely at the expense of the SEEs. Table 2 also reffects that there is sharp decline in SEEs towards the EBFs.

In spite of being criticized the investment of EBFs by the International financial institutions like World Bank, the government has so far preferred to keep the flexibility EBFs provide. Because EBFs and municipalities can easily be used as a policy tool for fiscal decentralization initiated in 1984 in Turkey.

As seen in Table 1 and 2, the investments by the EBFs and local governments rose from 5 % of total public investments in 1984 to 21 % in 1987. In 1988 public investments is targeted to grow by less than 1 percent in real terms, primarily reflecting a sharp decline in SEEs investment. It means that the Government has been emphasizi g the investments of EBFs more than the general budget.

B. Protection Function

Since the taxes dedicated to the EBFs are in many cases the import levies they can be used for protection purposes, even at a micro level that might be susceptable to curruption. Then, because the taxes are generally specific instead of advalorem, it is very difficult to estimate their actual levels and as the principal objective these levies are set fo their protective effeccts.

Many of these taxes are available specific levies on imports, as items removed from "quota lists", they are moved to the "free list", which makes them potentially subject to fund levies that provide "efficient protection". The fact that the levies are spesific, to compare them to tariffs or any levy rate with other necessitates more detailed calculations. This situation adds also to the obscurity of the import regime.

The gradual shift in emphasis from quotas to tariffs, the variable levies have thus originally been applied to luxury imports then now apply to a wide range of other imports. Since they are variable they can be changed administratively in response to the market conditions. This makes them more effective than fixed tariffs as protective devices. Information about tariff-setting process may become also more obscure to

agents who are not privately familiar with particular market conditions.

The levies are charged frequently with administrative discretion. This makes it difficult for economic agent not already closely familiar with market conditions to enter the market. This also creates rents for the agents that have acquired that familiarity. The availability of this administratively flexible instrument may always provide an incentive for misuse.

The protection that the levies provide to the SEEs strengthens their monpoly power domestically. Since this protection provides the import competing SEEs an effective monopoly pricing.

Under these circumstances, the form of EBFs financing undermines trade liberalization, decrease the transparency of the import regime, provides monopoly power to the SEEs, creates rents for the agents that have closely familiar to the administration circles and shifts the income distribution against wages.

C. Credit and Borowing Functions

Like other elements of the public sector, EBFs have also deposits in commercial banks. In some cases the deposits of the EBFs are passed on as credit to the private sector. For instance MHF is financing private residential construction through Emlak, Anadolu and Pamuk Banks. Otherwise these deposists reflect accumulation of unused surpluses.

The EBFs, as mentioned earlier, have been providing preferential credits and direct subsidies for exports, especialy SPSF.

The decision recently taken by the government to allow some of the EBFs to borrow abroad (MHF has been granted such a power) makes them play an important role in international transactions of Turkey. However, this decision seems contradiction to the requirement that this funds run balanced budgets and therefore it should be reconsidered. Another important point is that this decision may cause in the long run some financial troubles like bankruptcy.(*)

(*) In New York State of the USA, Urban Development Corporation (UDC) and Housing Finance Agency are analogs of mass Housing Fund (MHF) of Turkey. UDC had faced the problem of bankruptcy caused by excessive borrowing on February 25,1975 (See Bennette and Dilorenzo,p.68-69).

Since 1984, one of the EBFs, Public Participation Fund (PPF), has been implementing a revenue-sharing system(*) to borrow domestically. In Turkey only the Treasury has the right to issue bonds and bills.

Revenues from the sales of these certificates have increased every year since their introduction at the end of 1984 to an estimated 1.5 percent of GNP in the first semester of 1987. However, net assets of the EBFs as a group were positive until the first semester of 1987. But during the first half of 1987, the increase in revenue-sharing certificates and other liabilities are estimated to have more than offset the EBF's accumulation of assets in the financial system.

D. Export Incentive Function

The subsidies provided by EBFs were preferential credit rates, tax rebates for exportors in lieu of a rebate of the VAT, duty free imports of inputs, and a direct subsidy from an EBF, the RUSF subsidy had been eliminated. But in 1986 export growth slowed down and total exports were $ 7.5 billion, compared to $ 8 billion in 1985 both in current prices. In response at the end of 1986, the Government reintroduced preferential credit rates, and a direct subsidy from another EBF, the SPSF. In some what reversed the liberalization policies by reinstating the two subsidy elements that had been eliminated.

The reintroduction of preferential export credits and an EBF subsidy for exports in late 1986 was a further retreat on the trade regime. Therefore, the growth of the EBFs began to undermine the objectives of the trade regime and SEEs.

To give a consolidated account of the EBFs may help better understand the size of their revenues and expenditures as a whole.

(*) A Revenue -Sharing Certificate, as its name suggests gives its holder the right to participate in the revenues, instead of interest payment, generated by a public good, say a bridge, a dam or a power plant, financed by selling of these certificates, for a specific number of years.

III. EXTRA-BUDGETARY FUNDS

Althoug there are more than 80 EBFs in our country, we are going to concentrate on the most important EBFs to give examples concerning their revenue sources and expenditures. Unfortunately we could obtain only the 1986 financial records for some specific EBFs. These records could be, however, considered as outdated but I believe that they would give some actual information about their functions.

A.Public Participation Fund (PPF)

The PPF was created in 1984 (2) and together with the MHF is administered by Mass Housing and Public Partnership Board. The purpose of the PPF is to promote private savings through the issuance of revenue - sharing certificates and other means and to use these resources to accelarate the completion of priority public infrastructural investments.

By 1987, the largest fund was the Public Participation Fund which is the agent of privatization in Turkey. The PPF builds and operates dams, highways, bridges, waterworks, power plants and other infrastructures and sells revenue-sharing certificates in them. In 1987 it was planned that 1 Trillion (TL) would be invested by the PPF for motorway construction. The PPF is only one among the EBFs that has the authority to borrow domestically and abroad. And it is also the only major fund that does not receive most of its revenues from earmarked taxes.

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(2) Law No. 2983 of February 29.O.G.No:18344 of 17.3.1984.

TABLE 3: CONSOLIDATED ACCOUNT OF EXTRA BUDGETARY FUNDS, 1984-88
(TL.billion)

	1984	1985	1986	Est 1987	Prog. 1988	Revised Prog. 1988
Total Revenue	150.2	467.0	2042.1	2127.2	4391.5	4789.8
Tax Revenues	58.6	297.8	986.2	1519.0	2892.5	3453.5
Direct Taxes	0.0	0.0	78.8	126.6	245.6	265.8
İndirect Taxes	58.6	297.8	907.4	1392.4	2646.9	3187.7
Non- Tax Revenue	90.1	96.9	887.4	331.5	579.2	514.5
Factor Income	1.5	72.3	168.5	276.7	919.8	821.8
Total Expenditure	66.0	327.8	1216.9	1820.8	5260.1	5507.3
Current Expendi tures	0.0	0.4	3.7	10.4	16.2	130.2
Fixed Investment	3.4	167.6	400.8	462.4	1537.2	1668.8
Stockbuilding	0.0	0.0	0.0	0.0	-14.2	-52.5
Social Funds	0.0	0.0	0.0	0.0	0.0	0.0
Stock Revaluation Fund	0.0	0.0	0.0	0.0	98.8	175.7
Current Transfers	62.4	85.2	630.7	1176.5	3304.5	3245.8
Capital Transfers	0.2	74.6	181.7	171.5	317.6	339.3
Cash Position(Fin. Requirements)	84.2	139.2	825.2	306.4	-868.6	-717.5
Net Lending in Private Sector	-11.1	-99.8	-491.6	67.9	911.6	801.0
Change in Cash Position	73.1	39.4	333.6	374.3	43.0	83.5
Fin.Req/GNP (%)	0.5	0.5	2.1	0.5	-1.0	-0.7

Source: SPO

Besides the revenues obtained through the revenue sharing system, the Fund also collects revenues from the infractrusture facilities it has financed and, begining in 1986, from a share of the petroleum consumption tax. The proceeds from all these sources are used to meet operating and maintenance expences of the facilities as well as investment in new facilities. By law, not less than 10 percent of the Fund's resources are to be used for investments in regions with devolopment priority.

Table 4. : SOURCES AND USES OF PPF, 1986

(TL billion)

Sources		Uses	
- Sale of the revenue-sharing certificates	80.0	- Maintenance expenditure	15.7
- Operating income	153.7	- Investment expenditure	314.0
Bosphorus bridge	(18.0)	Construction of dams	140.0
Keban dam	(113.5)	Karakaya dam	(64.0)
Oymapınar dam	(22.2)	Atatürk dam	(38.0)
		Altınkaya dam	(15.0)
- Interest income	(12.0)	Construction of highways	38.0
- Sales of Treasury bonds	25.0	Potable water works	16.0
		Second Bosphorus bridge	77.0
-Foreign borrowing [a]	71.0	Free-trade zones	4.5
		Priority regions	38.5
- Petroleum consumption tax	50.0		
- Balance at Zıraat Bankası	30.0	- Repayment of revenue-sharing certificates	92.0
TOTAL	421.7	TOTAL	421.7

[a] For the second Bosphorus bridge.

Source : SPO and UTFT.

As seen in Table 4, investment expenditures (including that in priority regions) by the PPF constituted over 74 % of its total expenditure in 1986 and in comparison with 1985 (62 %) the increase in investment expenditure is over 100 % (not as percentage of total expenditures). This in-

crease is largely due to the construction of the second Bosphorus bridge. 25 billion (TL) which was invested in Treasury bonds could be used to finance the Central Goverment.

On the revenue side, it can be seen that revenues obtained from the sales of revenue sharing certificates represented 19 % of the total revenue in 1986 (in 1985 it was 66 %). Revenues from the sales of such certificates, as previously mentioned, have increased every year and have already reached to an estimated 1.5 percent of GNP in the first semester of 1987.

B. Mass Housing Fund (MHF)

The MHF was established early in 1984 and, together with the PPF, is administered by Mass Housing and Public Partnership Board(3).The main goal of this fund is to accelerate housing construction by providing consessional credit to individuals, cooperatives and constructors. Such credits nearly amounted to 90 % of Fund's budget in 1986 (in 1985 it was

Table 5 : SOURCES AND USES OF THE MHF, 1986
(TL billion)

Sources		Uses	
- Share of supplemantary VAT ontobacco,alcoholic non-alcoholic bevareges	88.0	- Housings credit to cooperatives to individuals	284.0 (231.7) (52.3)
- Petroleum product taxes (from PPSF)	111.0	- Transfers to DSF	10.0
- 50 % of levies on luxury goods imports	32.0	- Tourism infrasturucture	5.6
- Tax on travel	18.0	- Land acquisition	11.0
- Premium payment from imports without waiver	21.8	- Others	1.4
- Others	20.2		
- Balance from 1984	24.7	- Balance carried forward	3.7
TOTAL	315.7	TOTAL	315.7

Source : SPO.

(3) Law No. 2985 of 2.3.1984, Decree No. 84/8058 of May 2.1984.

83 %). As secondary objectives MHF also finances the construction of tourism infrastructure and other public facilities.

In 1986, the sources and uses of the Mass Housing Fund are summarized in Table 5.

As a second largest fund the MHF's revenue sources are almost exclusively earmarked taxes-half of the variable import levy revenues, supplementary VAT, petroleum product taxes, and a $ 100 tax per exit on Turkish citizens. The MHF`s revenues are almost entirely from the following indirect taxes as shown in Table 5:

(i) share of tax receipts from supplementary VAT on tobacco, alcoholic and non-alcoholic beverages (previously it was a share of the production tax on the same items).

(ii) tax on petroleum products at the rate of 10 percent on the ex-refinery price of gasoline (raised from 5 percent in July 1985) and 5 percent on the ex-refinery price of diesel oil, kerosene and fuel oil (3 percent prior to July 1985). These are subsequently transferred to the MHF.

(iii) 50 percent of revenues from levies on luxury goods imports (60 percent prior to 1986); and

(iv) $ 100 tax on individuals travelling abroad.

MHF provides credits for construction of small housing units and supports land acquisition. It also makes transfers to the DSF (Development and Support Fund) for complementary activities. Housing investment has increased sharply in the past few year, partly in response to the availability of the adverse effect of high interest rates, private investment in manufacturing fell, in response to strong public sector support for investment in housing through the MHF. As a consequence, investment by the private sector seems to have shifted away from the main export sectors, agriculture and manufacturing.

C. Defense Industry Fund (DIF)

DIF is tended to support industrial investment specifically in defence industry. The DIF was created in November 1985 and became operative from January 1, 1986(4).

(4) Law No. 3238 of 7.11.1985; O.G.No.18927 of 13.11.1985 as integrated later by Decrees No.85/10037, O.G.No.18928 of 14.11.1985 and No.85/10182, O G.No.18970 of 26.12.1985.

The purpose of this Fund, as mentioned, is to develop the defense industry and to modernize the Turkish Armed Forces. With these functions DIF is always considered as an appropriate fund in Turkey.

The DIF is one of the principal funds in terms of size. The following Table 6 provides a breakdown of expected revenues and expenditures of the Fund in 1986.

Table 6 : SOURCES AND USES OF DIF, 1986 (Projections)
(TL billion)

Sources		Uses	
Total tax revenues	160.9 (82 %)	- Current (personnel) expenditure	1.0
- Levies on tobacco (*) wines and spirits	46.5	- Fixed investment	96.8
- Additional tax on petroleum consumption	75.2	- Capital transfers	67.7
- Additio al tax on corporate and personal income	39.2	Appropriations	(29.0)
		Other transfers	(38.7)
		- Cash and deposit	29.0
		TOTAL	194.6
Non-tax revenues	33.7 (18 %)		
- Revenue from the State Lottery	7.5		
- Revenue from casinos and gambling houses	5.0		
- Military service exoneration fee	18.2		
- Other	3.0		
TOTAL	194.6		

(*) This item is classified as non-tax revenue by the SPO.

Source : SPO.

As realized from the Table 6, the following revenue sources are specified for the Fund(5):

Non-Tax Revenues

(i) An allocation to be made each year in the budget for this purpose;

(ii) Proceeds from the National Lottery;

(iii) Part of the net proceeds of all types of parimutuels (the percentage to be determined by the Council of Ministers);

(iv) 15 % of the gross revenues of casinos and gamling houses (another 15 % goes to MHF),

(v) Transforms from other funds established by law and from foundations related to Turkish Armed Forces;

(vi) Contribution from the budget of the Ministry of National Defence;

(vii) Payments made towards exoneration of military service ; and

(viii) Other non-tax revenues such as donations and incomes from the assets of the Funds

Tax Revenues :

(i) An additional levy of 10 to 150 (TL) on sales of domestic and imported tobacco, cigarettes, wines and spirits;

(ii) An aditional 3 percent tax on petroleum consumption; and

(iii) An aditional 2.5 percent tax on corporate income and on all types of personal income except for wage income (The Council of Ministers is authorized to raise this rate to 7.5 percent or to determine different rates for each of the revenue sources subject to witholding).

D. Resource Utilization Support Fund (RUSF)

The RUSF was created in December 1984 replacing the Interest Rate Difference Fund (IRDF), and became operative from January 1

(5) Article 12 of Law No. 3238 and decree No. 85/10037.

1985(6). The aim of the Fund is "to direct commercial bank" resources towards exports and investments and to lower the cost of specialized credit in conformity with the objectives of the Development Plans and Programs".

Besides the Support and Price Stabilization Fund (SPSF) , RUSF was one of the EBF's which provides export incestives directly. But by the end of 1986 RUSF's subsidy of exports has been eliminat(d. RUSF gives direct investment subsidies based on the value of investment cov-ered by encouragement certificates. The subsidies range from 7 % to 20 % for large projects; depending on the region in which the prc jects are located; for small project, a subsidy of 7 % in given on the debt-financed portion of investment. Other subsidies given by the RUSF are 20 % on investment for tourism accommodations in priority tourist regions and 4% on specialized credit.

The revenue and expenditure figures related to the ac ounts of RUSF are not available, but it will be useful to give its revenue sources and expenditure areas established by decree :

Revenue Sources:

(i) Surcharge of 10 % (7.5 % prior to April 1985) on the ate of interest applicable to loans advanced by commercial banks to the private sector. (From January 1987 the surtax is not applied on export credit nor medium and long term investment and operational credits on those projects with encouragement certificates).

(ii) A 7.5 % surcharge on the rate of interest applicable to loans advanced by the Central Bank to public enterprises;

(iii) Penalty interest payments to the Central Bank by commercial banks on their unmet reverse requirements; and

(iv) Transfers from other funds.

Some types of credit, however are exempt from the surcharge. Amongst them are specialized credits from T.C. Turizm Bankası, T.C. Zıraat Bankası, T.Halk Bankası (except for medium and long term credits to agro-industry project without an investment incentive certificate) and Emlak Bankası (only credit for housing and building).

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(6) Decree No. 84/8860, O.G. No. 18606 of 15.12.1984

Expenditure Areas :

The main use of this Fund is to subsidize exports and investments which have been granted encouragement certificates (from SPO). The Fund provides particularly:

(i) A subsidy equal 2 % of the value of exports (reduced from 4 % for non-agricultural exports in March 1986, and eliminated by the end of 1986).

(ii) An investment subsidy equal to:

- 20 % of the realized investment in first priority development regions;

- 15 % of the value of realized investment in second priority development regions;

- 7 % of the realized investment in normal regions if the project is over 1 billion (TL); and

- 15 % of the value of investment in the case of compulsory relocation outside priority development regions (raised from 10 % in April 1986)

(iii) a subsidy of 7 % on the debt-financed portion of small investment projects (below TL 1 billion), and 4 % on specialized credit;

(iv) a subsidy of 20 % ship-building and for tourism accommodations in priority tourism regions; and

(v) transfers to other funds and the unmet commitments of the IRDF.

IV. CONCLUSION

When it is carefully analyzed it can be easily seen that most of the problems concerning the EBFs arise from these points : (i) the proliferation or multiplication of inappropiate EBFs; (ii) the particular way the EBFs are financed; (iii) the inconsistencies among them, and (iv) the extent of their free operations in the country.

The development of "inappropriate EBFs " has been extremely rapid since 1984, gathering the equivalent of some 20 % of the Central

Government's tax revenue. By 1986 there were approximately 80 EBFs and the PPF, MHF and DIF together accounted for half of the EBF revenues in the same year. So, elimination of the other EBFs would resolve half of the problems.

EBFs have provided some practical solutions to some problems, such as the underfunding of priority projects. But their growing number and size began to diminish the effective management of the public sector. Whatever the merits of the EBFs might be, by channeling a sizable portion of resources outside the budget, the management of public finance has become furher fragmented. Therefore, the rationale for separating the EBFs from the consolidated budget should be reviewed. Even if in some cases the enhanced efficiency of their operations may justify such a separation, EBFs' budgets and their financing should not be allowed to impinge on macro and trade policy objectives.

One of the problems of the EBFs is their financing technique, espesially trough the import levies. Their fiscal structure with special revenue sources limits budget control. The levies reduce the transperency of the tax system. Tax system with these levies become more complicated. The import levies especially provide systematic protection. As mentioned before, the revenue sources dedicated to the EBFs also give them implicit, but automatic priority over activities that compete for general revenue sources.

The earmarking of taxes for the EBFs effectively removes them from the fiscal control and increases the fiscal deficit. The deficit arises because the levy revenues are spent while the fall in the quantity of transactions in response to the levy, reduces normal tax or tariff revenues to the budget. The levies may reduce the quantity of imports and revenues from the normal tariffs and normal taxes which will be generated from the activites that the ımport goods are used. A good case can be made for the existence of self-financing EBFs to provide spesific social services. But use of the earmarked variable levies, simultaneously undermines fiscal control and liberalization of the trade regime.

While the government is trying to simplify the tax system through adjustments recently taken on the one hand, on the other hand the system is becoming more and more complicated with the implementation of some supplementary taxes or levies for EBFs. In the meantime, the increasing tendency to shift certain Central Goverment resources to the EBF, as reducing the effectiveness of expenditure control. The most appropriate course of action would be to include some of the desired expenditures of the EBFs into the consolidated budget. Meanwhile, the budge-

tary process must also be reformed to ensure faster allocation to priority expenditures. Thus, it would be possible to reduce the fiscal deficit effectively and the budget process could be brought under control. This means that public investment and EBF expenditures should be suject to the budgetary constraint.

EBF levies have been used for systematic protection of the industrial SEEs. These levies provide for the import-competing SEEs an effective monopoly positon domestically. The imposition of these levies should be reconsidered and revised in the form that they would not have reverse effect on the trade regime.

The necessity of control and restrain the growth of the EBF expenditures have been recognized and Treasury has been empowered to transfer 30 % of EBF revenues to the consolidated budget. In addition a system to monitor EBF accounts on a monthly basis has been introduced : if their expenditures exceed their revenues, the EBF accounts would be subject to an audit by the Audition General's office.

Although the decision taken by the Government was intented to reduce spending level of EBFs and didn't impose any ceiling on expenditures, this represents an important step in restraining very rapid growth of expenditures observed in recent years by EBFs.

The 30 % revenue transfer requirement was a useful measure for 1988 to restrain expenditures. But it may increase the pressure to genarate further revenues through import levies distorting the trade regime. But, such a measure would be advisable, if it would not generate an additional demand for resources that is met by expanding the use of levies. However, this decision could be regarded as prelude to the eventual transfer of all operations into the Consolidated budget.

TÜRKİYE'DE BÜTÇENİN BİR DİĞER BOYUTU : BÜTÇE DIŞI FONLAR

1980 sonrası Türk ekonomisinin temel amacı % 100'lere ulaşan enflasyonun kontrol altına alınması olmuştur. 1983 genel seçimleri sonrasında, hükümet tarafından ekonominin liberalizasyonuna yönelik politikaların yanında özellikle alt-yapının geliştirilmesine yönelik tedbirler de alınmıştır.

1984 yılından itibaren Türkiye'nin mali sisteminde şüphesiz en önemli gelişme, büyük çaplı gelir kaynakları ve politik uygulamaları ve ticaret rejimi üzerindeki etkileriyle Bütçe-Dışı Fonların büyümesi olmuştur. Bu nedenle, Bütçe-Dışı Fonların temel özellikleri açısından incelenmesi, ortaya çıkan problemlerle ilgili birtakım önerilerin getirilmesi yararlı olacaktır.

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