1. This memorandum summarizes progress made under the Economic Reform Loan (ERL). The Bank approved the ERL of US$759.6 million to the Republic Turkey on May 18, 2000 (Report No. P-7361-TU of March 20, 2000). The Loan Agreement was declared effective on June 27, 2000. The disbursement of one percent front-end-fee, US$7.6 million, took place on June 27, 2000 as well. The first tranche of US$377 million was disbursed on June 30, 2000. The second tranche is US$375 million. The ERL supported the Government’s economic reform program focusing on five critical actions: (i) structural fiscal reforms to underpin fiscal adjustment, (ii) policy and institutional reforms towards a fair and financially sustainable social security system, (iii) rationalization of agriculture support policies and privatization of agricultural SOEs to promote agricultural growth and rural income generation, (iv) structural reforms to deregulate the energy and infrastructure sectors to promote private sector participation, and (v) decisive steps to accelerate privatization activities.

2. The ERL was prepared in 2000 to support the Government’s structural reform program aiming to underpin macroeconomic stability and create the conditions for sustainable and more equitable growth. An exchange rate-based disinflation program was launched in a bold attempt to rid the economy of inflation. The peg was supported by front-loaded fiscal adjustment. Key structural reforms in public expenditure management, social security, agriculture, infrastructure and banking were initiated. In fact, fiscal policy was significantly tightened in 2000 and inflation began to fall, dropping to 39 percent by the end of the year. Turkey also carried out significant structural reforms under the program. These included establishment of an independent banking authority, reform of the public pension system, passage of legislation in energy market, establishment of a telecommunications regulator and launch of an ambitious agriculture reform program. However, these impressive achievements were insufficient to avoid a crisis given the extent of Turkey’s underlying fiscal and financial sector weaknesses built up over decades of instability and delayed reform.

3. A first bout of financial instability hit Turkey in November 2000. The Government made an effort to restore the reform momentum after the November 2000 financial turmoil, but the underlying imbalances proved impossible to resolve quickly, leading to the full blown crisis of February 2001. A CAS Progress Report was discussed with the Board in July 2001, at which time the severe need for deeper reform had been made clear and Government’s resolve had firmed. The Programmatic Financial and Public Sector Adjustment Loan (PFPSAL) operations were added to the revised CAS to support the most important and urgent of the reforms. These addressed the regulatory, resolution, and recapitalization needs of the banking sector; and began to rectify the weaknesses in fiscal management and public sector governance that had allowed the mismanagement of government expenditure and public banks to continue for so long. The Government appropriately focused on banking and public sector reforms starting from mid-2001.
and requested an extension of the closing date of the ERL, originally September 31, 2001, until June 30, 2002 to meet the second tranche conditions.

4. Six of the nine conditions for release of the second tranche of the ERL were fully met by the end of first extension of the loan. These conditions were the (i) macroeconomic framework, (ii) fiscal reforms and the fiscal package for 2001, (iii) the direct income support for farmers, (iv) the program to phase out price and credit subsidies in agriculture, (v) the energy reform program, and (vi) the telecommunications program. The three remaining conditions covered social security reform, the agricultural SOEs restructuring program and privatization. In view of the fact that most specific second tranche conditions had already complied with, the Bank extended the closing date of the loan until March 31, 2003.

5. There was limited progress in meeting the second tranche conditions of the loan during the second extension. The new Justice and Development Party installed following early elections in November 2002 was reshuffled in mid-March 2003. Mr. Tayyip Erdogan, the party leader, took over as Prime Minister. The Government and the Bank engaged in intensive discussions of the new roadmap for ERL including time-bound steps to meet the outstanding actions required to release the second tranche of the loan. The closing date of ERL was extended for an interim period of three months (from March 31, 2003 to June 30, 2003) to allow the proper design of new roadmap. This was the third extension of the loan. Some progress was made in the core structural reform areas, but there were additional delays in the institutional part of social security reform, the agricultural SOEs restructuring program and privatization. The Bank agreed to extend the closing date of ERL, as the fourth extension, from June 30, 2003 to March 31, 2004 for the completion of the remaining actions for release of the second tranche of US$375 million.

6. Implementation of the ERL program has gained momentum since July 2003. The government has fully met eight of the nine conditions for the release of the second tranche. In terms of specific sub-conditions, the Government attained 28 of the 30 specific conditions for release of the second tranche. There were partial compliances with the remaining privatization program sub-conditions, which were affected by the international market and slow action internally.

7. Of the two sub-conditions that were not fully met, the first one, the sale of 20 percent of Turk Telekom (TT) to a strategic private investor, has been replaced with the remedial actions involving: (i) transfer of full licensing authority to the newly established Telecommunications Regulatory Authority (TRA), (ii) revision of the legislation to allow privatization of up to 100 percent of TT excluding a golden share, and (iii) preparation of a new corporatization and privatization strategy for the company. These actions have: (i) promoted the development of the sector; (ii) enhanced the commercial orientation of TT; and (iii) improved the prospects for the future privatization of TT.

8. The second condition, the launch of pre-qualification tenders for the sale of electricity distribution companies, has been replaced with a comprehensive electricity privatization strategy, adopted by the High Planning Council (Core Cabinet) which: (i) establishes a clear basis for future implementation of privatization by all agencies concerned; and (ii) defines a time-bound set of implementation steps specifying the approach and institutional responsibilities to proceed with market implementation in areas essential to successful privatization.
9. The following sections of this memorandum summarize the macroeconomic policies have been put in place since mid-2003, the overall progress in implementing the reform program supported by the ERL, and the actions taken by the Government of Turkey to meet specific conditions for release of the second tranche.

I. RECENT ECONOMIC DEVELOPMENTS

10. Turkey is now entering a third year of strong recovery from the 2001 financial crisis. Economic growth reached 5.8 percent in 2003 following 7.5 percent growth in 2002. The major contributing factor to the favorable growth outcome in 2003, because of its weight in the national accounts, was private consumption growth. However, showing much faster rates of growth, in the first three quarters for which data are available, was private sector capital formation. This augurs well for sustaining growth with capacity utilization levels reaching historic highs. Exports continued to play an important role in the recovery. Unemployment has fallen to about 9 percent in late 2003 from a high of 12 percent following the crisis despite the weakness in construction. Inflation fell to 18.3 percent in 2003, and the latest data suggest that inflation is falling towards the important single digit level for the first time since the 1970s.

11. Strong fiscal performance has been the cornerstone of the economic program. Fiscal gains were significant in 2003, and the primary surplus rose from 4 percent of GNP in 2002 to over 6 percent of GNP in 2003, close to the programmed 6.5 percent target. Nevertheless, the overall fiscal deficit remained considerable at 10.8 percent of GNP. Although the 2004 budget passed in December was consistent with the 6.5 percent primary surplus target, a sizeable fiscal gap quickly emerged. The government announced above inflation increases in minimum wages and it also cut contribution rates for social security to reduce the additional costs to employers. In addition, the government increased pensions by 20 percent, well above the inflation target. These initiatives, together with revenue shortfalls relative to the Budget, created a financing gap of close to 1.7 percent of GNP. The Government introduced a fiscal package in March to close the fiscal gap. This package has two main components: a supplementary budget and revenue measures. The supplementary budget passed in March cuts discretionary expenditures by 13 percent across all ministries. The government also introduced measures to increase tax revenues by adjusting excises of petroleum, alcohol, tobacco, and natural gas. While the Government has demonstrated a willingness to undertake action to meet the fiscal target, good public expenditure management and delivery of services to citizens will require less reliance on ad hoc, short-term measures and a focus on sustainable fiscal adjustment. A high priority here is the need for additional social security reform.

12. Monetary policy followed a policy of implicit inflation targeting, with the Central Bank occasionally intervening in the foreign exchange market to dampen what was deemed to be excessive fluctuation in the exchange rate. The decline in inflation, which was aided by the strength of the dollar, led to a commensurate decline in interest rates from a nominal 60 percent in the first quarter of 2003, to about 25 percent early in 2004. Turkey’s debt sustainability indicators have improved considerably. The fall in nominal interest and borrowing rates and the strength of the Turkish Lira were important reasons for the decline in the public debt to GNP ratio from 79.2 percent in 2002 to 71 percent in 2003, down from 94 percent in the aftermath of the 2001 crisis.
Figure 1: Macroeconomic and Financial Indicators

(a) Annual CPI Inflation

(b) Real Effective Exchange Rate

(c) Nominal T-bill rate

12 month nominal interest rate on T-bills

(d) Istanbul Stock Exchange

ISE National 100 index  1986 = 1 TL, based on closing values

(e) Unemployment Rate

3ist-reported unemployment

(f) GNP growth

Quarterly percentage change over the same quarter of the previous year.

(g) Real Private Credit

(qtl  &  fx)

(h) Capacity Utilization in Manufacturing
13. On the external front, despite appreciation of the Turkish Lira, rising productivity and declining labor costs helped sustain external competitiveness and export growth. Tourism receipts recovered strongly in the second half of 2003 helping to deliver a current account balance better than expected. Imports also grew rapidly, with oil, increased imports of machinery and equipment, and rising demand for imported consumption goods being major contributors. The current account deficit increased to 3 percent of GNP in 2003. Continued market confidence has spurred an improvement in capital inflows, although greenfield investment has remained low. These inflows easily financed the current account deficit and allowed the sharp increase in international foreign exchange reserves to US$33 billion, equivalent to 5 months of goods and services imports.

14. Prospects. Under stable domestic and international conditions, Turkey could repeat or improve on last year’s macroeconomic performance in 2004. Growth should again meet the 5 percent target. Inflation is already running below projections. Carry over from last year’s strong increase in industrial output and a more normal harvest in agriculture sector this year should deliver the growth target from the production side. On the demand side, confidence indicators are strengthening and lower interest rates and easier credit are providing stimulus to private investment and consumption. Despite firm domestic demand, there are strong prospects of meeting the inflation target of 12 percent, which would outperform targets for the third year in succession. The government already introduced corrective fiscal measures to attain the primary surplus target of 6.5 percent of GNP in 2004. The current account deficit is expected to remain at 3 percent of GNP in 2004. The combination of sharply declining inflation and recovery of domestic demand are creating tensions for monetary policy. Interest rates are still quite high in real terms. Although there is still room to cut interest rates further, the potential need to moderate domestic demand growth and to limit further widening of the current account deficit suggest that this should be done carefully.

15. Regarding external financing needs, access to international financing has eased considerably following the recent rating upgrades, with sharp declines in spreads. In the first six weeks of 2004, Turkey issued US$2.75 billion equivalent in international bonds, a US$1.5 billion in 30 year bonds, with a yield of 8.23 percent, and a EUR 1 billion with yield of 6.6 percent. These two issues accounted for half of Turkey’s 2004 borrowing program from the international financial markets. Stronger FDI would be a function of improved political and macroeconomic stability, and the establishment of greater trust in the rule of law. International reserves, which increased significantly last year, also give some degrees of freedom in meeting the external financing needs. Despite improving access to domestic and international markets, Turkey’s debt rollover needs remain sizeable, about US$11-12 billion per month in 2004, and its debt dynamics remain vulnerable. These require to maintain macroeconomic policies firmly on track and to move decisively on a comprehensive program of structural reforms to safeguard and advance the recent achievements. Structural reforms priorities include restructuring / privatization of state banks; continued modernization of fiscal management, further reform of the social security system and institutional strengthening of social safety net. These reforms will be supported under the PFPSAI. 3 and PPSAL loans currently under preparation under the Turkey CAS.
II. The Structural Adjustment Program

16. The actions supported by the ERL were intended to (i) support the implementation of a macroeconomic policy framework to tame inflation and restore growth; (ii) underpin fiscal adjustment through structural fiscal reforms, (iii) improve the efficiency, equity and quality of social security system, (iv) promote agricultural growth and rural income generation with the rationalization of agriculture support policies and privatization of agricultural SOEs; (v) promote private participation with the deregulation of the energy and telecommunications sector; and (vi) accelerate privatization with decisive steps.

17. As previously mentioned, overall implementation of the ERL program has been strong - the Government fully met eight of the nine main conditions for the release of the second tranche. In terms of specific sub-conditions, the Government attained 28 of the 30 specific sub-conditions. There was partial compliance with the remaining privatization conditions. As discussed earlier (see para. 7), the first condition, the sale of 20 percent of Turk Telekom to a strategic private investor, has been replaced with remedial actions which have: (i) promoted the development of the sector; (ii) enhanced the commercial orientation of TT; and (iii) improved the prospects for the future privatization of TT. A new strategy for the privatization of TT approved by the Council of Ministers in November 2003 and is now being implemented. The second sub-condition, the launch of pre-qualification tenders for the electricity distribution companies, has been replaced with a comprehensive electricity privatization strategy, adopted by the High Planning Council on March 17, 2004, which has (i) established a clear basis for future implementation of privatization by all agencies concerned; (ii) defined a time-bound set of implementation steps specifying the approach and institutional responsibilities to proceed with market implementation in areas essential to successful privatization. This action goes beyond the original sub-condition.

18. The following table presents an overview of the general progress of the ERL in terms of main program areas to be monitored for release of the second tranche.

<table>
<thead>
<tr>
<th>Table 1: Progress in Loan Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Main Program Areas</strong></td>
</tr>
<tr>
<td>Satisfactory implementation of macroeconomic framework</td>
</tr>
<tr>
<td>Structural fiscal measures and fiscal program</td>
</tr>
<tr>
<td>Social security reform</td>
</tr>
<tr>
<td>Agriculture reform</td>
</tr>
<tr>
<td>1. Direct income support</td>
</tr>
<tr>
<td>2. Phasing out of price and credit subsidies</td>
</tr>
<tr>
<td>3. Agricultural enterprise restructuring program</td>
</tr>
<tr>
<td>Deregulation and Privatization</td>
</tr>
<tr>
<td>1. Energy sector reform</td>
</tr>
<tr>
<td>2. Telecommunications</td>
</tr>
<tr>
<td>3. Privatization program</td>
</tr>
</tbody>
</table>

19. Overall, the program supported by the ERL has been largely achieved with many important accomplishments, including the satisfactory implementation of macroeconomic framework, structural fiscal reforms, social security reform and commitment by the Government to address the projected deficits in the social security system. Agricultural sector reforms have made decent progress to promote agricultural growth and rural income. The Direct Income
Support program is proceeding in a satisfactory manner. Price and credit subsidies have been phased out. There has been also considerable progress in restructuring of the agricultural sales cooperative unions (ASCUs) and restructuring and privatization of agricultural SOEs. There has been good progress in the implementation of energy sector reforms under the ERL. The ERL has also made a highly significant contribution to the development of the telecommunications sector. The privatization program is now moving forward after major delays in 2001-02. A majority stake has now been sold in four major companies, POAS (petroleum distribution), ERDEMIR (steel), TEKEL (alcoholic beverages) and TUPRAS (refineries), in the privatization program.

20. **CAS Linkage.** The ERL is part of a broader package of Bank financing in support of the Government’s economic reform efforts. The Bank’s overall lending program for the FY 2004-06 period is described in detail in the new CAS, which was presented to Board in November 2003. The CAS includes a high case lending program of US$4.5 billion and a low case of US$1.3 billion. The progress in meeting the conditions for release of the ERL second tranche indicates that the CAS high-case triggers are on track. In particular, the progress on the ERL program confirms that the triggers related to a satisfactory macroeconomic framework and sustained implementation of regulatory reforms, privatization and liberalization of the energy and telecommunications sectors and agricultural reform program, are being met. With regard to the other structural and social triggers, progress is continuing in the preparation of PFPSAL3 and PPSAL, which will support the Government’s reform program in several key sectors (see para.15).

### III. CONDITIONS FOR THE RELEASE OF THE SECOND TRANCHE

21. As the conditions for the release of the second tranche, the Loan Agreement requires that:

   i) the Borrower has made satisfactory progress in carrying out the Program as set forth in the Government’s Letter(s) of Development Policy to the Bank. This progress is evidenced by the progress in all substantive areas of the Program as well as by a review of the specific actions described in Schedule 3 of the Loan Agreement.

   ii) the macroeconomic policy framework of the Borrower is satisfactory. The existence of an adequate macroeconomic policy framework is evidenced by the recent economic, fiscal, monetary and external and real aspects of the economy that were described in Part I of this memorandum. This framework is supported by an active IMF program that remains on track.

   iii) the actions, described in Schedule 3 of the Loan Agreement, have been taken and are in substance satisfactory to the Bank. That these actions have been completed is evidenced by the fact that 28 of the 30 sub-conditions listed in Schedule 3 have been fully met, and that the remaining two sub-conditions have been met partially, in a manner satisfactory to the Bank. The compliance with each of these conditions is discussed in the following paragraphs.
A. **Macroeconomic Sustainability**

1. **Satisfactory implementation of the macroeconomic framework for calendar year 2000 and adoption of a satisfactory macroeconomic framework for calendar year 2001.**

22. This condition has been met. Macroeconomic outcomes for 2002 and 2003 generally surpassed the indicators set under the economic program, although fiscal performance fell short of the primary surplus target. Economic growth reached 5.8 percent in 2003 following 7.5 percent growth in 2002. Unemployment which had remained at record levels in 2002 started to fall in 2003. Inflation fell to 18.3 percent in 2003, and the latest data suggest that inflation is falling towards the single digit level for the first time since the 1970s. Strong fiscal performance has been the corner stone of the program. Fiscal gains were significant in 2003, and the primary surplus rose from 4.0 percent of GNP in 2002 over 6 percent of GNP in 2003, close to the program target of 6.5 percent. The second stage of direct tax reform was passed in January 2004 and the Government has continued to reduce the overstaffing in state owned enterprises. Balance of payments outcomes were also favorable as the current account deficits of 1 percent of GNP in 2002 and 3 percent of GNP in 2003 were financed with little difficulty. Renewed capital inflows to the private sector contributed to a stronger-than-expected capital accounts balance which allowed a build up of gross international foreign exchange reserves to almost US$33 billion by the end-2003. There has been an IMF program under implementation since early 2000. The seventh review mission of Turkey's program arrangement with the IMF was completed on March 12, 2004 and discussion by the IMF Board is expected very shortly. On balance macroeconomic policies under the current program appear to be adequate, even while there remain major risks.

2. **Adoption of a satisfactory fiscal package in the framework of the 2001 budget designed to replace temporary measures with permanent measures and incorporating further expenditure reforms, in accordance with the recommendations of a Public Expenditure and Institutional Review to be carried out with the Bank, that encompass:**

(a) elimination of at least 25 more budgetary funds;
(b) reduction in the number of non-budgetary funds as agreed with the Bank;
(c) limits on the introduction of new projects into the public investment program;
(d) establishment of a public registry of government guarantees and limits on the issuance of new guarantees; and
(e) incorporation of more effective expenditure control mechanisms.

23. This condition has been met. The Public Expenditure and Institutional Review (PEIR) was distributed to the Board in August 2001. On the basis of the PEIR, the Government has prepared a Strategic Framework for Public Expenditure Reform, implementation of which is being supported by the PFPSAL programmatic operations.

24. (a and b) elimination of at least 25 more budgetary funds and reduction in the number of non-budgetary funds as agreed with the Bank. As of March 2001, 46 budgetary funds and 6 EBFs had been closed, exceeding the ERL target. In June 2001, the Parliament adopted legislation to close 15 more budgetary funds and two EBFs. As a result, all budgetary funds, with the exception of the Support Price Stabilization Fund linked to the reform of the agriculture
sales cooperative unions (ASCUs) under the ARIP, and all but five EBFs were eliminated in the 2002 budget. The Government has committed not to create new budgetary or extra-budgetary funds. Recognizing the need to terminate the system of earmarked expenditures linked to the closed funds and incorporate their revenues into the general revenue base, the Government has prepared legislation which is expected to be enacted by May 2004. For the remaining EBFs (excluding the SDIF for which measures are being taken under the financial sector reform program), the Government has undertaken the following actions which came into effect with enactment of the Public Financial Management and Control (PFMC) law in December 2003: (i) submit their budgets to Parliament for approval, (ii) audit their accounts annually, and (iii) report their operations monthly on a consolidated basis with the central government.

25. (c) limits on the introduction of new projects into the public investment program. The Government has taken steps to limit the introduction of new projects into the public investment program (PIP). The rationalization of the PIP in the 2002 budget resulted in a reduction in the average project completion time by 32 percent, from 12.3 years in 2001 to 8.5 years in 2002. An action plan for further rationalization of the PIP in 2003-04 prepared by the State Planning Organization was adopted by the High Planning Council in October 2002. An assessment prepared by the SPO in May 2003 confirmed the reduction in the average project completion time in the 2002 PIP and indicated a further reduction in the average completion time to an estimated 7.6 years in the 2003 PIP, along with a continued reduction in the number of projects.

26. (d) establishment of a public registry of government guarantees and limits on the issuance of new guarantees. The Law on Public Finance and Debt Management was adopted in March 2002. Two implementing circulars on guarantees and non-guaranteed borrowing were published. The Government has instituted a public register of all Treasury guarantees and set limits on the issuance of new guarantees in the 2001-04 budgets. A review of the government guarantee portfolio was completed by May 2003, providing a preliminary valuation. In order to support the capacity-building efforts of the new middle office of Treasury, a US$320,000 IDF grant was approved in November 2003. The multi-year capacity building program will help improve the transparency of fiscal management by assisting the Turkish Treasury to adopt best international practices and technical tools in public liability management, including financial and fiscal risk management.

27. (e) incorporation of more effective expenditure control mechanisms. The PFMC Law establishes the legal framework for harmonizing and modernizing budgetary practices across all of general government. It is reducing fragmentation and providing for a more comprehensive presentation of the budget. The law is also allowing for future decentralization of financial control to spending agencies. Finally, it is extending the external audit mandate of the Turkish Courts of Account (TCA) to all general government agencies and allowing for external audit of TCA itself. In addition, field installation of the computerized accounting system for the Ministry of Finance (called say2000i), initially developed under the Public Financial Management Project, has been completed and the system went live in January 2002.

B. Social Security Reform:

Satisfactory implementation of the social security reform program encompassing:

(a) implementation of the PAYG pension reform.
(b) implementation of the administrative and institutional reform program;
28. This condition has been met. (a) Implementation of the pay-as-you-go pension reform. The 1999 pension reform law was fully implemented with minimum retirement ages instituted for all three pension systems and benefit changes for workers and self-employed. These changes resulted in a sharp drop in the social security deficit, a reduction of 1.2 percent of GNP, more than had been stipulated by the Loan. The law also sought to make minimum and maximum levels of insurable earnings automatically indexed to consumer price increases as well as pensions after retirement. However, several problems have emerged. The fiscal crisis in 2001 lowered contribution revenues through increase in unemployment and declines in real wages. Administrative reforms were delayed which contributed to poor compliance and hence poor revenue collection. A gap has arisen between minimum insurable earnings and minimum wage, which is not subject to automatic indexation. In 2003 and 2004, Parliament approved social payments to all pensioners and increased pensions that were unrelated to automatic indexation prescribed in the law, leading again to higher expenses. Taken together, these have led a growing deficit in the social security system. Further action to address this issue is being taken under the proposed PPSAL operation.

29. (b) implementation of the administrative and institutional reform program. After initial legislation passed in 2000 was cancelled by the Constitutional Court, legislation authorizing administrative reform and enforcement of collection of contribution arrears was passed in July 2003. The legislation paves the way for administrative reform in two of the social security institutions, including the hiring of inspectors, and the unemployment agency. The Turkish Government has even more ambitious plans to unify the social security agencies and plans to present legislation in the second half of calendar year 2004.

30. (c) implementation of the plan to reduce all contribution arrears. Noncompliance and the buildup of contribution arrears have been a perennial problem for the social security institutions, further exacerbated by the slowdown in employment arising from the fiscal crisis. The July 2003 legislation included authorization to reduce contribution arrears, including the hiring of additional inspectors, and the use of private lawyers to aid in the collection of these arrears. Under the SSK debt workout plan, the authorities have restructured TL 3.2 quadrillion in arrears out of a total of TL 4 quadrillion outstanding. The debt workout plan of Bag-Kur (the social security institution for the self-employed) has been less successful with TL 1.7 quadrillion restructured out of TL 14 quadrillion total arrears. However, about 85 percent of Bag-Kur arrears are five years and older, and will need to be written off.

31. (d) implementation of the unemployment insurance scheme. The unemployment insurance agency began to collect unemployment contributions in June 2000 and paid out its first benefits in March 2002. Large fund reserves have been accumulated in the scheme suggesting the need for parametric and administrative review. However, until the agency’s establishment law was formally approved, as it was in July 2003, no progress could be made in this direction. The Government is now reviewing the parameters and administration and reforms will be undertaken together with those for the other social security institutions.
32. (e) implementation of the legal and regulatory framework to support supplementary individual pension schemes. The legislation to support individual pension schemes was enacted in April 2001, and became effective in October 2001. The related tax legislation was enacted in June 2001. Implementing regulations for the individual pension schemes were published in February 2002. First contributions were collected in November 2003. There are currently 11 pension funds authorized to collect contributions in Turkey, with a total of 46,672 contributors by end-Feb 2004.

C. Agriculture Reform

1. Satisfactory progress in implementing the direct income support strategy including:

(a) implementation of the pilot program;
(b) preparation of the national farmer registry; and
(c) agreement on the schedule for initial rollout of the direct income support program at the national level for the 2001 crop season.

33. This condition has been met. (a and c) implementation of the pilot program and adoption of a schedule, satisfactory to the Bank, for the initial rollout of the direct income support program at the national level for the 2001 crop season. Implementation of the Direct Income Support (DIS) Program is proceeding in a satisfactory manner, notwithstanding budget pressures and some start up issues, and is being supported by the Agriculture Reform Implementation Project (ARIP) approved in July 2001. The DIS pilots were completed prior to ARIP, with their results incorporated into the final design of the current DIS Program. The Government decree establishing the first annual national DIS program was published in April 2001, and the DIS circular detailing procedures for implementing the first 2001 Program was published in June 2001.

34. During the first registration season in summer-fall 2001, 2.18 million farmers were registered for the DIS Program, representing almost 55 percent of Turkey’s roughly 4.1 million farmers. Payments under the 2001 Program were initiated in November 2001 and extended through June 2002, by which time all of the registered beneficiaries were paid in full. In successive years, the share of farming households registered has risen to over 80 percent of the total, covering almost 70 percent of Turkey’s agricultural cropland (see Table 2).

<table>
<thead>
<tr>
<th>Table 2 – DIS Participation and Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td><strong>Payment per hectare</strong></td>
</tr>
<tr>
<td><strong>Hectares participating (million)</strong></td>
</tr>
<tr>
<td><strong>Share of agricultural area participating</strong></td>
</tr>
<tr>
<td><strong>Farming households participating</strong></td>
</tr>
<tr>
<td><strong>Share of farming households participating</strong></td>
</tr>
<tr>
<td><strong>Value of Program (quadrillion TL)</strong></td>
</tr>
</tbody>
</table>

35. Coverage of farming households exceeds that of the total cultivated agricultural area mainly because the maximum area which can qualify for DIS payments is 50 hectares. However, coverage is not expected in the next two years to exceed 85 percent of farming households, as there is a large number for which it is not possible to demonstrate legal title to the
land farmed in the same name as the current head of the farming household. This is a reflection of the fact that transmission of legal title across generations of household members has not always taken place smoothly. Currently, the DIS Program gives an added incentive to inheritors of farmland to regularize the formal title to the land they cultivate.

36. The timing of DIS payments has exhibited a pattern under which roughly 500-800 trillion TL of the given year’s Program payments are made in the last quarter of the given calendar year’s program, immediately following the summer-fall registration and verification period. The bulk of payments are then made in the first quarter of the next calendar year. Final payments are then made by the end of the second quarter.

37. (b) Preparation of the National Farmer Registry. The National Registry of Farmers (NRF) is the system which houses the farmer beneficiary information necessary to calculate and justify the annual payments. This system has been expanded over time to include increasingly detailed information on the structure of each farming household’s agricultural and livestock operations. As such, it is now being used by the Government to inform its decisions on agricultural and rural development policy in the various agro-climatic and socio-economically differentiated rural provinces. An ongoing challenge being addressed by the ARIP is the linking of the NRF to the country’s property registration and cadastral system. This will improve the accuracy of calculation of DIS payments per farming household, as well as strengthen the base for a future geographic information system for land and natural resources use planning.

2. Satisfactory implementation of the program to phase out price and credit subsidies in agriculture including:

(a) maintenance of fertilizer subsidy constant in nominal terms; and
(b) implementation of the program to phase out agriculture credit subsidies.
(c) implementation of the support price reform including announcement of additional measures for 2001 as agreed with the Bank.

38. This condition has been met. (a and b) maintenance of fertilizer subsidy constant in nominal terms and implementation of the program to phase out agricultural credit subsidies. Under the reform of agriculture support prices, input, output price, and credit subsidies have been reduced in 2000-02 by over 90 percent. By the end of 2002, the reform program reduced the fiscal outlays on agricultural subsidies by about US$5.5 billion. This represents a savings of over 2.7 percent of GNP. Over half of the subsidy cuts is accounted by the US$3.1 billion in reduction in the coverage of losses for state financed crop purchases. The elimination of the credit subsidies and debt write-offs generated another US$1.4 billion in fiscal savings. Fiscal transfers to ASCUs, which had reached US$1 billion per year, were also reduced by US$800 million, covered in detail in the next section. The other area of subsidy reduction was fertilizer subsidies, which declined by US$300 million. Altogether, 70 percent of the subsidy cuts were directed at lowering agricultural commodity prices and was primarily achieved by imposing hard budget constraints on state marketing and processing enterprises as well as the quasi-state ASCUs. The remaining 30 percent cut was aimed at reducing agricultural input subsidies, notably credit and fertilizer.

39. (c) Implementation of the support price reform including announcement of additional measures for 2001 as agreed with the Bank. The changes to agricultural output subsidization have taken the form of greater market deregulation through reduction and phasing out state-set
in April 2001. It phased out price supports for sugar beets but introduced quotas on refined sugar. In the sugar sector, sugar beet prices have been set on an annual basis under agreements reached directly between the operators of sugar factories and growers. Processed sugar sale prices are now freely set by the operators of the sugar factories. Refined sugar quotas have been set for a five year period by the Sugar Agency, which was established in 2001, since 2002.

40. In the tobacco sector, an auction system for tobacco was established by the Tobacco law enacted in January 2002. State set prices were reduced by a third over 1999-2001, and were abolished starting with the 2002 harvest. Over the same period tobacco purchases from farmers fell by 30 percent. Under the Tobacco Law, there are provisions for purchasing tobacco produced by growers based only on written contracts or open auction. The price of tobacco produced under contract between the producers of tobacco products and the growers is set by mutual agreement. Tobacco produced by growers other than under written contracts is sold on open auction method. In the grains sector, the Turkish Grain Board (TMO) reduced its volume of intervention purchases by over 45 percent during the 1999-2002 period to about 2.4 million tons. In 2002, these purchases were reduced further to about 800,000 tons and TMO ceased announcing minimum purchases. Wheat import tariffs were reduced substantially, though they remain at about 45 percent. In the hazelnut market, the intervention purchases and announced support prices made by the parastatal Fiskobirlik declined by about 25 percent and 40 percent, respectively over the 1999-2001 period. They declined further in 2002 and were discontinued entirely in 2003.

3. **Satisfactory implementation of the restructuring program for agricultural SEEs including:**
   
   (a) *initiation of privatization proceedings of agricultural SEEs as agreed with the Bank;*  
   (b) *complete liquidation of all TZDAS assets and separate or reassign all employees; and*  
   (c) *effective autonomy of all agriculture sales cooperative unions (ASCUs) from the budget as agreed with the Bank.*

41. **This condition has been met.** (a) initiate privatization proceedings of agricultural SEEs as agreed with the Bank. The Government transferred all state-owned sugar factories (SEKER) under the scope of the privatization program in December 2000 and the state tobacco company (TEKEL) was included in the Privatization Administration’s portfolio by a Privatization High Council decision dated February 2001. A comprehensive privatization plan for TEKEL was approved in March 2003. The firm was tendered, but this tender was not finalized owing to the low bids offered, as deemed by the Government. TEKEL is to be re-tendered during the course of 2004. Concerning the sugar company (SEKER), the plan for its privatization was approved by the Privatization High Council (PHC) in June 2003. The Privatization Administration and SEKER have jointly determined the portfolio groups/companies which will be tendered for sale under the privatization program and identified the factories to be liquidated. The timetable for including these portfolio/companies in the privatization program has been established. It foresees that those put into the privatization program will be tendered in May-2004, with the tender to be completed by December 31, 2004.

42. (b) *complete liquidation of all TZDAS assets and separation or reassignment of all employees.* With regard to the liquidation of TZDAS (agricultural machinery), a tender for the
sale of its Adapazari complex was approved by the PHC in May 2003. The remaining assets of TZDAS were merged into Sümer Holding A.S. in February 2003 and the company was legally abolished. With the completion of the merger, all responsibilities regarding TZDAS employees have been transferred to Sümer Holding, which is under the privatization of program of Privatization Administration.

43. (c) effective autonomy of all agricultural sales cooperative unions (ASCUs) from the budget as agreed with the Bank. Considerable progress has been made towards transforming the ASCUs from parastatal organizations, controlled by the Ministry of Industry and Trade and supported financially by the Treasury, into financially autonomous and sustainable cooperatives that can compete with private traders while operating for the benefit of the farmers who own them. Institutional arrangements for implementation of the ASCUs/ASCs component have been fully in place since June 2002 and all are operating in an effective manner. No new DFIF credits have been provided to the ASCUs from the budget, with funds made available limited to those available from the DFIF Revolving Fund only. Five ASCUs-- Marmarabirlik, Trakyabirlik, Taris Olive, Taris Fig and Gulbirlik—have completed their restructuring plans and been declared eligible for forgiveness of their pre-May 2000 debts to DFIF. Annual fiscal savings associated with imposition of hard budget constraints on ASCUs have reached roughly $800 million, equivalent to 0.4 percent of GNP.

D. Deregulation and Privatization

44. Energy Reform:

1. Satisfactory implementation of the energy reform program as agreed with the Bank including:

(a) enactment of an electricity reform law to establish an independent regulatory agency with full authority over tariff policy, further liberalize the electricity sector, and ensure an adequate competitive environment;

(b) implementation of the financial recovery plan for TEAS, as agreed with the Bank; and

(c) adoption a time-bound plan for establishing independent regulation and de-monopolizing the natural gas sector.

45. This condition has been met. (a) enactment of an electricity reform law to establish an independent regulatory agency with full authority over tariff policy, further liberalize the electricity sector and ensure an adequate competitive environment. The electricity market law (EML) establishing independent regulatory agency (EMRA) and competitive market model was enacted in March 2001. The EML also establishes a clear framework for the restructuring of state electricity companies into separate entities operating within a competitive market trading arrangement. Furthermore, the EML also establishes a process for the privatization of these entities. The EMRA, independent regulatory agency, is now fully functional, and it has completed the issuance of key tariff, licensing and market codes/regulations. The EMRA has also completed the licensing of all firms in the electricity sector. Furthermore, it has also successfully facilitated the direct access of large consumers in electricity to purchase directly from sources of their choice—thereby taking an important step in the liberalization of electricity sector.
46. Implementation of the EML and liberalization of the electricity sector are proceeding quite well given the complexity of the reforms and restructuring steps. A detailed design of the competitive market mechanism has been prepared. The market mechanism is based on bilateral physical contracts with mandatory balancing. This mechanism is defined in a Power Market Implementation Manual initiated in 2001 prepared by an interagency group comprising all relevant agencies, led by the Ministry of Energy and Natural Resources (MENR). Based on the market design in the Power Implementation Manual: (i) a new transmission tariff regime was designed and implemented in 2002; (ii) the transitional balancing and settlement code (BSC) that will be the basis for initial market operation has been prepared; and (iii) industry restructuring is underway to achieve a stable competitive market and privatize assets.

47. (b) implementation of the financial recovery plan for TEAS, as agreed with the Bank. The former generation and transmission company (TEAS) has been restructured into a separate transmission company (TEIAS) and generation company (EUAS). Both TEIAS and EUAS have been completely separated financially and operationally. Operational boundaries between EUIAS, TEDAS (distribution company) and TEIAS were agreed in 2002 based on criteria suitable for market operation and asset registers are being finalized on this basis. The state owned electricity trading company was also established in 2001 to hold state contract liabilities for BOT and BOO projects – it currently has a wholesale tariff that is regulated by EMRA. The TEDAS has begun the process of restructuring its operations along regional lines. All the electricity sector firms, specifically the successors of TEAS are financially stable.

48. (c) adoption of a time-bound plan for establishing independent regulatory authority and de-monopolizing the natural gas sector. The natural gas market law (NGML) was enacted in May 2001, which establishes EMRA as the regulator for the gas market as well. The NGML defines an industry structure, the procedures for getting new private sector firms into local gas distribution business, and a gas sector liberalization process. Gas market development is being advanced with a focus on the creation of demand—specifically by inviting the private sector to bid for the rights to develop new gas distribution systems in cities. Around 14 cities were tendered by the end of February 2004, of which 7 have been licensed. In addition, two city gas distribution systems that were owned and operated by BOTAS (gas transmission monopoly) have been privatized – thereby creating new players in the sector. The BOTAS has commenced the separation of its accounts into import, transmission and wholesale functions. Consultations on the gas transmission code are on-going with the private sector. The code is expected to be issued in the Official Gazette within the next six months.

49. Telecommunications Reform

2. Satisfactory implementation of the telecommunications reform program including:

(a) establishment of the regulatory authority; and
(b) implementation of the action plan for carrying out the conversion of Turk Telekom into a joint-stock company.
50. This condition has been met. (a) establishment of the regulatory authority. The Board of the Telecommunications Regulatory Authority (TRA) was appointed in March 2000. The decree establishing the TRA was issued in August 2000. A summary medium-term development plan for the TRA was provided to the Bank in November 2000. Additional amendments to the telecommunications law were enacted in May 2001 (Law 4673) which transferred licensing authority to the TRA. TRA has been active in the issuance of licenses and authorizations. It is also undertaking studies for additional licensing of services. TRA has also issued regulations thereby providing a greater degree of regulatory certainty to existing players and potential new entrants. It has issued numerous licenses. To date more than 90 Internet Service Provider (ISP), 20 VSAT, 6 GMPCS and 3 Digital Satellite Platforms authorizations or licenses have been issued. TRA has drafted and is drafting licenses and respective fees for additional services, including those services that were formerly the exclusive rights of Turk Telekom (TT). The issuance of new licenses is facilitating new investment, new services and wider customer choice in the sector. These operations should enhance the competitiveness of the Turkish economy and represent considerable progress.

51. TRA has issued 12 regulations which promote private sector development by establishing the business environment. These regulations include: Communiqué On Principles and Procedures Regarding Co-location and Facility Sharing; Ordinance Regarding the Principles and Procedures for GSM Telephone Subscription; National Frequency Allocation Table; Tariff Ordinance; Price Cap Communiqué and Ordinance on Access and Interconnection. TT's exclusive rights for fixed-line services and infrastructure expired at the end of 2003 as a consequence of Law 4502 of January 2000. By these amendments Turkey advanced by one year its commitment to the World Trade Organization (WTO) regarding the termination of exclusive rights for the provision of fixed-line telecommunications services. In 2004, a substantial increase in the number of licensees is anticipated as new entrants begin to enter the market which was previously the exclusive domain of TT.

52. (b) implementation of the action plan for carrying out the conversion of Turk Telekom into a joint-stock company. Turk Telekom (TT) was converted into a joint-stock company by Law 4502. A High Planning Council decision issued in October 2000 authorized TT to establish an independent joint-stock company for mobile operations. The authorization agreement for mobile operations was signed in January 2001, and the agreement for fixed-line services was signed in February 2001. In December 2001 TT management signed a contract with major international business consultants on to assist them in developing its strategy to commercialize its operations and business. This involved a ‘strengths and weaknesses’ analysis, the development of strategic options and assistance with the implementation of the agreed strategic options. Since that time TT has continued to employ the services of major international business consultants to assist in the development of its commercialization strategy. The Board of TT was actively involved in the formulation of the appropriate strategy. A new corporate plan was adopted by the TT Board of Directors in June 2002.
53. The proximity of the liberalization of the fixed-line market has focused the attention of the management of TT regarding the commercialization of the company. Faced with the imminent challenge from new entrants, the management of TT has improved its customer care facilities and information technology capabilities in order to become a customer focused company, as identified by the original consultancy. To advance these goals, TT has been recruiting staff from the private sector. At the same time staff numbers have been reduced through the early retirement program introduced by the government in late 2001. Additionally, TT is aiming to improve its data services in order to promote Internet usage and to become the major supplier to Internet Service Providers (ISP) in a liberalized environment.

54. Privatization Program

3. Satisfactory progress in implementing the privatization program, including:

(a) completion of sale of two additional wireless licenses to private investors;
(b) sale of 20% of Turk Telecom to a strategic private investor;
(c) launch of pre-qualification tenders for the sale of electricity distribution companies as agreed with the Bank; and
(d) privatization of at least three additional major companies by the Privatization Administration of the Borrower.

55. This condition has been partially met. (a) completion of sale of two additional wireless to private investors. A GSM 1800 license was successfully sold in October 2000 for US$2.5 billion to a consortium (Aria) led by Is Bank and Telecom Italia. The tender for a second GSM 1800 license was also held, but there were no bidders given the minimum price of US$2.5 billion. The proceeds from sale of the first GSM 1800 license greatly exceeded the revenue target set for the two sales combined.

56. TT was issued with the 4th mobile license in 2000 following the successful tender of the 3rd mobile license for US$2.5 billion. However, shortly after the roll out of its network and the start of operations the sector was hit by the financial volatility of the economy and the downturn in the global telecommunications sector. The two new entrants faced substantial difficulties in capturing market share against the established mobile market players (with a combined subscriber base of over 15 million) who were responding to market conditions in an aggressive manner. Furthermore, the Government of Turkey became involved in international arbitration with the 3rd mobile license operator over a claim for more than US$ 2 billion compensation concerning the roaming issue. TT's mobile operations (Aycell) had been identified by the international business consultants as a major drain on TT's resources in the prevailing market conditions and a potential obstacle to the privatization of the joint stock company. However, in mid 2003 Aycell and Aria the 3rd mobile license entered merger talks. TT again hired international business consultants to assist in the discussion. Any merger would require appropriate legal instruments which were supplied by Parliament by Law 4971 (August 2003) and Law 5071 (January 2004). The merger was completed in February 2004 with the private sector holding 60 percent of the new entity and TT 40 percent. The combined operations are now in a stronger position to challenge and compete with the two larger players (TURKCELL and TELSIM).
57. (b) sale of 20 percent of Turk Telekom to a strategic private investor. [Waiver Requested]. The effort to open the capital of Turk Telekom to private participation suffered a major setback when the tender of a 20 percent stake in Turk Telekom failed to attract interest from strategic investors and closed without bids in September 2000. A second tender for a 33.5 percent stake with stronger management rights closed in May 2001 without a bid. Two main factors contributed to these unsuccessful attempts. First, the uncertainty regarding the degree of management rights to be granted to the strategic investor and second the global downturn of the telecommunications sector. It had been the intention of the Government to negotiate with the strategic investor on the exact extent of management rights to be granted. However, since there were no bids the issue was never fully addressed. A third and smaller contributing factor was the absence of a clear line of responsibility for ensuring the success of the transaction.

58. It should be noted that between 2001 when Matav of Hungary (in which Deutsche Telekom is the strategic investor) acquired 51 percent of Macedonia Telekom for US$340 million and February 2004 when at the second attempt, the Bulgarian incumbent, BTC, was sold to financial investors for a sum considerably lower than offered at the first attempt, there were no successful telecommunications privatizations in Europe and Central Asia.

59. Following the unsuccessful attempts, the Bank agreed with the Government on an alternative action plan involving: (i) transfer of full licensing authority to the newly established Telecommunications Regulatory Authority (TRA), (ii) revision of the legislation to allow privatization of up to 100 percent of TT excluding a golden share, which is designed to ensure that the Government continues to have voice in company decisions affecting national interests—the Bank’s view is that the golden share, as currently structured, is unlikely to impede the privatization of TT, and (iii) preparation of a new corporatization and privatization strategy for the company. The first two elements of this plan were implemented through legislative amendments in mid-2001 (Law 4673) which also reduced the period of TT’s exclusive rights for fixed-line services and infrastructure to the end of 2003. The transfer of full licensing authority to TRA produced a rapid expansion in the number of license and authorization holders in the liberalized sub-sectors of the market, thereby promoting the development of the sector, encouraging private investment and providing greater choice to customers. The shortening of the period of TT’s exclusivity had the effect of focusing the attention of TT on the imminent challenge from new entrants and caused it to become more commercial and customer focused. The corporatization plan was adopted by the TT Board in June 2002. As a consequence of the action undertaken by TT (as discussed above), it has become a more viable and attractive company.

60. A new action plan for the privatization of TT was agreed with the Government in the summer of 2003. One item called for the appointment of a senior official with overall responsibility to coordinate the privatization process. The Prime Minister appointed the Privatization Administration President as coordinator for the TT privatization in July 2003. By December 2003 audited accounts for TT were produced for the first time since 2001. Audited accounts are a pre-requisite of a privatization transaction. A new valuation of TT has been made and agreed and the market has been tested by two ‘road shows’ (one international and one
domestic) in September 2003. This market testing found considerable domestic interest in the TT transaction. The requirement for the purchase of TT by a strategic investor in the previous attempts at privatization had not allowed this domestic interest to express itself and effectively limited the number of potential buyers to a small number of essentially European operators.

61. The new privatization plan was adopted by a Council of Ministers decree (2003/6403) on November 13, 2003. The plan still allows for the participation of a strategic investor in the transaction but does not require the participation of a strategic investor. Consequently, the new privatization plan is more flexible that its predecessors. The new privatization plan based on the Council of Ministers decree dated November 13, 2003 aims to divest at least 51 percent of TT through a single block sale. The deadline for bidding announcement has been determined as end-May 2004. The purchasers of the block can be any combination of interests in a consortia or a single buyer. The block sale will be followed a public offering. The percent of the shares and the timing of public offering will be determined by a separate Council of Ministers decision. A new government decree will be issued to announce the value of TT before the final bid date for the block sale. The new privatization plan is very clear regarding the management rights of the successful bidder (full management control), less restrictive regarding the nature of the potential buyers and more flexible in general. Consequently, the prospects for the future privatization of TT have been improved.

62. (c) launch of pre-qualification tenders for the sale of electricity distribution companies as agreed with the Bank. [Waiver Requested]. The Government’s reform commitment to reform and privatize the electricity distribution companies and later the generation companies has remained strong but steps to meet the FRII condition regarding the launch of pre-qualification tenders for the electricity distribution companies have been delayed. There are two main reasons for the delay. First, disagreements had arisen among the key agencies involved in the privatization process. As a result, important market implementation decisions related to the privatization remained outstanding, for example, how to implement the regime of cost-reflective regional tariffs and manage liabilities associated with BOT and BOO contracts. Second, the PA has delayed hiring transactions advisors to assist in the privatization process owing to rigidities in the privatization law that make it difficult to complete necessary pre-privatization tasks before assets are taken under PA’s umbrella.

63. In order to move forward with the privatization of the sector, the Bank and the Government had agreed on the adoption of a comprehensive electricity sector privatization strategy which would: (i) be officially approved by the highest appropriate authority, either the Council of Ministers or the High Planning Council, thereby establishing a clear basis for future implementation for all agencies concerned; (ii) establish a time-bound set of implementation steps specifying the approach and institutional responsibilities to proceed with market implementation in areas essential to successful privatization; (iii) assign clear responsibility for central coordination of the implementation plan to a specific institution.
The Government has showed its commitment to the reforms by having an Electricity Reform Strategy adopted by the High Planning Council, which functions as the core cabinet, on March 17, 2004. This Strategy will be a critical input to achieving successful privatization in the electricity sector in Turkey and represents the first comprehensive approach to energy privatization agreed across the government since the ERL program was initiated. The launch of privatization tenders is planned to commence in March 2005. The main elements of the Strategy include: (i) the comprehensive restructuring of the distribution and generation sectors to identify distinct successor distribution entities and portfolio generation groups from the existing state-owned TEDAS (distribution company) and EUAS (generation company) that will be prepared for privatization; (ii) a clearly defined series of preparatory steps to establish the baseline accounting and financial information for each distribution entity to be formed for privatization. This will include the preparation of loss reduction targets, quality of service standards, load profiles, and the transitional contract arrangements with the generation firms. These activities are essential inputs to the preparation of the privatization tenders; and (iii) market implementation activities, including the definition of the detailed rules for the operations of the balancing market and adequate systems to manage the trading and settlement. The balancing market will begin trial operations before the end of 2004, and these results will allow the transitional contracts to be refined and finalized before “cash-settlement” operations are implemented prior to privatization. A track-record of successful operations will be critical to mitigating investor risk perceptions of the new trading arrangements. Reaction of the market to the strategy has been favorable, reflecting the view that this approach represents a transparent and achievable roadmap with a proper sequencing of regulatory and privatization actions hitherto fore missing.

(d) privatization of at least three additional major companies by the Privatization Administration of the Borrower. The privatization program is now moving forward after major delays in 2001-02. A majority stake has now been sold in two major companies, POAS (petroleum distribution) and ERDEMIR (steel), as part of the privatization program. A 51 percent share in POAS was sold in July 2000, a further 16.5 percent was sold through a domestic and international public offering in March 2002, and the remaining state share of 25.8 percent was sold in July 2002. The merger of ERDEMIR with other state-owned company, ISDEMIR (steel) was completed in February 2002 and action to reduce the state's stake in the merged company to below 50 percent was completed in July 2002. The alcoholic beverages unit of TEKEL was sold to local consortium for US$292 million in late 2003. A block sale tender for the entire 65.8 percent stake in TUPRAS (refineries) was completed in February 2004 with proceeds of US$1.3 billion. With these sales, the Government completed privatization of four major companies.