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Document of
The World Bank

Report No: 20709-TU

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US$250 MILLION

TO THE

REPUBLIC OF TURKEY

FOR A

PRIVATIZATION SOCIAL SUPPORT PROJECT

November 27, 2000

Human Development Sector Unit
Europe and Central Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective: October 26, 2000)

Currency Unit	=	Turkish Lira
TL 649,200.00	=	US$1
US$1	=	649,200.00

FISCAL YEAR
January 1- December 31

ABBREVIATIONS AND ACRONYMS

CAS	Country Assistance Strategy
EKA	General Directorate of Economic Research (Treasury)
ERL	Economic Reform Loan
ERP	Economic Reform Program
ES	State Retirement Fund
ETP	Employment and Training Project
FMS	Financial Management System
GDP	Gross Domestic Product
IFAC	International Federation of Accountants
ISKUR	Turkish Employment Agency
IMF	International Monetary Fund
KOSGEB	Small and Medium Industry Development Organization
LACI	Loan Administration Change Initiative
LAG	Labor Assistance Group
LRS	Labor Redeployment Services
NGO	Non-Governmental Organization
OECD	Organization for Economic Cooperation and Development
PA	Privatization Administration
PAD	Project Appraisal Document
PCD	Project Concept Document
PCU	Project Coordination Unit
PHRD	Policy and Human Resources Development Fund
PIAL	Privatization Implementation Assistance and Social Safety Net Project
PMR	Project Management Report
POM	Project Operational Manual
SA	Special Account
SIS	State Institute of Statistics
SOE	State-Owned Enterprise
SPO	State Planning Organization
PSSP	Privatization Social Support Project
TA	Technical Assistance
TOBB	The Union of Chambers of Commerce of Turkey

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REPUBLIC OF TURKEY
PRIVATIZATION SOCIAL SUPPORT PROJECT

CONTENT

Annexes

REPUBLIC OF TURKEY

Privatization Social Support Project
Project Appraisal Document

Europe and Central Asia Region
Human Development Sector Unit

Date: October 26, 2000	**Team Leader:** David Herbert Fretwell
Country Manager/Director: Ajay Chhibber	**Sector Manager/Director:** Michal Rutkowski
Project ID: P069894	**Sector(s):** SE - Labor Markets & Employment
Lending Instrument: Specific Investment Loan (SIL)	**Theme(s):** Social Protection
	Poverty Targeted Intervention: N

Project Financing Data
☒ Loan ☐ Credit ☐ Grant ☐ Guarantee ☐ Other (Specify)

For Loans/Credits/Others:
Total Bank Financing (US$m): $250

Proposed Terms:

Grace period (years): 5
Years to Maturity: 17
Commitment fee: .75
Service charge: %
Front End Fee: 1%
Has there been a discussion of the IBRD financial product menu with the borrower? Yes

Financing Plan: Source	Local	Foreign	Total
GOVERNMENT	105.3	0.00	105.3
IBRD	2.6	247.4	250.0
Total:	107.9	247.4	355.3

Borrower: GOVERNMENT OF TURKEY
Responsible agency: PRIVATIZATION ADMINISTRATION
Address:
Contact Person: Mr. Fevzi Aricioglu, Vice President, Privatization Administration
Tel: (90-312) 441-6438 Fax: (90-312) 468-4997 Email: Faricioglu@oib.gov.tr

Estimated disbursements (Bank FY/US$M)

FY	2001	2002	2003	2004			
Annual	21	58	98	73			
Cumulative	21	79	177	250			

Project implementation period: 4 years
Expected effectiveness date; January 1, 2001 **Expected closing date: December 31, 2004**

A. Project Development Objective

1. Project development objective: (see Annex 1)

The development objective of the proposed Privatization Social Support Project (PSSP) is to support the achievement of the objectives of the Government's Privatization Program, mitigate the negative social and economic impact of the privatization of state-owned enterprises, and monitor the social impact of the Economic Reform Program (ERP).

2. Key performance indicators: (see Annex 1)

(a) Job Loss Compensation: The productivity of elements of the industrial sector, comprising about 39 former state-owned enterprises (SOEs), improves as a result of labor shedding, workers displaced from SOEs receive severance payments, and poverty is mitigated as indicated through results of social impact.

(b) Labor Redeployment: Labor Redeployment Services are managed by two lead agencies and delivered within parameters agreed with the Bank, the demand for services is based on displaced worker requirements from about 39 SOEs, including secondary layoffs, and a range of services are delivered to displaced workers with job placement rates equal or better than similar programs in Turkey and the region.

(c) Social Impact of Economic Reform Program: The Government: evaluates the impact of the Economic Reform Program on vulnerable communities affected by policy changes, and develops institutional capacity to analyze and address social issues; identifies policy alternatives based on a review of international experience, including EU accession requirements; assesses the economic status and coping strategies of workers displaced by privatization, and net impact of labor redeployment services, and adjusts support programs to ensure the most effective services for different client groups.

(d) Project Management: Project objectives are achieved, disbursements are on schedule, and annual project audits are satisfactory to the Bank.

B. Strategic Context

1. Sector-related Country Assistance Strategy (CAS) goal supported by the project: (see Annex 1)

Document number: R97-202 **Date of latest CAS discussion:** 09/04/1997

The Privatization Social Support Project is directly linked to and supports the Country Assistance Strategy (CAS), the Economic Reform Program, and the related Economic Reform Loan (ERL). The 1997 CAS notes that the SOEs have been a major drain on the budget and drag on the economy for years and indicates that, as a base case strategy/action to address persistent financial imbalances and erratic growth, the state-owned enterprise sector should be privatized by transferring majority ownership and/or management to the private sector, with adequate safety net provisions (CAS Attachment 1, page 2). The proposed PSSP addresses the safety net provisions. The draft 2000 CAS, which has been reviewed by the Operations Committee, notes that the possibility of political backlash to the reform program is one of the greatest risks to the reform. The proposed PSSP is included in the High Case scenario, and the CAS notes that the project would help address this risk by providing assistance to those adversely affected by the reforms in the early phases of privatization and ensuring the negative effects of the reforms on the disadvantaged is minimized. The Government recognizes the need for fundamental reforms to improve productive and allocative efficiency and to reduce the SOE sector's heavy fiscal burden. The primary instrument for achieving these objectives is divestiture, including both privatization and closure. The Government and the Bank are in broad agreement on the diagnosis and strategies for economic adjustment and structural reform with a focus that includes privatization and closure of state-owned enterprises. The Turkish Government has embarked upon an ERP which is supported by the World Bank through the high case of the Country Assistance Strategy for Turkey. The Government's ERP is also supported by the December 1999 International Monetary Fund (IMF) stand-by arrangement.

The PSSP supports the Economic Reform Program which is underway. The Economic Reform Loan was approved by the Board in May 2000 and the first US$385 million tranche was released in June 2000. The US$760 million ERL is assisting Turkey to implement its ERP by providing quick-disbursing financing for the balance of payments and the budget. A key objective of the ERL is to ensure that the core structural components of the reform program are implemented effectively in order to ensure the sustainability of the fiscal adjustment and disinflation program, and create the foundation for restored growth over the medium term. A key component of the structural reforms supported by the ERL is the privatization program which has three pillars: telecommunications, energy, and the enterprise privatization agenda of the Privatization Administration (PA). The ERL includes analysis of the impact of the Economic Reform Program on the groups likely to be hardest hit, among which are workers in state-owned enterprises slated for privatization. The ERL notes the need to ensure that adequate financing is available to pay temporary income support provided for by law, to assist workers in finding employment before income support runs out, and to monitor the impact of the economic reforms on vulnerable groups. The proposed US$250 million PSSP directly addresses these three concerns. It is recognized that the privatization program is generating considerable revenue. Over US$5 billion in investor commitments have already been raised by the privatization program in 2000 and the program is targeted to generate approximately US$18 billion in cash privatization revenues over the 2000-2002 period. Approximately US$10 billion of these amounts could be used, in principle, to cover the costs of programs proposed under the PSSP. However, the Government has agreed with the IMF to earmark cash revenues from privatization to support reduction of the stock of public debt (particularly short-term domestic debt) as a share of output. This is part of a broader effort to put public finances on a sustainable path that is at the center of the disinflation strategy. Therefore, although structured as an investment loan, the PSSP is considered an essential component of the overall support for the public budget to be provided by the Bank under the reform program. In addition, the Government is interested in using Bank expertise to assist in the development and supervision of PSSP-related activities.

2. Main sector issues and Government strategy:

The economic reform program is expected to have long term positive impacts on people's lives. However, some groups in the society will face temporary difficulties as a result of the economic reform program. Owing to gaps in the social safety net, it will be difficult to protect all of Turkish society from adverse effects of the economic reforms. The main groups affected negatively by the reforms, and not protected in Turkey's still-evolving social safety net, will be workers laid off from privatization of state-owned enterprises, beginning with the electricity sector and telecommunications; consumers who will face increased electricity prices; and small farmers who will lose agricultural subsidies. An analysis of the impact on these groups is contained in the February 17, 2000 Bank Sector analysis titled *Policy Options to Address the Social Impact of Economic Reform*. This report outlines the potential scale of labor displacement from the ERP and privatization, and suggests social support programs and costs.

The first major benefit from the government's reform program will be a reduction in inflation and in the costs of adjusting to inflation. A recent World Bank study on living standards and social welfare in Turkey found that there are significant adjustment costs to inflation for the vulnerable. Non-anticipated jumps in inflation or periods of accelerating inflation unambiguously hurt the poor and worsen the distribution. However, this effect appears to wear off over time, as households modify their behavior, indexation mechanisms come into play, and nominal incomes adjust. Although the effect may indeed wear off over time, it is important to avoid the cost of adjusting to inflation in the first place, since that cost falls disproportionately on the vulnerable.

The second impact and benefit from the government's reform program is the resumption of economic growth. Economic growth is the single best way to help people escape poverty because growth leads to more jobs and higher incomes. It has been estimated that 36% of the Turkish population were economically vulnerable and 7% were extremely poor in 1994 (*World Bank Living Standards Assessment*). Simply by having real private consumption grow at a rate of 5.05% per year between 1994 and 2000, would drop the share of the economically vulnerable to 16% of the population. The distribution of consumption may have worsened somewhat due to the inflation experienced in 1994-1999 (although the Living Standards Assessment suggested that perhaps there would be no worsening if the pattern of 1987-1994 repeated itself). This underscores that growth must be accompanied by stabilization to achieve better economic outcomes.

The third aspect of the economic reform program, changes in relative prices and some taxation rates for basic goods, will affect the entire population, but will be especially significant for the vulnerable. Overall, the economic reform program's fiscal adjustment relies on measures from the revenue side, and requires much less adjustment in relative prices such as the exchange rate. However, the Turkish economic reform program projects little or no change in the real exchange rate, and therefore, limited adjustment in the relative prices of tradeables.

Revenue-side measures will have some regressive impact on the vulnerable since the standard value-added tax rate was increased from 15 to 17%. However, there are important exceptions for the vulnerable in the VAT schedule, since basic foods, including bread, are subject to a lower VAT rate of only 8%. Additional one-time revenue measures, which were introduced in November 1999, consist of additional personal income taxes (covering only the high income groups), corporate tax payments, and an additional amount of motor vehicle and property taxes. It is clear that these one-time tax adjustments will not be collected from the vulnerable. So, the relative position of the vulnerable facing these revenue adjustments is possibly even better than that of the rich, making the revenue reforms, if not progressive, at least evenly distributed across Turkish society.

Real interest rates have been high in Turkey. Real yields on marketable domestic debt averaged over 30% in the second half of the 1990s. These high yields reflected in part the weaknesses of public finances. The economic reform program is expected to lead to a rapid reduction in interest rates. The reaction of interest rates in the first month of implementation of the economic reform program has been positive. The sharp decline in real interest rates will have positive impacts for the vulnerable in two channels: reducing the need for additional taxation, and creating a more favorable industrial sector environment for additional employment generation.

The agricultural reform may lead to a decline in the price of wheat and bread, owing to the lowering of the support price for wheat down towards the international market price. The vulnerable spend more of their household budget on bread than do the wealthy, and the vulnerable will certainly benefit from any reduction in the price of bread.

3. Sector issues to be addressed by the project and strategic choices:

As noted previously, the proposed PSSP is an integral part of the Economic Reform Program and supports the related Economic Reform Loan (ERL). The proposed PSSP supports implementation of the fourth objective of the Economic Reform Loan (ERL) which promotes deregulation and private participation in energy, telecommunications, infrastructure, and acceleration of privatization. The Government is restoring the momentum of Turkey's privatization program which was dissipated in early 1999. Accelerating privatization is a key supply-side element in the effort to restore growth. It also represents a core component of the fiscal package for 2000 and 2001. A new privatization program, which includes major companies of national importance, has been approved, and the Government indicates that this will be formally extended in the last half of 2000. The Privatization Administration (PA) is making progress in implementing its program. The PA has already established a credible implementation track record for the 2000 program, including: (i) initiating tenders for at least 15 companies; (ii) initiating negotiations for at least 10 companies; and (iii) signing sale contracts for at least five companies. While this track record demonstrates the PA's ability to carry out the program, the larger operations are scheduled to be completed later in the year and the PA must maintain if not accelerate its pace in order to meet the year-end targets.

The primary focus of the proposed PSSP is to increase productivity of former SOEs by facilitating shedding of excess labor; and to cushion the social impact of labor displacement during privatization and economic reform. There is a need to ensure that there is a social support program that is directly linked to, and will support the implementation of, the ERP and the privatization program. Turkey's social support system will be stressed by the challenges stemming from the ERP, and particularly by the layoffs of personnel expected in SOEs under the portfolio at the Privatization Administration, and to a lesser degree in the electricity and telecommunications sectors. *This stress will be in addition to that already being encountered as a result of the economic impact of the earthquake.*

The PSSP must be designed to reduce the short-term negative impact of economic changes on affected workers and communities. Without such support, the ERP may be slowed or aborted. In addition to providing direct support to workers displaced by privatization, the proposed PSSP will also monitor the social impact of privatization of SOEs and the ERP in general, and will support continued sector work to define alternatives to improve the design and targeting of social assistance for the most vulnerable. This work is also supported by an ongoing PHRD-financed pilot Social Development Project.

There are economic, social, and political objectives for providing social support packages to workers displaced by restructuring and privatization of SOEs. From an ***economic standpoint***, the objectives are to reduce excess labor costs so enterprises can increase productivity and be competitive, and to facilitate the rapid return of workers to productive employment, thereby reducing the duration of state-supported income support payments. From a ***social standpoint***, the objectives are to provide transitional income support while displaced workers are finding alternate employment and, for those who have difficulty finding employment, providing extended income support to prevent these workers and their families from slipping into poverty. From a ***political standpoint***, social support programs are intended to build public support for restructuring by signaling to citizens, communities, and labor representatives that those responsible for restructuring are attuned to the needs of affected workers and that they are ready and willing to assist those who need and want help.

Social support programs combine elements that encourage excess labor to leave over-staffed enterprises, while at the same time helping them to rejoin the labor market quickly. These measures should include both temporary income support and labor redeployment programs. To be effective, the measures must be carefully designed and targeted. Furthermore, there must be continuing monitoring of the social impact on displaced workers and their families to ensure that the most vulnerable do not slip into poverty, the labor redeployment services are reaching the most needy workers, and additional assistance is provided, as needed.

Many countries around the world are implementing economic restructuring and reform programs. Some of these programs are directly linked with privatization of state-owned enterprises (e.g., in transition economies in Eastern Europe and Central Asia), while others (e.g., North America and Western Europe) are part of an ongoing process of economic change and renewal. Turkey already has gained some experience in this field.

The design and use of social support programs varies considerably among countries and is greatly influenced by the economic environment, including the level of unemployment, and the types of general social support programs already in place in the country where economic restructuring is occurring. A review of 12 case studies of enterprise divestiture in Europe, Latin America and Asia indicated that workers *as a class* did not lose by divestiture, but that individual workers could be worse off, especially where layoffs or reduced hiring were involved (*Welfare Consequences of Selling Public Enterprises. "Case studies from Chile, Malaysia, Mexico and the UK" Synthesis of Cases and Policy Summary.* World Bank Conference Proceedings. June, 1992). Unfortunately, this is the environment in which divestiture often occurs, and this is why temporary income support and labor redeployment programs are often instituted to minimize losses. A more detailed review of this experience is contained in a separate document titled *"Policy Options to address the Social Impact of Economic Reform in Turkey", February 17, 2000 and updated in June and July 2000.* A brief summary follows.

Job Loss Income Support Issues and Choices:

Job loss income support programs that support economic restructuring normally combine the types of programs that are available to the general unemployed, along with special programs that are designed to encourage excess labor to leave enterprises undergoing privatization and economic reform, and provide temporary income support to these workers as they make the transition to alternate employment. While each situation is unique, there are a range of program choices. The final design depends on such factors as: general economic conditions, the general level of unemployment, the demographics of the workforce, the conditions of remuneration of the affected workers, the relationship between representatives of labor, the state, and enterprise management, and the role of the enterprise in the country and community. Isolated communities, where one employer dominates, are a particular problem. Income support programs can be quite costly in the short-run (e.g., in excess of an average of US$10,000 per worker); however, costs can be reduced significantly if displaced workers are able to find alternative employment rapidly. Additionally, making one-time severance payments to workers to encourage them to leave an enterprise is often less costly than continuing to employ them in loss-making enterprises, and will help enterprises return to profitability.

The alternatives for income support can include programs such as unemployment benefits, social assistance, individual pension accounts, regular severance, special job loss compensation, early retirement, and share distribution. The proposed PSSP will focus on regular severance and job loss compensation (see Section D1 for a discussion of the rationale for selection of these alternatives).

- *Regular Severance*: The parameters for these payments are defined in Labor Law Number 1475. Article 14 defines detailed eligibility for *workers*. The annual ceiling is adjusted, is currently about four times gross minimum wage, and is a maximum of twelve months based on one month per year of service. Workers with less than one year of services are not eligible.

- *Special Job Loss Compensation*: The parameters for these payments are defined in the Privatization Law Number 4046, Articles 21 and 22. Payments to *workers* may be up to eight months depending on length of service, and are based on net daily pay of the employee as calculated in Articles 77 and 78, in the Social Security Law Number 506.

- *Social Assistance (Civil Servants)*: The parameters for these payments are defined in the Privatization Law Number 4046, Article 24. This Law provides a 30% retirement bonus, in addition to the payment made to all retiring civil servants, to those who are within two months of reaching the voluntary retirement age before or at the time of privatization, in order to induce those employees who have sufficient years of services to qualify for retirement, to actually do so. Employees are given two months from the date of privatization to choose this option. Regular retirement bonuses, in general, are calculated on a worker's monthly wage times the number of years of services. This program only applies to civil servants.

Labor Redeployment Issues and Choices:

Labor redeployment programs are designed to help displaced workers quickly re-enter the labor force, increase overall productivity, and decrease use of state-supported income support payments. These services support, and need to be coordinated with, income support payments. These programs can have a significant positive impact *(Evaluation of the Impact of Active Labor Programs; Results of Cross Country Studies in Europe and Central Asia. Fretwell, Benus and Oleary.* World Bank Discussion Paper, June 1999, # 9915) if appropriately targeted and well-run (e.g., services are demand-driven and delivered by service providers which have performance based contracts). Experience in Turkey and other countries indicates that these services are normally used by about one-third to one-half of displaced workers and are relatively low cost (e.g., averaging US$750-1,000 per worker) as compared with income support payments.

It should also be noted that while income support payments are often directed only to workers directly displaced by privatization and economic reform, other affected workers (e.g., family members, secondary layoffs) may need access to redeployment services. These programs can help to produce positive social and political reactions to economic reform programs at a reasonably low cost. Turkey is currently providing a limited range of these services for the general population of the unemployed, under the Bank-financed Employment and Training Project (ETP). This is being implemented by the Turkish Employment Agency and will close in December 2000. The Turkish Employment Agency is also providing these limited services, with financing from the Privatization Administration, for workers displaced by ongoing privatization actions (this is a continuation of a broader program financed by the now completed Privatization Implementation Assistance and Social Safety Net Project--PIASNP). A variety of services are needed to address three conditions commonly experienced by displaced workers who are trying to re-enter the labor market:

- *Frictional Unemployment* is experienced by displaced workers who have marketable skills for which there is demand, but need intensive job placement assistance. These services can have a substantial positive impact on re-employment and have a low unit cost (e.g., US$25-50 per worker in Turkey). These services can include assistance for remote job search and relocation.

- *Structural Unemployment* is experienced by displaced workers who lack skills, or whose skills are not in demand, and who need some re-skilling to compete and re-enter the labor market. Different types of retraining, including on-job-training and/or institutional training, are needed in these circumstances and can help redeployment at a moderate cost per worker (e.g., US$300-500 in Turkey).

- *Lack of demand for labor* is a particular problem in areas of high unemployment and in mono-enterprise communities which shed large amounts of labor. Programs include small business consulting assistance, incubators, and micro-loans (although the latter may not be critical if substantial severance payments are provided). These programs tend to be *more* expensive than other services (e.g., US$1,500-2,000 per job created), and attract a limited number of participants from state enterprises (e.g., 5-6%), but can be quite effective. Temporary Community Employment Programs are also sometimes used. Although the social and infrastructure benefits are recognized, these programs must be limited and carefully targeted to the vulnerable because of the high unit costs (e.g., US$2,000) and considerable evidence that they have no impact, and often a negative impact, on post-program employment and wages. Finally, local economic development planning grants, particularly in mono-enterprise communities, can have a positive long term impact on job creation and have already been implemented successfully in Turkey.

Specific labor redeployment programs to be supported by the proposed PSSP have both social and economic objectives, and are generally provided for in the Privatization Law Number 4046, Article 21. This Article provides a menu of demand-driven services intended to assist displaced workers to re-enter the labor market. Services have included a range of employment creation programs such as small business assistance programs (excluding micro-Loan because of the severance payments already provided for) and local economic development planning grants to selected communities, programs which address structural unemployment including various types of retraining, and programs which address frictional employment, including specialized job placement services. Unit costs, based on current experience, average about US$750-1,000, and participation of displaced workers ranges from 33-45%. Such programs have already been implemented under the completed Bank-financed Privatization Implementation Assistance and Social Safety Net Project. These programs are continuing with financing from the PA. Evaluations conducted in Turkey and neighboring countries indicate that the programs can have a significant positive impact on employment and wages if they are well-targeted and designed (Fretwell, David; Jacob Benus and Chris Oleary. *"Evaluating the Impact of Active Labor Programs: Results of Cross Country Studies in Europe and Central Asia.* World Bank Discussion Paper, 1999. Labor Adjustment Project. *"Final Monitoring and Evaluation Report" Privatization Implementation and Technical Assistance Project,* Treasury, Turkey, June 1998.).

The current Privatization Law program does not apply to secondary unemployment created in communities experiencing large-scale SOE layoffs or to labor displacement caused by the broader economic reform program. However, there is a general labor redeployment program operating at the Turkish Employment Agency (ISKUR) which has been evaluated; this is financed under a World Bank Loan and is scheduled to close in 2000. Consideration should also be given to providing an ongoing labor redeployment program, by extending ISKUR program to workers who represent "secondary layoffs" in communities where large-scale SOE downsizing take place or as a result of the overall ERP.

Choices in Financing Social Support Services During Privatization:

There are potentially two quite different approaches to provision of social support, and in particular, severance type income support payments: (a) let the new investor deal with the issue, or (b) have the Government assist prior to sale of the SOE.

- *Investor Driven Layoffs*: This approach is one in which the new investor will restructure the enterprise and address related labor requirements. This assumes that the Government will sell the enterprises at a discounted price, if necessary, and let the new owners deal with the restructuring and related layoffs. This is the preferred option, as the new investor is in the best position to know the labor requirements of the enterprise which is being purchased. With this option, there is no Government participation in the administration and financing of temporary income support and related labor redeployment programs. Initial analyses undertaken by the Bank, in cooperation with the Government, provide an approximation of the costs that a buyer may encounter in reworking the labor force and laying off excess employees in specific SOEs. With this information "in-hand", the Government has an idea of how much the price of the SOE would need to be discounted to compensate investors for costs of excess labor; and the investor would have to bear the cost of minimum regular severance payments defined in the Labor Law 1475. Currently, about one-quarter of privatization actions are being organized as "block sales" which include excess labor and discount the sale by a related amount.

- *Government Assisted Layoffs*: The above approach may make some SOEs very unattractive to buyers, particularly if the enterprises have large numbers of excess workers, and the financial and social costs of layoff are high. Buyers have other investment alternatives and may not want to get involved in laying off large numbers of workers in a heavily unionized environment immediately after purchasing an SOE. In addition, the basic severance option under the Labor Law 1475 may not be viewed by unions as sufficient reimbursement for layoffs, or be sufficient to encourage and compensate workers to leave SOEs at a time when alternate employment is not easily available, and the unemployment benefit program is not yet in force. The Privatization Law 4046 addresses this issue by providing a framework for additional support and labor redeployment services to SOE employees displaced by restructuring. If these programs are made available before and at point of sale, increased amounts of labor may leave voluntarily, the SOEs will be more salable, social issues will be addressed by the Government to demonstrate its support to affected citizens, and the reaction of organized labor to the privatization program may be less negative and strident. The Government may, in fact, be able to recapture rapidly the cost of any Social Support Programs provided prior to sale by gaining a higher cost from the sale. The analysis presented at the end of Section B provides a summary of the costs of applying Privatization Law measures to SOEs, as well as several other programs that may be considered to help encourage excess labor to leave SOEs, and help displaced workers to re-enter rapidly the labor force.

The choice used in the PSSP, with regard to job loss compensation and layoffs, will be a blend of the two approaches, investor-driven and government-assisted, depending on the SOE involved. The proposed project will only finance government-assisted approaches. The Bank and Government will agree on two criteria for use of Loan funds: (a) the payment of severance at the point of sale will result in productivity increases due to savings on labor costs, and these savings will be greater than the cost of severance payments; and (b) the use of loan funds to finance severance will be justified based on the characteristics of enterprise involved (e.g., large number of layoffs, mono-enterprise community, etc.).

Social Support Program Cost Estimates:

Based on an analysis of the previously described experience and alternatives, including past experience with labor displacement during privatization and economic reform in Turkey, the following scenario has been developed to estimate the immediate cost of labor displacement during privatization of a defined group of about 39 SOEs in Turkey. Detailed costing with all assumptions is contained in the initial sector report titled *"Policy Options to Address the Social Impact of Economic Reform – Turkey,"* February 17, 2000, and updated during the pre-appraisal and appraisal missions of the proposed project in June and July 2000.

The Government has indicated that alternative SOEs will be added for 2001 and 2002. The costing of the loan is now at US$250 million which is the same as the original PCD estimate. The following estimates of costs for **income support** (severance) payments are based on a detailed review of labor demographics, salaries, potential levels of over-staffing, etc., for each of the 39 SOEs. Estimates are based on actual data provided by the Treasury, Privatization Administration, and other agencies involved with the privatization program and operation of income support programs. The cost for **labor redeployment** programs is based on past and current unit cost and take-up data on parallel programs already operated and operating. In general, and based on experience, it is anticipated that financing should be provided for about 33% of workers displaced by privatization plus an equal amount of secondary. This will cover only a portion of the general 8% unemployed. The costing can easily be varied by increasing or decreasing the number of SOEs and displaced workers as Government estimates mature, or by varying the assumptions regarding eligibility, take-up, and unit costing of different programs.

TABLE 1- TURKEY: Social Support Program - Summary

	YEAR 2000				YEAR 2001+			
a	b	c	d	e	f	g	h	i
SOCIAL SUPPORT PROGAMS	ELIGIBLE	TAKE UP%	COST TL 000,000	COST USD	ELIGIBLE	TAKE UP%	COST TL 000,000	COST USD
LABOR LAW 1475								
- Regular Severance	26,382	38%	55,768,900	92,180,000	99,843	24%	27,147,599	44,872,064
PRIVATIZATION LAW 4046								
- Job Loss Compensation	26,086	21%	19,920,600	32,926,612	53,698	9%	16,553,206	27,360,671
- Retirement Social Assistance (Civil Servants)	3,878	35%	12,174,981	20,123,936	45,973	16%	65,053,203	107,525,955
Sub-total			32,095,581	53,050,547			81,606,408	134,886,626
TOTAL			**87,864,481**	**145,230,547**			**108,754,007**	**179,758,689**

/1 For a detailed breakdown of costs and assumptions for each of the 39 SOEs, see sector report *"Policy Options to Address the Social Impact of Economic Reform – Turkey,"* February 17, 2000, updated during pre-appraisal July 26, 2000).

The group of 39 SOEs which are expected to draw on the loan facility have the following characteristics:

- A total of about 48,000 employees are expected to be affected, representing about 40,000 workers (i.e., unionized employees), and more than 8,000 civil servants, based on an assumption that almost all the enterprises will be sold. It is possible that some will not be sold, and that they will have to be liquidated, which would raise the number of employees whose redundancy may be financed by the loan.
- SOEs sold by the asset sale method are anticipated to have 29% of the affected employees, but will absorb approximately 44% of the estimated costs of this component. This disparity arises from the assumption that the severance pay due to workers laid off by a new owner who purchases an SOE using the block sale method will finance the cost of any severance pay owing.

- Of the 39 enterprises, four enterprises employing 5905 of the employees whose redundancy is expected to be financed by the loan, are mono-enterprises. They are steel plants, mines and forestry complexes. The remainder (5% of affected employees) are in diverse economies, and the remainder (83%) are in enterprises which operate in many locations throughout Turkey, and which have been classified as national enterprises.

- Classified by industrial sector, the number of employees affected is as follows: Petroleum and petrochemical (7%), agri-business (59%), services including electricity distribution and the telephone company (19%), heavy manufacturing and extractive (13%), and light manufacturing (2%).
- Twenty two percent of the employees affected work for SOEs which will shed less than 25% of their pre-privatization labor force. Most (63%) are employed by enterprises which are expected to declare between 26% and 50% of their employees redundant. The remainder, (15%) are currently working in enterprises where the redundancy rate is expected to be between 51% and 100%.

Table 2: Turkey Privatization Social Support Project
Labor Redeployment Fund Cost Estimate[1]

Program	Unit Cost per Participant (US$)	Percent of Participants	Number of Participants	Cost (US$000)			
				Total ($000)	Percent of Total Cost	Bank Funding[3] (70%)	Government Financed[4] (30%)
Job Counseling	70.00	36%	11,520	806	3	564	242
Retraining[5]	1,200.00	35%	11,200	13,440	52	9,408	4,032
Temporary Community Employment	1,900.00	11%	3,520	6,688	26	4,682	2,006
Small Business Technical Assistance	472.00	10%	3,200	1,510	6	1,057	453
Small Business Incubators	1,000.00	6%	1,920	1,920	7	1,344	576
Contingency				1,500	6	1,050	450
			32,000 [2]	25,865	100	18,105	7,759

[1]Cost estimates are based on assumptions of program costs and take up in Turkey and other countries. However, actual demand and cost of services may vary between programs. Therefore, there is no specific allocation by program, and as such, the fund is to be treated as one entity with the total budget of approximately US$25,865,000.
[2]Assumption is that about 1/3 of the approximately 48,000 of laid off SOE workers will participate (16,000) plus an additional 16,000 of other unemployed affected by the Economic Recovery Program equals approximately 32,000 workers.
[3]Seventy percent of Bank Funding multiplied by Total Cost.
[4]Thirty percent of Government Financed multiplied by Total Cost.
[5]Based on average duration of 6 months and minimum wage of 90,000,000 TL per month plus training costs.

C. Project Description Summary

1. Project components (see Annex 2 for a detailed description and Annex 3 for a detailed cost breakdown):

The following project components have been identified by the Bank project team, in consultation with Government officials, during the Economic Reform Loan sector work and during PSSP preparation and appraisal in July 2000. The primary implementing agency is the Privatization Administration (PA) for all components.

(a) **Job Loss Compensation:** The objective of this component is to improve the productivity of certain elements of Turkey's industrial sector (previously state-owned enterprises) and to ameliorate the temporary negative social and economic impact of job loss compensation on workers displaced during privatization of SOEs. This component will finance severance and related payments, as regulated by law, to workers displaced by job loss due to privatization of SOEs.

(b) **Labor Redeployment Services:** The objective of this component is to provide labor redeployment services to workers who have been displaced by the privatization of SOEs, including secondary layoffs, to assist them in rapidly re-entering the labor market. The component will finance: (i) technical assistance and minor goods to develop and maintain administrative procedures between PA and other lead agencies, including the Turkish Employment Agency (ISKUR) and the Small and Medium Industry Development Agency (KOSGEB) which will facilitate the assessment and planning for delivery of services to workers in 39 SOEs being privatized; and (ii) the actual cost of delivering labor redeployment services to approximately 32,000 unemployed workers through sub-contractors to the two lead agencies (i.e., ISKUR, KOSGEB).

(c) **Social Impact of Economic Reform Program:** The objective of this component is to monitor the social impact of the economic reform program and assist with the design and formulation of supportive economic and social policies. The component will finance: (i) surveys to monitor the general social impact of the ERP and privatization on selected communities; (ii) analysis of social issues and identification of policy alternatives to develop a national social assistance program, based on review of international experience as it might be used in the Turkish environment; (iii) follow-up surveys to determine the economic status and coping strategies of workers directly displaced from SOEs; and (iv) follow-up surveys to monitor the net impact of labor redeployment programs.

(d) **Project Management:** The objective of this component is to ensure effective administration and coordination of the overall project program, financial accounts, and procurement. The component will finance technical assistance and minor goods to: (i) coordinate project execution, and manage the resources of the project; (ii) procure all Bank-financed goods and services for implementing agencies; (iii) operate the financial management system according to the Bank's financial management requirements; (iv) act as liaison between the technical agencies and the World Bank; and (v) ensure that annual audits are completed in keeping with Bank standards.

Component	Sector	Indicative Costs (US$M)	% of Total	Bank-Financing (US$M)	% of Bank-Financing
A. Job Loss Compensation	Labor Markets & Employment	322.4	90.7	225.7	90.3
B. Labor Redeployment	Labor Markets & Employment	28.3	8.0	20.2	8.0
C. Social Impact of Economic Reform Program	Other Social Sector	1.0	0.3	0.9	0.4
D. Project Management		1.1	0.3	0.7	0.3
Total Project Costs		352.8	99.3	247.5	99.0
Front End Fee		2.5	0.7	2.5	1.0
Total Financing Required		355.3	100.0	250.0	100.0

2. Key policy and institutional reforms supported by the project:

Although this is not primarily a policy or institutional reform project, it complements and supports policy reforms supported by the ERL which is currently under implementation. The proposed PSSP also supports a review of options to create a more comprehensive social assistance program that should lead to strengthening of the social safety net in Turkey. Social impact studies carried out under the Social Impact of Economic Reform component will evaluate the social impact of the ERP on sectors and communities; identify policy options for a national social assistance system; and identify the social impact on workers displaced by privatization. These latter studies will provide input for midstream adjustment of the job loss compensation and labor redeployment programs and related institutional reforms, based on the identification of vulnerable groups.

3. Benefits and target population:

The primary benefits will be to: (a) improve the productivity of former state-owned enterprises, through shedding of excess labor; (b) ensure that workers displaced by SOE restructuring do not fall into poverty, by provision of temporary income support; (b) expedite the return of workers displaced by privatization and the economic reform program back into the labor market, by provision of labor redeployment services; and (c) identify alternatives to improve social assistance programs and build a more comprehensive social safety net in Turkey. The primary target group is workers directly displaced by SOE privatization and the Economic Reform Program. In addition, the social impact programs will improve related institutional capacity and the ability to evaluate the impact and use of public funds in involved agencies and in Turkey in general.

4. Institutional and implementation arrangements:

The following paragraphs, and Figure 1, summarize the overall organization of the project and agencies involved. More detailed information is contained in the Project Operational Manual (POM) and Annex 6(A) and (B). The signatory to the Loan Agreement will be the Undersecretariat of the Treasury. The primary implementing agency will be the Privatization Administration (PA) under the Prime Minister's Office. Technical implementation of the Job Loss Compensation and Labor Redeployment Services components of the project will be managed by a technical Labor Assistance Group (LAG) at PA. Technical implementation of the Social Impact of Economic Reform Program component will be carried out by EKA at Treasury. Administrative operations will be handled by a Project Coordination Unit (PCU) with Financial and Procurement/Reporting Departments at PA. The LAG and PCU Departments will be headed by civil servants. The Financial Department Head at the PCU who will serve as Coordinator of the PCU will be the primary point of liaison with the Bank. The following summarizes implementation for each separate component (see the POM, Section I, for detailed procedures).

(a) Job Loss Compensation: The PA will identify SOEs qualifying for 70% Bank financing of job loss compensation based on two criteria agreed with the Bank, and will notify the Bank concerning the name of the enterprise and approximate number of qualifying workers prior to making severance payments, and verify that the SOEs involved meet the agreed criteria, and that agreed procedures have been followed in calculating the payments (additions and subtractions to the initially agreed list of 39 SOEs are to be agreed with the Bank). The first criterion is that the payment of severance is an *investment* and the second is that the payment of severance is an *appropriate use of public funds*.

(i) Investment Criteria: Each of the following points must be met to fulfill the investment criteria:

(a) *That the payment of job loss compensation results in a positive rate of return for a specific SOE or a sector.* A positive rate of return must be demonstrated within a four year period. This is to say, the reduction in the number of employees must result in a decrease in overall operating costs without a corresponding loss in production (e.g., if 50% of workers are laid off, production must not decrease by an equal amount). The output per person must increase. This criterion can be applied at the firm or sector level where a sector is defined as a group of firms producing similar output, such as the petro-chemical industry.

(b) *That the investment is in accordance with Turkey's general economic development strategy.* The Government of Turkey is pursuing an industrial strategy and five year plan focusing on modernization, increased use of technology, and privatization. One example of this is with respect to the steel industry where the Government actively supports the shifting of production from long steel to flat steel. The latter is used in the

production of items such as automobiles and appliances, both of which have been major areas of export growth. Another example is with respect to the Government's strategy to modernize the textile industry. The Ministry of Industry has primary responsibility for outlining the Government's industrial strategy. The PA must remain current on what the Government strategies entail and must ensure, prior to making severance payments to particular SOEs, that this investment is consistent with the Government strategy.

(c) *That the investment will lead to an overall increase to either production, profits or exports at the enterprise or sector level.* Point one above focuses on output per worker but in addition to this criterion, it is necessary that the enterprise provides a business plan that demonstrates that the investment in job loss compensation will lead to an increase in production, profits or exports. In many cases, the business plan proposed by the buyer and outlined in the sale document will address all three points. (It was also noted that consultant reports are commissioned prior to each sale to help determine the sale price and the future of the SOE. These reports may also contain information to help verify this requirement.) If the firm (or sector) can demonstrate a probable increase in any of these three areas, it will point to a positive return on investment. If this is not demonstrated, the payment of job loss compensation cannot be financed by the PSSP loan.

(ii) Use of Public Funds Criteria: The second broad criterion is that the investment of severance is an appropriate use of public funds and it is not feasible for the new owner to make such payments:

(a) Where the amount of redundancies would bring the discounted price of the sale of the SOE below zero;

(b) The enterprise is in a mono-enterprise community; or

(c) Where redundancies are so significant, no investor is prepared to risk the damage to its reputation (moral hazard), or other risk as agreed with the Bank.

- *Making Job Loss Compensation Payments:* The PA will provide financing to: (i) SOEs which will make regular severance payments; (ii) ISKUR which will make special job loss compensation payments; and (iii) the State Pension Administration (ES) which will make retirement social assistance payments according to procedures agreed with the Bank.

- *Replenishment Applications from the PA:* The LAG at PA will prepare reports for the PCU based on information submitted to LAG by the SOEs, ISKUR, and ES on the three categories of payments made under the Job Loss Compensation component of the PSSP. Supporting documentation will include, at a minimum, the certification by the PA that:

(i) the Government certifies that the payments meet the *investment and use of public funds criteria* for use of Bank Project funds;

(ii) the three categories of separation payments have been made in accordance with the documents originally submitted by the enterprise;

(iii) the calculations are consistent with entitlements as set out in the Labor Law 1475 for severance payments; Privatization Law 4046, Article 22 for special job loss compensation, and Privatization Law 4046, Article 46 for retirement social assistance; and

(iv) the procedures established by the PA to ensure a transparent, arms length sale to one or more private sector purchasers have been adhered to with regard to the qualifying SOE, and procedures defined in the Agreement of Sale are being implemented. Key steps in the process include:

- Authorization of the Privatization High Commission to include a SOE in the portfolio of the PA
- Collection and analysis of data on the SOE by the PA
- Selection of Advisors and preparation of advisory analysis and reports
- Determination of an appropriate privatization strategy for the SOE
- Tender procedures, approval, and closing the sale transaction
- Follow up as necessary by the PA
- Implementation of the environmental safeguards and levels of employment defined in the Agreement of Sale

Of these, the offering process and the selection of a successful bidder and implementation of articles of the Agreement of Sale are the most critical.

(b) <u>Labor Redeployment:</u> This component will be coordinated by the Labor Assistance Group within the PA, in close cooperation with ISKUR and KOSGEB. The LAG will be responsible for: (i) developing and maintaining the administrative framework for the Labor Redeployment Program (LRP); (ii) taking the lead role, in cooperation with representatives from two lead Agencies, unions, SOE management, and community leaders to organize in-plant labor redeployment assessment and planning sessions for workers; and (iii) providing ongoing monitoring of the delivery of labor redeployment services being administered by the two lead agencies. Actual delivery of labor redeployment services is to be contracted to local services providers in keeping with the POM LRP Field Implementation Manual as agreed with the Bank. The LAG consultants will be procured through one Technical Assistance (TA) contractor. In addition, this TA contractor will provide one consultant to manage the Job Loss Compensation component (see previous component).

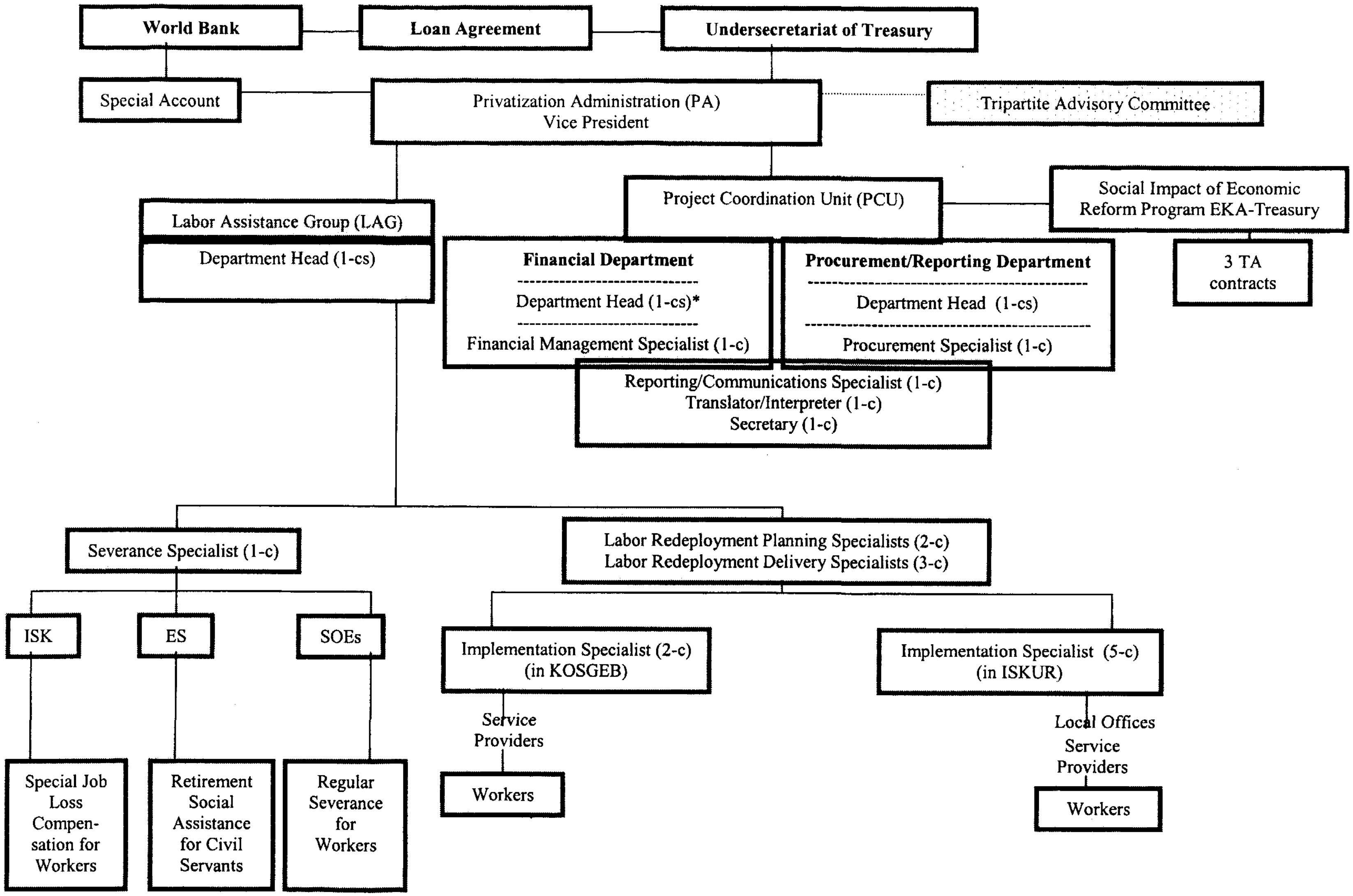
Each Lead Agency will establish an internal labor redeployment services account with local (Government) funds to finance sub-contracted services (the amount budgeted should be approximately 30% of expected annual expenditures as the project will reimburse 70% of expenditures). Lead Agencies will pay contractors, summarize invoices paid on a monthly or as needed basis, and request reimbursement from the LAG at PA. The PA will request, via the PCU, that the lead agency labor services account be replenished from the PSSP Special Account. The PCU will then prepare a Statement of Expenditure and submit it to the World Bank for replenishment of the Special Account as needed (replenishment will be at 70% of the total amount of labor redeployment services paid as defined in the Project Loan Agreement).

(c) Social Impact of Economic Reform Program: The five studies under this component will be managed by the EKA at Treasury, in cooperation with the Tripartite Advisory Committee. Technical assistance to implement the five studies will be procured from three independent firms by the EKA at Treasury with procurement support from the PCU.

(d) Project Management: Overall project management will be carried out by the Privatization Administration (PA), which will be the primary implementing agency for this project over its four year duration. The Project Coordination Unit will be established at the PA, and will be headed by PCU Department Heads, with civil service status, who will report directly to the Vice President of the PA. The PCU Department Heads will be responsible for coordinating the project activities, specifically the overall "business office" functions of project management and all liaison with the Bank and the Labor Assistance Group. The PCU will comprise two distinct departments: (i) Financial Management Department, and (ii) Procurement and Reporting Department. The Department Head of Financial Management Department will serve as the Coordinator of the PCU for purposes of project operations and will be the primary point of contact with the Bank. The PCU will be supported by three long-term local staff consultants (i.e., financial officer, procurement officer, reporting and communication specialist), a secretary, and translator/interpreter, plus a short term international project management consultant. There will be an overall Tripartite Advisory Committee established for the project, consisting of representatives of Government, including Treasury, Privatization Administration, SPO, SIS, KOSGEB, ISKUR; from employers (e.g., TISK, TOBB), and unions.

Project financial and reporting/procurement assessments were completed by the Bank FMS and PAS during appraisal, and action plans have been developed to ensure that adequate financial and reporting management systems are in place prior to Board Presentation of the Project. The PCU will be responsible for ensuring that the financial statements, Special Account, and SOEs are audited annually by an auditor, acceptable to the Bank, and in accordance with auditing standards acceptable to the Bank. In keeping with existing practice, the Turkish Government will complete the project audits. Standard disbursement procedures, including the use of the Special Account and SOEs, will be used. Quarterly Project Management Reports (PMRs) will be made. It is not expected that the proposed Project will qualify, initially, for PM- based disbursements. However, a plan for achieving this status has been agreed with Government. More detailed information is contained in Annex 6 (A) and (B) of this document and the Project Operational Manual (POM).

Figure 1: Turkey Privatization Social Support Project
Project Organization



Numbers in brackets indicate staffing of units: cs means civil servant; c means consultant.
*PCU Coordinator

D. Project Rationale

1. Project alternatives considered and reasons for rejection:

There is a need to identify Government resources and alternatives to ensure that labor shedding occurs as SOEs are privatized, and that productivity increases, and to cushion the social impact caused by the economic reform program and the aftermath of the earthquake. With respect to labor shedding during privatization, the two major options are: (a) selling enterprises with labor, and letting the buyer deal with labor shedding, or (b) supporting labor shedding prior to and at the point of sale of the SOEs. The two alternatives have already been presented in some detail in Section B3, and the approach selected for job loss compensation and layoffs will be a blend of the two approaches, investor-driven and government-assisted, depending on the SOE involved. The Bank and Government will agree on two criteria for use of Loan funds: (a) the payment of severance at the point of sale will result in productivity increases due to savings on labor costs, and these savings will be greater than the cost of severance payments; and (b) the use of loan funds to finance severance will be justified based on the characteristics of enterprise involved (e.g., large number of layoffs, mono-enterprise community, etc.). The alternative of always using investor-driven layoffs for all SOEs was rejected because this would make some enterprises un-salable due to large amounts of excess labor that could drive the sale price to a negative value, because of strong union reaction, and because of the moral hazard to the buyer as well as to the Government if it were perceived as not being sensitive to layoff of state employees.

With regard to design and financing of specific social support programs, it is recognized that Government resources are stretched because of the rapidly developing economic reform program and the aftermath of the earthquake, which not only slowed the economy but required considerable allocation of resources. Several options have been considered for social support, including: (a) targeting all social support resources to one activity (e.g., temporary income support or labor redeployment), although experience shows that a combined approach has benefits; (b) looking for alternative resources from other bilateral or multilateral donors, but none has expressed interest in providing resources of the nature proposed for the PSSP; and (c) targeting the use of available resources to specifically identified groups to maximize impact. Faced with fiscal restraints and broad program choices, the proposed operation will primarily finance two activities: (a) *job loss compensation payments* to support privatization and labor shedding, by providing temporary income support (severance payments), and (b) a *labor redeployment services* to provide labor services to assist displaced workers to return rapidly to the labor market. The first fund will be directed only to workers affected by privatization, but the second will address workers affected by privatization as well as the broader economic reform program, with the understanding that some of these displaced workers, including secondary layoffs from privatization, will need labor redeployment services. It is noted that the Bank has a current operation, the Employment and Training Project, that is providing support to the general unemployed, and a portion of this activity was reprogrammed in August 1999 to assist workers displaced by the earthquake. However, this project terminates in December 2000.

With regard to the PSSP *Job Loss Compensation payments,* six alternatives were considered, of which only three (*) are supported by the proposed PSSP.

- *Unemployment Benefits*: These payments cannot be financed by Bank investment projects. However, Turkey does have an emergency unemployment benefit which will become effective in June 2000, and payments can begin for qualifying workers in March 2002, but will not be of immediate benefit to workers affected by restructuring. The fund is financed by a 7% payroll tax paid by the state, government and employee, and benefits are 50% of the average of the four months salary and for a maximum of ten months.

- *Social Assistance.* Social assistance payments act as a safety net for those who do not qualify for, or who have exhausted, regular unemployment benefits. Social assistance payments are often means-tested, or are based on combined indicator targeting (proxy means-testing), are household based, and are linked to poverty lines. Turkey does not have a formal social assistance or poverty benefit as such. This is a gap in Turkey's social protection system, and piloting a poverty benefit was considered for inclusion in this project. However, instituting a poverty benefit is a complex task which requires up-to-date household survey information in order to set the poverty line and determine who is poor as well as a developed local government infrastructure for client in-take and benefit pay-out. The time and expense of a poverty benefit system made it problematic for inclusion in this operation which is focused on providing immediate job loss compensation and labor redeployment services to workers displaced from privatization of SOEs. Instead, the proposed PSSP finances technical assistance to assess the current needs and to identify possible alternatives for social assistance in the future.

- *Individual Pension Accounts*: These payments amount to a contribution defined pension or unemployment benefit system where each worker deposits a portion of his/her salary in an interest bearing account, and in the case of job loss or voluntary separation, he/she can withdraw from the account. Such systems, which are sometimes found in Latin America, support labor mobility, and make workers directly aware of the consequences of poor job performance, but may not compensate workers adequately when job loss is beyond their control. Turkey does not have such a system and the PSSP does not support such payments.

- * *Regular Severance*: Turkey has had a system for some time whereby a worker gets one month of severance pay for each year worked up to a maximum of twelve years if he or she is displaced during job loss compensation. This system is theoretically financed by enterprises, but if a state-owned enterprise enters bankruptcy and is liquidated, the Government becomes liable. Such systems provide some worker protection in the absence of a formal unemployment benefit system. The proposed PSSP will finance these payments to workers laid off by SOE privatization.

- * *Special Job Loss Compensation:* These payments are in addition to regular severance pay, and are designed to encourage workers to leave overstaffed SOEs. Payments range from 1-2 years, depending on conditions and length of service, and payments should be paid on a lump sum basis to encourage investment and not consumption. Payments normally decline in size over time to increase initial impact. Turkey has used this instrument in the past to support job loss compensation during privatization. It is called the "Job Loss Compensation Payment", is defined in the Privatization Law Number 4046, and provides up to eight months of salary payments based on years of service. However, the payments were not made in a lump sum in the past. This discouraged investment and had the effect of delaying worker reentry to the workforce, since payments were stopped if a worker took employment. The proposed PSSP will finance these payments.

- * *Social Assistance/Early Retirement*: This instrument can have a negative effect on an already indebted social security system. Turkey is in the midst of reforming the pension system to reduce options for early retirement and to raise the pension age. It should be noted that this option may also become more expensive than lump sum if it is extended to many people, and as such should only be applied to workers very near retirement. An alternative is to provide * *"social assistance payments"* to workers who are near voluntary retirement age to encourage them to take retirement, as opposed to remaining in SOEs. Turkey has this program available for civil servants. The proposed PSSP will finance eligible workers to help ensure that they leave the civil service when eligible and not just transfer to other SOEs or other government service. However, the proposed PSSP does not finance a general early retirement program because of the fiscal implications.

With regard to l*abor redeployment services,* a range of measures to address frictional and structural employment, as well as lack of demand for labor, have been identified for financing. The menu of programs, and background information and references on their impact, have already been outlined in Section B3. Multiple, as opposed to single focus, programs are being financed because of the varied demographics of the unemployed and differing economic conditions in the communities affected by privatization and economic reform. Programs will be demand-driven, and based on the needs of displaced workers and communities.

The use of the Adaptable Program Lending (APL), versus a Standard Investment Loan, was considered and rejected by the Bank. The proposed PSSP is directly linked to the ERL, which is to be implemented in three years, is moving forward on schedule, and the team is confident that this progress will continue.

2. Major related projects financed by the Bank and/or other development agencies (completed, ongoing and planned).

Sector Issue	Project	Latest Supervision (PSR) Ratings (Bank-financed projects only)	
Bank-financed		Implementation Progress (IP)	Development Objective (DO)
Economic Reform	Economic Reform	NA	NA
Privatization and Job Loss Compensation	PIAL	U	U
Unemployment, Institutional Development	Employment and Training	S	U
Other development agencies			

IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

3. Lessons learned and reflected in proposed project design:

As noted previously, in Section B3, there is considerable international experience and lessons to be learned. However, the design and use of social support programs varies considerably among countries and is greatly influenced by the economic environment, including the level of unemployment, and the type of general social support programs already in place in the country where economic restructuring is occurring. Specific lessons of experience can be drawn from: (a) previous work in Turkey; (b) regional experience, including similar operations in Macedonia, Romania, Poland, and Bosnia; and (c) other regions and countries.

Turkey has experience in operating both job loss compensation (severance) and labor redeployment programs with its own funds, as well as under the PIAL and ETP. The key lesson learned under PIAL is that the Government and Bank should first reach agreement that privatization will proceed before implementing a social support program. If privatization does not, there is little use in creating a social support program for displaced workers and incurring related loan commitment fees when privatization is stalled and few workers are displaced, as happened under PIAL. This hurdle appears to be passed in Turkey with negotiation of the Economic Reform Loan. A second lesson learned in both Turkey and other countries, is that the administration of social support programs for workers being displaced by privatization is best centered in one agency which has a direct and personal interest in ensuring that the program operates. Given that the proposed Project will be fully coordinated by the Privatization Agency, which has requested and agreed to this role, the concern over fragmented implementation has effectively been addressed.

With regard to income support and severance payments, lessons from Turkey and other countries, including research in the United States, indicate that it may be better to provide workers the option for job loss compensation in tranches or as a lump sum, as anticipated under the PSSP, as opposed to using only monthly payments – the severance payments anticipated under the projects combine both approaches, with regular severance being paid in a lump sum and special job loss compensation being paid monthly like an unemployment benefit (which is not yet available to displaced workers in Turkey). This combination is acceptable. The second lesson is the need to address equity between sectors with regard to income support severance payments. If these payments are designed on a sector by sector basis, a strong sector (e.g., mining) may negotiate high payments that set a precedent that other sectors may want but may not be affordable. This, to some extent, happened in Romania, but has been avoided thus far in Turkey, where a generic basic and extended income support package has been negotiated for all enterprises being privatized.

With regard to labor redeployment programs, there has been considerable experience, in Turkey under PIAL and ETF, and in parallel operations in Romania, Poland, Macedonia, and Bosnia as well as via the previously referenced quasi-experimental design studies of the net impact of these programs. Experience in Turkey and other countries indicates that these services are normally used by about one-third to one-half of displaced workers and are relatively low cost (e.g., averaging US$750-1,000 per worker) as compared with income support payments. The first lesson is that these programs must be carefully refined and targeted to maximize impact. For example, temporary community employment programs should be operated by private or NGO Enterprises, as opposed to public entities, to improve post-program job placement and employment. A second key lesson is that: (a) labor redeployment services should be sub-contracted on a competitive basis to local services providers which deliver services on a performance contract basis; (b) contracts should include pre-negotiated job placement rates as appropriate with related financial incentives; and (c) payments should be based on agreed unit costs per client actually served. A third lesson is that services should be made available for directly displaced workers, plus secondary layoffs, particularly in mono-enterprise communities where secondary layoffs can sometimes be as or more devastating than primary layoffs among well-paid workers from SOEs.

Last but not least, ongoing monitoring of social impact is critical to evaluate the impact on individual displaced workers and the community in general, and to evaluate the impact of labor programs on these workers and communities, so that refinements can be made in mid-stream. Such monitoring systems are already being used in privatization and restructuring projects in Macedonia, Poland, and Bosnia. The experience gained in implementing these programs (e.g., interview versus mail survey techniques are needed) will be integrated into the PSSP which will include multiple social impact programs.

4. Indications of borrower commitment and ownership:

The privatization program is going forward as scheduled. The Government has requested financing for social support programs to support the economic reform program, and in particular the privatization of SOEs. The implementing agency (PA) has taken a strong lead role in organizing meetings and responding to mission requests for information. Intensive discussions concerning alternative programs, costs, and targeting have already been held during project preparation and pre-appraisal, and previously in parallel with preparation of the ERL. The latter resulted in the development of a sector paper titled *Policy Options to address the Social Impact of Economic Reform*, *February 17,* 2000 which was updated during the July 2000 appraisal mission. The Government, during the-wrap-up meeting on the appraisal mission, agreed to a specific set of next steps to facilitate negotiations, and assisted in arranging formal meetings with key stakeholders. Information for development of this PAD, and a parallel Project Operational Manual (POM), were defined during the appraisal mission. The PA has already identified and assigned the three full time department heads to lead project implementation.

5. Value added of Bank support in this project:

The key added value of Bank support will be the financial resources to allow the Government to continue with privatization of SOEs, and specifically to facilitate shedding of excess labor to improve productivity of these enterprises as they are privatized. The Bank is also in a strong position, due to its related work in Turkey (e.g., ERL, PIAL and ETP) and the region (e.g., Romania, Macedonia, and Poland) to ensure that criteria and procedures used to apply these resources are efficient and effective, and result in resources getting to those who qualify for them.

E. Summary Project Analyses (Detailed assessments are in the project file, see Annex 8)

1. Economic (See Annex 4)

- ☐ Cost Benefit NPV = US$ million; ERR = % (see Annex 4)
- ☒ Cost Effectiveness
- ☐ Other (Specify)

As noted previously (Section B2), the ERP is expected to have a positive impact on people's lives, but there will be some areas of increased difficulty. The first major benefit of the ERP will be a reduction in inflation and in the costs of adjustment to inflation. A second benefit will be the resumption of economic growth. Economic growth is one of the best ways to help people escape poverty because growth leads to more jobs and higher incomes. A third aspect of the economic reform program, changes in relative process and some taxation rates for basic goods, will affect the entire population but will be especially significant for the vulnerable (see sector paper *Policy Options to Address the Social Impact of Economic Reform - Turkey, February 17, 2000).*

However, one of the main groups negatively affected by the reforms will be workers laid-off from privatization of state-owned enterprises, and as a result of the general economic reform program. Successful privatization in Turkey requires effective programs to ease the social costs of large-scale layoffs. A review of twelve case studies of enterprise divestiture in Europe, Latin America, and Asia indicated that workers, as a class, did not lose by divestiture, but that individual workers could be worse off, especially when layoffs or reduced hiring were involved, as they will be in Turkey. The current retention of excess labor lowers labor productivity, increases enterprise losses, impedes enterprise restructuring, delays the potential reallocation of labor to productive alternative employment, and consumes state budget resources in the form of direct or indirect subsidies. The total cost of these subsidies, including ongoing salary payments, can exceed by a significant margin the one time cost of severance and labor redeployment services.

Job Loss Compensation (Severance): The proposed PSSP is directly linked with the Government of Turkey's overall economic reform program which will structurally transform the Turkish economy by reducing state involvement and advancing market reforms. Many state-owned enterprises are characterized by low productivity—low output per worker. This PSSP will help improve the productivity of certain segments of the Turkish industrial sector (in accordance with paragraph 3 of the Bank Operational Memorandum on Financing Severance Pay in Public Enterprises Reform Operations, dated March 5, 1996, which states that "severance pay should be an integral part of the project aimed to make an enterprise or sector more productive"). The following three criteria must be met prior to the investment of severance being made: (a) that the payment of severance results in a positive rate of return (within a four year period) for a specific SOE or sector. This is to say, the reduction in the number of employees must result in a decrease in overall operating costs without a corresponding loss in production; (b) that the investment is in accordance with Turkey's industrial strategy; and (c) that the investment will lead to an overall increase in either production, profits or exports. To gain a complete understanding of post-privatization productivity gains, it is important to keep in mind that many SOEs are losing significant amounts of money. These losses are a drain on the economy as shown in the public sector deficits. The result is higher inflation and higher interest rates, and in general, less private sector investment than there would be otherwise (crowding out). Less investment means a reduced growth in productivity.

Productivity increases lead to higher corporate profits and ultimately higher wages and corresponding improvements in living standards. Increased profits also tend to increase the level of investment and the creation of new jobs. *Based on this fundamental principle, and the need to justify use of public funds for job loss compensation, the following two criteria must also be met by SOEs to use PSSP Bank financing for job loss compensation (severance):*

- SOEs must demonstrate a positive rate of return on the investment in severance. These financial and economic criteria can be applied at the firm or sector level. A model has been developed to make the calculations. The model was applied and tested on two specific SOEs prior to negotiations. Details are included in the Project Operational Manual.

- There must be evidence that the payment of severance is an appropriate use of public funds and where it is not feasible for the new owner to make such payments according to one or more of the following criteria: (a) where the amount of redundancies would bring the discounted price below zero; (b) where the enterprise is in a mono-enterprise community; and (c) where redundancies are so significant, no investor is prepared to risk the damage to its reputation and investment (moral hazard), or other risk agreed with the Bank.

Labor Redeployment: The basic economic rationale is that moving workers, via labor redeployment programs, from jobs where they are not productive and receive public subsidies to jobs where they are productive and do not receive public subsidies reduces public budget outlays and increases GDP. At the same time, GDP will increase to the extent that the jobs filled by redeployed workers are new jobs or higher productivity jobs than participants held previously. The sub-component finances specific services to: (a) improve labor mobility and address *frictional* unemployment; (b) enhance and change human capital, via retraining, to address *structural* unemployment and improve productivity; and (c) address the *lack of demand for labor,* including support to individuals to help them start and maintain micro and small businesses, and to communities to implement temporary community employment schemes and design local economic development plans. Since ex-ante cost benefit analysis is not possible[1], the component will be monitored for cost-effectiveness. The Project provides for monitoring of the status of program participants relative to their post-program employment status, earnings, and receipt of continued public income support payments. Specialized counseling, requalification training, and improved job placement services have been found to raise productivity by bringing about more efficient matching of job seekers and the skill requirements of existing jobs (*OECD Employment Outlook, 1993, page ix*). It is anticipated that the gross impact of the services will equal or exceed those found in the study: *"Evaluating the Impact of Active Labor Programs: Results of Cross Country Studies in Europe and Central Asia" (World Bank Discussion Paper, June 1999*), and that post-program employment will be a minimum of 10% after receipt of employment services (provided enabling legislation in Parliament is passed), an average of 60% for participants in retraining programs, 10% of employment in temporary community employment programs, 5% of those who make initial contact for assistance in starting small businesses will actually start businesses, and 90% of those entering business incubators will continue to operate a small business at the end of one year.

2. Financial (see Annex 5)

NPV = US$ million; FRR = % (see Annex 4)

The proposed loan of US$250.0 million will cover approximately 70% of total project costs. The majority of Government contribution is contained in the 30% match required for job loss compensation (severance), and labor redeployment services. Financing for job loss compensation makes up 91% of total project costs, labor redeployment 8%, and the social impact of economic reform and project management the remainder, about 1/2%. Co-financing is not anticipated. The project is expected to be completed and disbursed in four years.

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[1] However, it should be noted that a study of the net impact of past programs is included in the proposed PSSP.

Fiscal Impact

The PSSP will have a large positive net fiscal benefit by supporting implementation of the Government's privatization program which is a cornerstone of its disinflation strategy. The program is targeted to generate some US$7.6 billion in cash privatization revenues in 2000 and a cumulative total of approximately US$18 billion over the 2000-2002 period (including telecommunications and energy). The Government has agreed with the IMF to earmark the majority of privatization revenues generated in 2000-2002 to pay down the stock of public debt, in particular short-term "cash" debt (i.e., domestic government securities) which bear high rates of interest. Under the disinflation program, the stock of public debt is targeted to fall as a share of GNP from an estimated 58% of 1999 to under 55% by 2002; in parallel, the stock of cash debt would fall from 24% to about 20%. The structure of the privatization program for 2000 is presented in Table 1 below. The program has three pillars: telecommunications, energy, and the SOE privatization agenda of the Privatization Administration.

Table 1: Privatization Program for 2000
(January 2000)

(US$ million)	Q1	Q2	Q3	Q4	2000 Total
Proceeds from the PA's portfolio	75	1,100	925	1,000	3,100
To be used by the PA	28	84	232	422	766
To be used by the PPF	14	168	180	94	456
To be used by the Budget	33	848	513	484	1,878
Proceeds from energy and telecom	0	1,000	367	3,133	4,500
GSM licenses	0	1,000	0	0	1,000
Turktelecom	0	0	0	2,400	2,400
Power plants/distribution grids	0	0	367	733	1,100
TOTAL	75	2,100	1,292	4,133	7,600
Of which to the Budget	33	1,848	880	3,617	6,378

Source: Treasury and IMF.

The PA's state-owned enterprise privatization agenda is directly supported by the PSSP. The PA is aiming to divest companies and assets worth a total of US$5.2 billion in 2000, of which US$3.1 billion should be received in cash during the year. The quarterly breakdown of the PA's program for 2000 is presented in Table 2. While the PA's program for 2001-2002 has yet to be finalized, it is expected to be similar in magnitude to the 2000 agenda. By helping to ensure that the PA can deliver its full program, not only in 2000 but over the full 2000-2002 period of the ERP, the expected fiscal benefit of the PSSP will greatly surpass the level of resources made available under the World Bank loan.

Table 2: Privatization Program Under Privatization Administration (January 2000)

2000/Q1	2000/Q2	2000/Q3	2000/Q4
Deniz Nakliyat	POAS (block)	ATAKOY Marina	ERDEMIR (IPO)
ORUS (asset sale)	TUPRAS (IPO)	ATAKOY Hotel	TUPRAS (block/IPO)
Ankara Insurance	PETKIM Yarimca	THY (block)	PETKIM (block / IPO)
Guven Insurance	ISDEMIR	TUGSAS	ATAKOY Tourism
Asil Celik	KBI (block)	IGSAS	Participations
EBAS (asset sale)	SEKA (asset)	Quoted Shares	
KBI (asset sale)	SUMER HOL. (asset)	Participations	
TAKSAN	TRABZON Port.		
TURBAN (asset sale)	TUMOSAN		
TZDK (asset sale)	Participations		
Tenders: $300 million Cash: $ 75 million	Tenders: $2.0 billion Cash: $1.1 billion	Tenders: $ 1.4 billion Cash: $925 million	Tenders: $1.5 billion Cash: $1.0 billion

Source: Privatization Administration

The PSSP's fiscal impact, both during and after implementation, will remain at a manageable level. As noted, the Government's contribution is approximately 30% (US$47.5 million over three years). Existing legislation allows the Government to use resources from the sale of SOEs to provide matching funds, is currently operating some labor redeployment programs with these funds, and has successfully implemented similar programs with a similar level of matching funds under the PIAL. The project does not require long-term down-stream financing for sustainability, but rather finances one-time severance and labor redeployment services.

3. Technical

The proposed Project builds on recent sector work which has produced a detailed analysis of the costs of the operation, successful experience in similar operations in neighboring countries (Macedonia Privatization Social Support Project, Romania Employment and Social Protection Project, Poland Hard Coal Restructuring) and the costs and lessons learned in the previously mentioned Turkey PIAL and ETP projects. The two major components of the project, job loss compensation (severance) and labor redeployment, have multiple internal categories of expenditure that allow a flexible response to demand *within* the two funds, and if needed, adjustments can be made to change allocations *between* funds based on demand. Cost estimates for the two major components, severance and labor redeployment, are based on analysis of displacement of workers from individual SOEs, and actual costs of programs, and have been carefully reviewed and agreed between the Government and the Bank.

4. Institutional

As noted previously, the proposed Project builds on experience in related Turkish as well as regional projects. One of the key lessons learned is that the overall management of such projects is best handled by an agency that is very close to the issues at hand, can use the operation to directly further its goals, is flexible, and is sufficiently broad in its charter to oversee the overall project. The Privatization Administration (PA) has agreed to act as the coordinating implementing agency. The PA requested this role, and has current and past experience working with Bank-financed projects, as well as dealing with the type of operations financed by the proposed Project. Two key agencies would sign letters of understanding with PA and have day-to-day responsibility for sub-contracting and managing labor redeployment service providers: ISKUR for counseling, retraining, and temporary community employment services; and KOSGEB for small business assistance and incubators. These agencies are quite familiar with these programs and are implementing them on an ongoing basis, both with Government and Bank financing. Social impact activities would be contracted directly by PA with an independent third party technical assistance firm, with review and oversight by related Government agencies (SPO and SIS).

Two small management groups would be established at PA: one for "back office" project fiscal, procurement, reporting, and liaison with the Bank (the Project Coordination Unit - PCU), and a Labor Assistance Group (LAG) which would handle technical monitoring and administration of the Job Loss Compensation and Labor Redeployment components. The social impact of economic reform program components would be implemented by EKA. A Tripartite Advisory Committee would be established to advise on overall policy related to project implementation.

4.1 Executing agencies:

The primary executing agency for the proposed Project will be the Privatization Administration (PA). Three entities would continue to be responsible, under general supervision of the PA, for *severance payments*: SOEs for regular severance, ISKUR for special job loss compensation, and ES for retirement social assistance (these agencies are legally required to make these payments and are currently doing so). Two agencies would sign letters of understanding with PA and have day-to-day responsibility for contracting and managing *labor redeployment service* providers: ISKUR for counseling, retraining, and temporary community employment services, and KOSGEB for small business assistance and incubators. Social impact of economic reform program activities, which would be contracted to three independent contractors, would be under the technical supervision of EKA.

4.2 Project management:

As noted above, the Project will be coordinated by the PA, which has experience with both Bank-financed projects and the kinds of activities proposed under this Project. A Project Coordination Unit (PCU) will be established in the PA to provide overall coordination of the project and work closely with other key agencies involved in the delivery of project activities. The PCU will comprise a Financial and Procurement/Reporting Department with seven full-time staff to address management, financial, procurement, and reporting/communication functions. The Department Heads would be civil servants, and the other five staff would be long term local consultants financed by the PSSP. In addition, the project will finance short-term international technical assistance and training to assist with organization and functioning of the PCU. The PCU will be responsible for facilitation of project implementation, in particular, operating a sound accounting and financial management (Loan Administration Change Initiative--LACI) system and producing the required financial statements to monitor eligible expenditures and meet audit requirements. In addition, as noted in Section E4 previously, a Labor Assistance Group headed by a civil servant, with support of long-term local consultants financed by the Project, would be established in the PA to monitor and administer the Job Loss Compensation and Labor

Redeployment components, and EKA would supervise the social impact of economic reform program component. A Tripartite Advisory Committee will be established to advise on policy-related issues pertaining to implementation of the Project.

4.3 Procurement issues:

None

4.4 Financial management issues:

During the appraisal mission, a Financial Management Action Plan was developed, as outlined below. This action plan has now essentially been completed.

Suggested Action
1. Appoint interim Project Accountant to implement financial management system.
2. Evaluate financial management software and sign contract for multi-user site license, including provision of necessary training.
3. Acquire hardware and system software to run financial management system.
4. Install financial management software.
5. Develop Chart of Accounts.
6. Develop financial policies and procedures.
7. Complete policy manual.
8. Complete review of financial management system.
9. Ensure that bank account has been established.
10. Confirmation by Government that Treasury will conduct audit according to standards acceptable to the Bank.

Financial Management Risks. The financial management capacity within Turkey has recently been the subject of a detailed review by the Bank, although this has not yet been finalized. The latest draft indicates that Turkey has many of the building blocks of good public sector financial management: an established and respected legal framework, reliable budgeting and accounting processes, regular reporting of financial results, an independent Supreme Audit Institution which reports to Parliament, a relatively open system of accountability, free and vociferous media, and plenty of skilled personnel. But although the building blocks are there, they have not been assembled into a coherent and effective whole. The aim of the CFAA will be to provide assistance in completing this process. At negotiations, the Bank and the Government of Turkey agreed that the annual audits would be carried out by the Treasury Controllers. Through other projects and other external technical assistance, the capacity of the Treasury Controllers to audit to international standards has increased significantly over the last several years, and this development process is ongoing. The Special Account has been opened in the Turkish National Bank, which should mitigate any risks associated with the banking sector.

Given the nature of the project, the major financial risk centers around the various job loss compensations programs. However, it should be noted that the Turkish Government has been making similar types of payments without incident since 1995. It should also be noted that the PA will continue to make payments up front, and only be reimbursed from the Bank loan after the appropriateness of the payments has been verified. A significant amount of development effort has gone into ensuring that appropriate financial controls are in place for these expenditures. Two independent agencies calculate the amounts owing to individuals, and will certify both their qualification and the amounts. The largest potential problem lies with the severance part; in this case, the PA has agreed to acquire the expertise to allow it to verify that the right people have received the right amounts. This will be monitored closely during the supervision missions. The payment procedures have also been carefully developed to ensure maximum control over the payments to individual employees. These procedures, which are detailed in the Project Operational Manual, will vary between the different programs within the component, but include: certification by the enterprises concerned, review by the agencies concerned and the Labor Assistance Group, follow-up detailed audits by the Financial Management Department, and clear identification of those receiving payments, either through the presentation of an authorization notice and photo identification at the bank, or through a signature indicating that the funds have been received. The combination of a significant experience base in the implementing agency, as well as the specific controls put in place for this Project as part of the financial management system, indicates that there is now a low to moderate financial risk in this area.

Project Financial Management Arrangements. The PMU is responsible for the Project financial management system. The PMU has contracted with a qualified software and accounting firm, on terms of reference acceptable to the Bank, for installation of a financial management system, preparation of accounting manuals and training of staff, in order to meet the Bank's financial management requirements. Financial specialists from the Bank also provided on-site advice and assistance. The system was assessed by the Bank's financial management specialist (see Annex 8) on November 13, 2000, and found to be meet the Bank's minimum financial management requirements. The PMU will produce quarterly Project Management Reports (PMR) for management information purposes. The initial complete set of PMRs will reflect the quarter ended March 31, 2001. Audit arrangements are described above.

5. Environmental Environmental Category: C

5.1 The ECA Environmental Unit has rated the project as "C". There are no significant environmental issues in this Project.

5.2 Not applicable

5.3 Not Applicable

5.4 How have stakeholders been consulted at the stage of (a) environmental screening and (b) draft EA report on the environmental impacts and proposed environment management plan? Describe mechanisms of consultation that were used and which groups were consulted?

Not applicable

5.5 What mechanisms have been established to monitor and evaluate the impact of the project on the environment? Do the indicators reflect the objectives and results of the EMP?

Not applicable

6. Social

6.1 Summarize key social issues relevant to the project objectives, and specify the project's social development outcomes.

The general rationale and social objectives have been already described in Section E1, and focus on mitigating the short term negative impact of privatization of SOEs. The first issue is to ensure that eligible displaced workers get the needed assistance, including temporary income support and labor services to help ensure that: (a) they do not slip into poverty, and (b) they rapidly rejoin the labor force. Detailed procedures have been defined and agreed with the Government to ensure that severance payments and labor redeployment services get to eligible workers. There is already considerable internal experience in making these payments and operating labor redeployment services. The second issue is to identify sectors and communities negatively affected by the economic reform program, as well as individual workers and families who may be experiencing special problems in re-entering the workforce and coping with economic and social problems caused by SOE privatization and the economic reform program. In order to identify these negative outcomes, five studies under three broad topics will be financed by the Project. The first will research the social impact of the economic reform program on sectors and communities. The second will examine the applicability of relevant policy experiences of other countries in order to design a sound national social assistance system framework. The remaining three studies will monitor the economic status, and the needs and coping strategies of displaced workers, and determine the net impact of labor redeployment services. The surveys will provide for analysis by various demographic features (e.g., age, sex, education level, region).

6.2 Participatory Approach: How are key stakeholders participating in the project?

(a) *Primary beneficiaries and other affected groups:* (a) workers displaced from SOEs being privatized and their families; and (b) collateral worker displacement caused in firms associated with SOEs where downsizing occurs, in particular in mono-enterprise communities, and the general economic reform program.

(b) *Information sharing*: Representatives of key stakeholders (government, labor/unions, employers) have been and will continue to be directly involved in project design and implementation through direct work with representatives. During project preparation and appraisal, formal meetings were held with national union leaders and, in addition, detailed discussions were held with local enterprise management, multiple levels of local government, local union representatives, and representatives of the Social Solidarity Fund which provides local assistance to needy families in three different provinces. During project implementation, workers threatened and displaced by the primary and/or collateral impact of SOE privatization and downsizing will be informed of the availability of income support and labor redeployment benefits and services by local and national publicity as well as through in-plant briefings prior to the sale of SOEs and possible layoff. Formal monitoring of the social impact will be ongoing throughout the project to determine if affected individuals and groups know about, and are receiving, sufficient social support.

(c) *Consultation*: As noted above, key stakeholders have been and will continue to be contacted during project design and implementation. In addition, the Government will establish a Tripartite Advisory Committee to review project design as it develops and provide ongoing input during implementation. Field visits to selected communities and SOEs to be impacted by privatization and the ERP will continue during project design and implementation. Special attention will be given to ensuring that male and female workers are represented and consulted, and that the operation of key social infrastructure (e.g., day care) operated by SOEs is maintained at acceptable levels by communities when SOEs are privatized. (This aspect will be reviewed during supervision missions, and will be included in focus group discussions under the Social Impact Component.

(d) *Collaboration*: As previously noted, information sharing and consultation will continue during implementation. The Government, as part of the agreed project design, will establish an ongoing Tripartite Advisory Committee to work with the implementing agency to monitor implementation of the project, advise on priorities, positions, and conflicts, and suggest subsequent revisions to project implementation.

It is noted that, under the previous PIAL, such a committee was put in place and functioned quite effectively on advising on the overall labor redeployment program. During pre-appraisal, the mission met with union, enterprise management, and government officials who served on this committee. It is also noted that there has been considerable Bank contact with stakeholders over the past five years due to the operation of the ETP. As a result of the ETP, almost all regions already have tripartite advisory committees in place to advise the Government on job loss compensation and labor redeployment programs. Finally, the ISKUR, which is one of the key agencies administering severance payments and elements of the labor redeployment program, already has a formal tripartite board of directors.

6.3 How does the project involve consultations or collaboration with NGOs or other civil society organizations?

As noted in paragraph 6.2 above, collaboration with relevant civil society organizations and NGOs, in particular the Social Solidarity Fund, has been and will be encouraged during the design and implementation of the project. Field visits to selected communities and SOEs to be impacted by privatization will also take place during project design and preparation. NGOs will also be eligible to bid on, and deliver, labor redeployment services (e.g., job counseling, retraining, small business assistance, etc.).

6.4 What institutional arrangements have been provided to ensure the project achieves its social development outcomes?

As described in Section C, the Project will include a component on Social Impact of Economic Reform Program. The component will finance: (i) surveys to monitor the general social impact of the ERP and privatization on selected communities; (ii) analysis of social issues and identification of policy alternatives to develop a national social assistance program, based on review of international experience as it might be used in the Turkish environment; (iii) follow-up surveys to determine the economic status and coping strategies of workers directly displaced from SOEs; and (iv) follow-up surveys to monitor the net impact of labor redeployment programs.

6.5 How will the project monitor performance in terms of social development outcomes?

The above mentioned studies, which will be contracted to independent third party firms, will be the major mechanisms used to monitor and measure project performance in terms of social development outcomes.

7. Safeguard Policies

7.1 Do any of the following safeguard policies apply to the project?

Policy	Applicability
☐ Environmental Assessment **(OP 4.01, BP 4.01, GP 4.01)**	☐ Yes ☒ No
☐ Natural Habitats **(OP 4.04, BP 4.04, GP 4.04)**	☐ Yes ☒ No
☐ Forestry **(OP 4.36, GP 4.36)**	☐ Yes ☒ No
☐ Pest Management **(OP 4.09)**	☐ Yes ☒ No
☐ Cultural Property **(OPN 11.03)**	☐ Yes ☒ No
☐ Indigenous Peoples **(OD 4.20)**	☐ Yes ☒ No
☐ Involuntary Resettlement **(OD 4.30)**	☐ Yes ☒ No
☐ Safety of Dams **(OP 4.37, BP 4.37)**	☐ Yes ☒ No
☐ Projects in International Waters **(OP 7.50, BP 7.50, GP 7.50)**	☐ Yes ☒ No
☐ Projects in Disputed Areas **(OP 7.60, BP 7.60, GP 7.60)**	☐ Yes ☒ No

7.2 Describe provisions made by the project to ensure compliance with applicable safeguard policies.

Not applicable.

F. Sustainability and Risks

1. Sustainability:

The Job Loss Compensation and Labor Redeployment components of the Project are not intended to be sustained over time, as they are one-time severance payments and labor redeployment programs intended to facilitate privatization of SOEs. However, experience gained during operation of these programs can assist the government to design and implement additional downstream SOE privatization and civil service reform programs. The Social Impact Component builds institutional capacity within the country to evaluate the use and impact of public funds to deliver social support programs. The Labor Redeployment Program is modeled after similar programs in ECA, the EU and OECD, and will provide institutional experience which can be useful for starting similar programs for general unemployed after the PSSP is completed.

2. Critical Risks (reflecting assumptions in the fourth column of Annex 1):

Risk	Risk Rating	Risk Minimization Measure
From Outputs to Objective		
The major risks to the objective of increasing productivity, by supporting deregulation and privatization of the state-owned enterprise (SOE) sector, and mitigating the short-term negative social impact of privatization are that: (a) privatization may not go forward; (b) the social support may not be sufficient; or (c) that severance payments and labor redeployment services will not go to displaced workers due to poor project management and, as a result, the negative social reaction may stall the economic reform program.	S	During project preparation, a very careful analysis was made of the SOE privatization program, and the design, implementation, and potential demand for severance and social mitigation programs in Turkey. Discussions of the project have been held with the national and local representatives of the social partners, including labor representatives and employers. A company by company analysis of the amount of financing required for severance and labor redeployment has been made to define resource requirements. Discussions with the Government have defined the procedures to be used to ensure that resources reach displaced workers as needed. It is noted that the Government has already operated severance and labor redeployment services for workers displaced from SOEs and the proposed Project builds on this experience. Agreements have been reached with the Government on the creation of a PCU within the implementing agency (PA), and on defining memoranda of understanding between this agency and other involved agencies.
From Components to Outputs		
A. Job Loss Compensation Component: The Government may not implement the privatization program as planned; thus, productivity of SOEs will not be increased, there will be no need for job loss compensation and severance payments, and the proposed loan may not disburse. Severance payments may be diverted to other activities in SOEs.	M	The ERP and related ERL demonstrate government commitment to SOE privatization. The risk for diversion of funds is being addressed by good management of job loss compensation resources, and the Bank has agreed on specific procedures with the Government to audit and mitigate the risk of misuse of funds.
B. Labor Redeployment: There will be low demand for services, because privatization does not proceed, and service providers may not be available to deliver services to displaced workers.	M	Turkey is moving forward on privatization, and has current experience with operation of a range of labor redeployment measures that are delivered by private, NGO, and public service providers using performance based contracts. Detailed contracting procedures included in the POM have been defined with the implementing agencies to help ensure that contracting goes forward quickly with minimal risk to all stakeholders. These agencies have previous experience within Bank-financed projects in implementing these services.

Risk	Risk Rating	Risk Minimization Measure
C. Social Impact of Economic Reform Program: Examination of the social impact of the economic reform program on communities and sectors will not be done and surveys about the economic status needs and coping strategies of workers displaced by privatization and net impact of labor redeployment services will not be done and/or results will not be incorporated into ongoing programs to improve targeting of resources.	M	Detailed terms of reference, and appropriate project resources, have been defined and are included in the POM to ensure that a contractor is identified to implement social impact monitoring in a timely manner. A Tripartite Advisory Committee has been agreed to review project operations and advise on study design. Turkey has recent experience with social impact monitoring, including net impact studies of labor redeployment programs, and had an active Labor Adjustment Program advisory group operating under the previous Bank-financed PIAL.
D. Project Management: Overall project management will be weak, and interagency agreement will not be put in place.	M	The implementing agency (PA) has expressed a keen interest in management of the project, which will help to avoid one of the stumbling blocks in the previous PIAL project where lines of responsibility between Treasury and PA for management of social support programs during privatization were not clear. Key implementing agencies for labor redeployment programs have experience and have had previous interagency agreements. Terms of reference to obtain staff support for project management are completed.
Overall Risk Rating	M	

Risk Rating - H (High Risk), S (Substantial Risk), M (Modest Risk), N(Negligible or Low Risk)

3. Possible Controversial Aspects

Social: Displacement of workers from state-owned enterprises during privatization and the economic reform program is controversial, particularly with unions. Monitoring and management of this aspect of the Project will be carried out in several ways, including through: (a) regular qualitative and quantitative surveys of displaced workers and communities where economic restructuring is taking place; (b) participation of key stakeholders, including labor representatives, in the Tripartite Advisory Committee; (c) preparation of media to explain the type of income support and labor services that are being made available to workers; (d) in-plant assessment and planning to provide information in-plant and identify needs of workers before they are displaced; (e) involvement of stakeholders (e.g., unions and NGOs) in providing labor redeployment services to workers; and (f) ongoing contact with stakeholders throughout project design and implementation. The contacts and related communications are already underway, and were used successfully under the previous PIAL project to help offset negative social reactions to labor displacement.

Ecological and Pollution: No controversial aspects are anticipated. Labor redeployment services include temporary community employment projects which can and are being used by communities to improve ecological conditions.

Governance: No controversial aspects are anticipated. The Government has already agreed to the involvement of key stakeholders, including union and employer representatives, in the Tripartite Advisory Committee. This worked well on the labor component of the previous PIAL project.

Management Capacity: No controversial aspects are anticipated. The key implementing agency (Privatization Administration) has agreed to manage the project and has already assigned required civil service management staff who will be supported by long term local consultants financed by the Project. Other implementing agencies, specifically ISKUR, and KOSGEB are familiar with their roles and have managed and implemented similar activities in the past and continue to do so at present.

G. Main Loan Conditions

1. *By Board Presentation:*

- Put in place an adequate financial management system for the project, consistent with agreed steps under the Financial Management Action Plan.
- Confirmation that implementation of the Economic Reform Loan is proceeding satisfactorily.

2. *Effectiveness Condition:* None anticipated.

3. *Other:*

- Disbursement under the job loss compensation (severance), and labor redeployment services is restricted to operations meeting criteria agreed with the Bank as defined in the Project Operational Manual, and replacements or addition to the list of agreed SOEs will be subject to Bank review and agreement prior to disbursement under the Job Loss Compensation component.
- The Borrower shall ensure the implementation of its Privatization Program in a manner satisfactory to the Bank, including: (a) due diligence process, including fair and transparent market-based SOE tendering procedures, and (b) implementation of the Sale Agreement of an SOE between the Government and investor. The Bank may suspend project disbursements if initial a-priori reviews or in ex-post reviews indicate significant deviations.

H. Readiness for Implementation

☐ 1. a) The engineering design for the first year's activities are complete and ready for the start of project implementation.
☐ 1. b) Not applicable.
☒ 2. a) The procurement documents for the first year's activities are complete and ready for the start of project implementation.
☒ 3. The Project Implementation Plan (Project Operational Manual) has been appraised and found to be realistic and of satisfactory quality.
☐ 4. The following items are lacking and are discussed under loan conditions (Section G).

Procurement Documents: Procedures for operation of the job loss compensation payments (severance) are drafted, detailed procedures for operation of labor redeployment services (Section 3.15 of the Guidelines) are drafted, Terms of Reference for technical assistance are drafted, and a procurement plan for technical assistance and the minor goods purchases financed by the Project is drafted. These are contained in the Project Operational Manual.

Project Implementation Plan (Project Operational Manual): This was agreed and finalized during negotiations.

I. Compliance with Bank Policies

- [x] 1. This project complies with all applicable Bank policies.
- [ ] 2. The following exceptions to Bank policies are recommended for Bank approval. The project complies with all other applicable Bank policies.

This project is in compliance with applicable Bank policies (see Section 7).

David Herbert Fretwell	Michal Rutkowski for	Ajay Chhibber
Team Leader	Sector Manager/Director	Country Manager/Director

Annex 1: Project Design Summary

TURKEY: Privatization Social Support Project

Hierarchy of Objectives	Key Performance Indicators	Monitoring & Evaluation	Critical Assumptions
Sector-related CAS Goal:	**Sector Indicators:**	**Sector/ country reports:**	**(from Goal to Bank Mission)**
Promote private sector growth by privatizing state-owned enterprise sector by transferring majority ownership and/or management to the private sector, with adequate safety net provisions. Reduce economic vulnerability and improve social services.	The proportion of employment in SOEs goes down, and proportion of GDP from private sector goes up. Former SOEs are privatized via sale or bankruptcy and liquidation. Negative effects of privatization on the disadvantaged are minimized.	Follow-up during supervision of objectives on CAS Report #16992 TU, Aug. 6, 1997 Draft 2000 CAS Report	Objectives remain valid under economic reform program.
Project Development Objective:	**Outcome / Impact Indicators:**	**Project reports:**	**(from Objective to Goal)**
The development objective of the proposed Privatization Social Support Project (PSSP) is to support the achievement of the objectives of the Government's Privatization Program, mitigate the negative social and economic impact of the privatization of state-owned enterprises, and monitor the social impact of the Economic Reform Program (ERP).	Calculations indicate that productivity of former SOEs will increase when privatized due to reduction in labor costs. Workers displaced during privatization receive temporary income support (severance) to help prevent them from slipping into poverty, and workers displaced by the privatization and economic reform program receive labor redeployment services to assist them in returning to the labor force.	#16992 TU Aug. 6, 1997. Productivity and economic analysis of individual SOEs. Social impact reports financed by the project (see social impact component description).	Privatization of SOEs will continue as planned.
Output from each component:	**Output Indicators:**	**Project reports:**	**(from Outputs to Objective)**
(a) Job Loss Compensation: former SOEs have improved productivity due to labor market restructuring, and severance payments are made to displaced workers.	Productivity of elements of industrial sector, containing about 39 former SOEs, are calculated to improve as a result of labor shedding during privatization. About 48,000 workers displaced from SOEs receive severance payments, and poverty has been mitigated as indicated through results of social impact.	Documentation that: (i) productivity will be increased in former SOEs by labor shedding, and that investment in severance will result in increased production, profits, or exports; (ii) individuals are receiving severance; (iii) social impact is occurring and poverty is being mitigated among affected individuals and families.	Production levels will be maintained, in former SOEs, when labor costs are reduced. Severance payment will go to workers displaced by privatization of SOEs.

Hierarchy of Objectives	Key Performance Indicators	Monitoring & Evaluation	Critical Assumptions
(b) <u>Labor Redeployment</u>: necessary protocols and administrative procedures were developed between PA and the two lead agencies administering labor services, in-plant assessment and planning services were provided to workers at up to 39 SOEs, and labor redeployment services were provided to displaced workers.	Labor Redeployment Services are managed by two lead agencies and delivered within parameters agreed with the Bank. Demand for services are based on displaced worker requirements from about 39 SOEs. A range of services are delivered to approximately 32,000 displaced workers with job placement rates as follows: Job Counseling: 10% On-Job Training: 65% Institutional Training 55% Temp. Com. Emp. 10% Small Business Assistance 5% start-up Incubator 90% business survival rate over 12 months.	Documentation on individuals receiving labor services. Gross impact evaluation of services on employment of displaced workers. Net impact evaluation of impact of services on displaced workers.	Labor redeployment services will go to workers displaced by privatization of SOEs and those affected by secondary layoffs and the economic reform program. Gross and net impact evaluations will provide information to increase effectiveness of services and the results will equal or better than results in other countries and Turkey.
(c) <u>Social Impact of Economic Reform Program</u>: quantitative and qualitative surveys were made of workers displaced from SOEs to determine economic status and coping strategies; surveys were conducted in communities affected by privatization and the economic reform program; net impact studies were conducted on labor redeployment programs; and a study of social assistance policy alternatives for a national social assistance program is completed.	The Government: evaluates the impact of privatization on key affected groups (including by sex, age, education level, region) and devises appropriate policy responses; develops typology of communities affected by labor displacement and the ERP and list of options for community assistance; designs criteria for labor redeployment services to focus on most effective services for different client groups; and drafts a social assistance strategy for Turkey.	Results of social impact studies of: (a) workers displaced by SOE privatization, (b) families in communities affected by privatization, (c) the social impact of the economic reform program, (d) evaluation of gross and net impact evaluations of labor redeployment services, (e) analysis of policies alternatives for a national social assistance program.	Sufficient funds are available to finance severance payments, labor redeployment services and, where needed, social assistance (Social Solidarity Fund).
(d) <u>Project Management</u>: Quarterly Project Management Reports and annual Audit Reports were provided as agreed.	Project objectives are achieved, and disbursements are on schedule. The annual project audit is carried out, acceptable to the Bank.	Project quarterly reports Supervision mission reports Annual audit reports	Project Coordination Unit (PCU) established as agreed at the implementing agency (Privatization Administration).
Project Components / Sub-components:	**Inputs: (project budget for each component)**	**Project reports:**	**(from Components to Outputs)**
(a) <u>Job Loss Compensation</u>: The objective of this component is to improve the productivity of certain elements of Turkey's industrial sector (previously	US$322.4 million	Project quarterly reports Supervision mission reports Documentation of	The Government will honor and move forward with SOE privatization program as planned.

Hierarchy of Objectives	Key Performance Indicators	Monitoring & Evaluation	Critical Assumptions
state-owned enterprises) and to ameliorate the temporary negative social and economic impact of job loss compensation on workers displaced during privatization of SOEs.		individual receiving severance and social impact of same, monitoring of individuals who are unemployed via existing administrative data systems.	
(b) Labor Redeployment: The objective of this component is to provide labor redeployment services to workers, who have been displaced by the privatization of SOEs, including secondary layoffs, to assist them in rapidly reentering the labor market.	US$28.3 million	Project quarterly reports. Supervision mission reports. Documentation of individuals receiving labor services. Gross impact evaluation of services on employment. Net impact evaluation of impact of services.	Service providers are available and willing to provide services.
(c) Social Impact of Economic Reform Program: The objective of this component is to monitor the social impact of the economic reform program and assist with the planning and formulation of supportive economic and social policies.	US$1.0 million	Project quarterly reports. Supervision mission reports. Reviews of social impact of (a) workers displaced by SOE privatization, (b) families in communities affected by SOE downsizing and layoffs, (c) evaluation of gross and net impact evaluations of labor redeployment services, and (d) assessment of social assistance policy alternatives for a national social assistance program.	Monitoring program will be implemented in a timely manner as agreed with the Government and action will be taken to refine and re-target income support and labor redeployment services as needed.
(d) Project Management: The objective of this component is to ensure effective administration and coordination of the overall project program, financial accounts, and procurement.	US$1.1 million	Project quarterly reports. Supervision mission reports. Project mid-term review. Positive and timely annual audit reports.	The Government (Implementing Agency) establishes and maintains the Project Coordination Unit as agreed with the Bank.

Annex 2: Project Description

TURKEY: Privatization Social Support Project

COMPONENT 1: JOB LOSS COMPENSATION OBJECTIVES AND ACTIVITIES

The goal of this component is to improve the productivity of certain elements of Turkey's industrial sector (previously state-owned enterprises) and to ameliorate the temporary negative social and economic impact of job loss compensation on workers displaced during privatization of SOEs.

Objective	Activities
1. Severance Payments: to provide severance and related payments, as regulated by law, to workers displaced by job loss compensation due to privatization of state-owned enterprises.	**(i) Selection and verification of eligible SOEs** based on productivity and use of public funds criteria as previously agreed with the Bank. **(ii) Identification of eligible workers** to receive severance, special job loss compensation and retirement social assistance. **(iii) Calculation of payments** and transfer of funds to SOEs, the ISKUR and ES. **(iv) Verification of payments** to ensure that laid-off or retired employees were eligible and received the correct amount.

COMPONENT 2: LABOR REDEPLOYMENT PROGRAM (LRP) OBJECTIVES AND ACTIVITIES

The goal of this component is to provide labor redeployment services to workers, who have been displaced by the privatization of SOEs, including secondary layoffs, and to assist them in rapidly re-entering the labor market.

Objective	Activities
1. Develop and Maintain Administrative Framework: to develop and maintain administrative procedures between PA, Lead Agencies (i.e., ISKUR, KOSGEB), and sub-contractors, to facilitate the delivery of labor redeployment services to the unemployed.	**(i) Interagency Protocols**: Develop interagency protocols to define the relationship between PA (Project Coordinating Unit Labor Assistance Group), and the two lead agencies responsible for administering the delivery of labor services to the unemployed. **(ii) Administrative Arrangements**: Orient lead agency staff, at the National, and Local levels, concerning the use of the Labor Redeployment Field Operational Manual including: sub-contracting procedures, monitoring, and reporting.

Objective	Activities
	(iii) Public Information: Develop public information (e.g., print and non-print media) on the Labor Redeployment Program for use by Lead Agencies, with State-owned enterprises, with unions, with service providers, with the unemployed, and with the general public. **(iv) Monitoring and Evaluation:** Develop and operate a management information system (e.g., type of service contract, unit costs by budget category for each type of contract, unit costs per client served, program job placement rates, unit costs per job placement) to monitor each labor redeployment program, and provide needed data to other technical assistance contractors with net impact evaluation of programs.
2. **Assess and Plan Demand for Labor Redeployment Services:** To organize and deliver labor redeployment assessment and planning services to workers in SOEs being privatized to ensure these workers know what income support and labor redeployment services are available and to determine the demand for these services in up to 39 SOEs and approximately 110 sites.	**(i) Develop Assessment and Planning Procedures and Materials**: Review with representatives from Lead Agencies – Community – Labor – SOE Management the orientation and assessment procedures developed during previous projects, refine and finalize procedures, and train lead consultants and lead agency staff in use of the orientation and assessment procedures. **(ii) Provide In-plant Assessment and Planning services**: Establish tripartite working committees (e.g., government, community, labor, management, lead agency) and organize in-plant public information and assessments sessions for workers to determine demand for labor redeployment services in approximately 39 SOEs.
3. **Deliver Labor Redeployment Services:** To deliver labor redeployment services to approximately 32,000 unemployed workers through sub-contractors to the two lead agencies (i.e., ISKUR, KOSGEB).	**(i) ISKUR:** Local labor offices sub-contract with service providers to deliver: (a) in-depth job counseling, (b) temporary community employment, and (c) retraining programs to unemployed workers following procedures in the Field Operational Manual as agreed with the Bank. **(ii) KOSGEB**: KOSGEB sub-contracts with service providers to deliver: (a) small business assistance, and (b) incubator services to unemployed workers following procedures in the LRP Field Operational Manual as agreed with the Bank.

PRINCIPLES AND CRITERIA – LABOR REDEPLOYMENT SERVICES

1. General Criteria

Availability of LRS Services to Communities: LRS funds will finance active labor programs in all communities unless a specific activity is exempted and are intended to support the overall economic reform program, including privatization of SOEs. The algorithm for determining allocation of funds by Province will be based on a combination of number of SOE employees being displaced and/or estimated to be displaced each year, the development index, and level of unemployment (each weighted equally) with the understanding that amounts could be reallocated during third quarter of each year if a Province does not use its allocation.

Availability of LRS Services to Individuals: LRS services will be provided to individual citizens through local services providers selected by public advertisement. Clients include: (a) workers to be displaced, or already displaced and registered as unemployed due to privatization of SOEs, and (b) other registered unemployed displaced or having difficulty entering the labor market by the overall Economic Reform Program. First priority will be given to workers displaced by privatization.

Allocation of LRS Services: The LRS is demand-driven, in general; there is no specific allocation of resources by LRS program at the national level or at the provincial levels. However, the maximum amount of the LRS that can be used at the national level and in each Province for Temporary Community Services is 25%.

Selection and Reimbursement to Service Providers: Public advertisement is required to select service providers which propose programs, after public announcement of the availability of funds, and those that meet minimum evaluation criteria may be accepted for financing (detailed contracting procedures for procurement of services are contained in Annex I, Section III, of the Project Operational Manual). Reimbursement to service providers will be based on the contracted average cost per client times the number of clients receiving services. Service providers are eligible for limited mobilization payments to a maximum of 20%, but will thereafter bill for services provided on a monthly or as needed basis.

Duplication of Payments and Services: Individual clients cannot receive income support payments (e.g., minimum wage during training or during temporary community employment) from the LRS if they are receiving other types of state-financed income support (e.g., unemployment benefits, job loss compensation payments). Individuals may not participate in both training and temporary community employment programs financed under the LRS, and cannot participate in these programs if they have participated in similar programs financed by the Employment and Training Fund in the past 24 months.

Evaluation of Services: The impact of services is to be evaluated by all service providers as a condition of their contracts. Service providers must report on the status of clients at the end of each program and/or when a client terminates a program, and before final invoices are paid (e.g., did clients get jobs after services, did they start businesses, what is their wage and/or income). Some service contracts (e.g., training, small business assistance, employment counseling) will have built-in incentives to improve labor market impact (e.g., negotiated levels of job placement and business start-up, with financial incentives to meet objectives, and disincentives if objectives are not met).

Labor Mobility: Mobility is to be encouraged by providing information, by the sharing of information on services being provided in different regions, by re-location grants that can be provided through employment service contracts, and by allowing qualified individuals from one region to participate in programs being provided in other regions.

2. Specific Criteria by Program

2.1. Criteria for Employment Services (Lead Agency ISKUR)

Eligible Services: Job/social counseling, provision of labor market information, aptitude/interest assessment, job search/job club programs, labor exchange and placement services, relocation services.

Eligible Service Providers: Non-government non-profit agencies (NGOs), private firms, labor organizations that demonstrate minimum capabilities to be service providers (e.g., staff qualifications, facilities, financial viability, placement capability). No-fees are to be charged to clients. A negotiated job placement rate of at least 10% is to be included in contracts if the applicable law authorizing job placement by private agencies is enacted.

Eligible Costs: Staff and administrative personnel, rent and utilities, consumable materials, client transportation for job interviews, non-durable goods, depreciation of capital equipment – 20% per year, relocation costs up to US$500 per family.

2.2. Criteria for Retraining Services (Lead Agency ISKUR)

Eligible services: Vocational, general education and literacy, formal small business skills training. Local organizations proposing training programs must show evidence of demand for trained workers (e.g., endorsed by existing local tripartite employment councils) and agree to a negotiated job placement rate of an average of at least 60% for institutional and on-job training.

Eligible Service Providers: Enterprises, private, NGO, and public training institutions (if no similar programs are offered by private providers). Institutions must show minimum capability for provision of training services (e.g., staff qualifications, facilities, financial viability, placement capability.

Eligible Costs: Maximum length of training per client – 12 months, training and administrative personnel costs including fees, rent and utilities, consumable materials, client transportation, non-durable goods, maximum depreciation of capital equipment – 20% per year, training wage up to gross minimum wage level -- less any parallel job loss compensation or unemployment benefits. Enterprises which are training clients for internal hiring will only receive reimbursement for 70% of total training costs, other contractors (e.g., training institutions) which are training for the general labor market will revive 100% reimbursement. Proposals that exceed the maximum average unit cost (US$200 per month, per trainee) by 25% will be rejected.

2.3. Criteria for Temporary Community Employment Services (Lead Agency ISKUR)

(Note: maximum allowable expenditure on this program per Province, and of the total labor redeployment fund, is 25 % of LRP funds)

Eligible Services: Environmental cleanup, refurbishment of public infrastructure, provision of assistance and support to social agencies (e.g., schools, retirement homes, clinics). Organizations proposing programs must provide evidence that the program will not displace normal employment (e.g., evidenced by concurrence of local union and employer representatives).

Eligible Service Providers: Local Government must concur and approve projects, but are excluded from implementing service contracts. Projects must be implemented by non-government or private contractors selected by public advertisement. Local Government Agency implementation is acceptable only if the advertisement process does identify qualified non-government contractors, and as agreed with the Bank. Proposing organizations must provide evidence of administrative and financial viability and agree to negotiated job placement rates of at least 10% at the end of the program.

Eligible Costs: Supervisory personnel and fees (not more than 15% of total contract), worker stipends (not more than gross minimum wage), transportation costs, related training costs, utilities, consumable materials and non-durable goods (limited to 20% of total project costs), maximum length of individual participation (6 months).

2.4. Criteria for Small Business Assistance (Lead Agency KOSGEB)

Eligible Services: Provision of services including, but not limited to: initial assessment of the aptitude and skills of unemployed persons to start businesses, developing business plans, advising on accounting, financial, legal, marketing and sales services issues, assistance in the dialogue with local authorities, short-term training (e.g., 1-2 weeks) and other consulting services to unemployed entrepreneurs who intend to start, or who started businesses during the past 6 months.

Eligible Service Providers: Private agencies, autonomous government organizations, statutory occupational organizations, foundations and other associations. Service providers which have, or intend to develop, links with micro-small business finance programs, are encouraged to apply. Services providers must agree to negotiated business start-up rates of at least 5% of clients initially contacted.

Eligible Costs: Personnel services, transportation costs, rent and utilities, consumable materials and non-durable goods, maximum depreciation of capital equipment – 30% per year. Maximum length of initial contract, 12 months with extensions possible. Costs per client must be specified in all contracts, however unit costs may be identified for different categories of services by each service provider (e.g., initial business planning, advice on marketing, developing accounting procedures) based on the understanding that all client do not need full services and some may drop out after initial contacts.

2.5. Criteria for Small Business Incubators (Lead agency KOSGEB)

Eligible Services: Facilities/premises rental, small business consulting services for tenants, shared support services (e.g., accounting, security) and equipment for common use by incubator management and tenants (e.g., telephone, a service vehicle, office equipment, etc.).

Eligible Service Providers: Private and non-government associations and foundations. Applicants will be judged on availability of facilities, qualifications of management staff, linkages with existing small business organizations and financing institutions, financial and administrative capabilities, experience with small business, and linkage with sources of micro-small business finance. Services providers must agree to negotiate business survival rates of at least 90% over 12 months.

Eligible Costs: Facility refurbishment and/or rent but not land or new building construction, general support equipment; limited staff costs (e.g., manager, secretarial/accounting, security staff), administrative and auditing costs, consumable supplies and non-durable goods, and operating expenses. Up to US$50,000 for a revolving fund for short-term micro working capital loans to tenants – loans must be at positive interest rates. Reimbursement of operating costs to be phased out over three years maximum, and before project closure (e.g., 100% first year, 66% second year, 33% third year).

COMPONENT 3: SOCIAL IMPACT OF ECONOMIC REFORM PROGRAM OBJECTIVES AND ACTIVITIES

The goal of this component is to monitor the social impact of the economic reform program and assist in the planning and formulation of supportive economic and social policies[1].

Objective	Activities
1. Social Impact of Economic Reform Program: To evaluate the impact of the Economic Reform Program on vulnerable communities suffering from policy changes, and develop institutional capability to analyze and address social issues.	**(i) Design:** Define the focal points for the study to identify the main impact of economic reform in terms of structural aspects and economic policies, review similar studies, design interview questionnaire, guide and procedures, and train interviewers. **(ii) Select pilot communities and sectors:** Develop criteria and select two communities and two sectors representative of those facing challenges with conduct of the economic reform program. **(iii) Gather data and conduct focus groups:** Interview key informants and local residents in selected pilot communities and sectors. **(iv) Infrastructure:** Define and provide information technology, office, and training materials to enhance the analytical capabilities of the EKA Working Group for policy formulation and monitoring and assessment of policy outcomes. **(v) Analyze:** Assess general challenges faced by pilot communities and sectors negatively affected by the economic reform program and synthesize areas for improvement of social policy and best practice. **(vi) Policy framework:** Design a framework to help ameliorate the negative social impact of economic reform, based on the pilot studies and review of international experience (see objective 2 following). **(vii) Disseminate:** Prepare a final report and disseminate results, including implementing a seminar for decision makers and social partners.

[1]Analyses of studies are to include breakout of data by age, sex, education level, region, etc.

Objective	Activities
2. National Social Assistance System: To identify policy alternatives for social assistance based on a review of international experience, in particular within the framework of Turkeys accession to the EU.	**(i) Review international experience:** Review international policy in other countries, including undertaking study tours to selected countries (e.g., Latin America, North America, Europe) that have implemented comprehensive economic reforms similar to those in Turkey. **(ii) Analyze Scope:** Evaluate and assess the effect of the economic adjustment programs in the selected countries and its consequences on social assistance policy. **(iii) Social funds:** Review international policy experience with social funds and the Turkish experience with the social funds pilots to assess their practicality for Turkey, in particular their role in supporting macroeconomic stabilization and in harmonizing work with related EU frameworks. **(iv) Analyze:** Review international social assistance and social fund policy and techniques in relation to current conditions in Turkey to assess the potential for adaptation or adoption of different approaches. **(v) Financing and administration**: Review international experience to identify policy alternatives for financing and managing a national social assistance program, including establishing necessary linkages with related institutes and training centers. **(vi) Dissemination and capacity building:** Prepare final report, implement a seminar for concerned_decision makers and social partners, and provide training to EKA Working Group and other related groups to assist them in carrying out related responsibilities.

Objective	Activities
3. Privatization Economic Impact: To assess the economic status of workers displaced by privatization by undertaking a quantitative survey of about 3,000 workers, repeated five times.	**(i) Design:** review similar studies, design survey questionnaire and procedures, resolve sampling issues and train interviewers. **(ii) Pilot test:** pilot test the survey questionnaire in one region, revise questionnaire accordingly. **(iii) Implement:** (1) Data collection: interviews completed and data collected and entered. Data cleaned and verified; data set constructed. (2) Data analysis: cross-tabulations and frequency distributions for all variables; identify vulnerable groups and occupations; assess household coping strategies. **(iv) Replicate:** Repeat survey bi-annually for two additional years for a total of 5 rounds of data. **(v) Disseminate results:** Prepare interim and final reports and disseminate including organizing a seminar for decision makers and the social partners.
4. Privatization Coping Strategies: To assess the needs and coping strategies of displaced workers by completing a qualitative study of about 200 workers, repeated five times.	**(i) Design:** Review similar studies, design interview guide and procedures, resolve sampling issues for focus groups. **(ii) Pilot test:** Pilot test the interview guide with two focus groups, revise interview guide accordingly. **(iii) Implement:** (1) Information collection: interviews completed. (2) Focus group report drafted. Synthesis report drafted: analyze worker sentiments, coping strategies, and plans for the future. **(iv) Replicate:** Repeat study bi-annually for two additional years for a total of 5 rounds of focus groups. **(v) Disseminate results:** Prepare interim and final reports and disseminate, including holding a seminar for decision makers and social partners.

Objective	Activities
5. Labor Redeployment Services: To determine the net impact of labor redeployment services by a quasi-experimental comparison study of participants in labor redeployment programs in the previous Privatization Project (PIAL).	**(i) Design:** Review similar studies, design survey questionnaire and procedures, design sample (treatment and control groups), train interviewers, and conduct study tour to two countries which have undertaken similar studies. **(ii) Implement:** (1) Data collection: interviews completed and data collected and entered. Data cleaned and verified; data set constructed. (2) Data analysis: compare treatment and control groups by cross-tabulations and frequency distributions for all variables; identify net difference in outcomes (impact) of individual labor redeployment services with different clients. **(iii) Disseminate.** Prepare final report and disseminate, including a seminar for decision makers and social partners.

COMPONENT 4: PROJECT MANAGEMENT
OBJECTIVES AND ACTIVITIES

The goal of this component is to ensure effective administration and coordination of the overall project program, financial accounts, and procurement.

Objective	Activities
1. Project Coordination Unit (PCU): (a) Coordinate project execution, and manage the resources of the project.	**(i) Coordination:** Help Privatization Administration (PA) to coordinate project implementation through: (a) convening regular meetings of the Technical Coordinators to discuss common issues; (b) ensuring that the project is being implemented in accordance with legal agreements with the World Bank; (c) assisting with project implementation as requested by the technical agencies involved.
(b) Procure all Bank-financed goods and services for implementing agencies.	**(ii) Procurement:** Assist PA in managing all procurement under the project, in cooperation with the technical agencies; specific responsibilities during the procurement process for equipment, technical assistance, and training.
(c) Operate the financial management system according to LACI requirements.	**(iii) Financial Management:** Assist PA to set up and operate a financial management system based on technical agreements reached with the World Bank.
(d) Act as liaison between the technical agencies and the World Bank.	**(iv) World Bank Liaison:** (a) Manage disbursement of all World Bank loan proceeds; (b) monitor availability of Government's counterpart contribution to the project; (c) monitor implementation progress of project components; and (d) work with implementing agencies to prepare quarterly progress reports in accordance with a project progress reporting format acceptable to the Bank.
2. Annual Project Audit	**(i) Audit Arrangements**: PCU to organize annual audits to be made by the Treasury Controller, according to Bank requirements and agreements with Government. **(ii) Accounts Maintenance**: PCU to maintain project accounts, acceptable to the Bank.

Annex 3: Estimated Project Costs[1]
(US$ thousand)

Project Cost By Component	Local US$ thousand	Foreign US$ thousand	Total US$ thousand
1. Job Loss Compensation	96,805.9	225,617.0	322,423.0
2. Labor Redeployment	9,575.7	18,654.2	28,229.9
3. Social Impact of Economic Reform Program	667.9	319.5	987.4
4. Project Management	837.7	249.4	1,087.1
Total Baseline Cost	107,887.3	244,840.2	352,727.4
Physical Contingencies	6.3	34.6	40.8
Price Contingencies	0.7	20.2	20.9
Front End Fee	0.0	2,500.0	2,500.0
Total Project Costs	107,894.2	247,395.0	355,289.2

Project Cost By Category	Local US $million	Foreign US $million	Total US $million
1. Goods	62.5	237.5	300.0
2. Consultant Services and Training	3,038.5	854.1	3892.6
3 Job Loss Compensation Fund	96,693.0	225617.0	322,310.1
4 Labor Redeployment Fund	7,759.6	18,105.8	25,865.4
5 Recurrent Costs	333.7	25.7	359.4
Total Baseline Cost	108,690.9	246,715.4	355,406.3
Physical Contingencies	6.3	34.6	40.8
Price Contingencies	0.7	20.2	20.9
Front End Fee	0.0	2,500.0	2,500.0
Total Project Costs	107,894.2	247,395.0	355,289.2

[1]Numbers may not add up due to rounding.

Annex 4: Cost Effectiveness Analysis Summary

TURKEY: Privatization Social Support Project

	Present Value of Flows		Fiscal Impact	
	Economic Analysis	**Financial Analysis**[1]	**Taxes**	**Subsidies**
Project Costs	**Na**	**Na**	**Na**	**Na**

[1] If the difference between the present value of financial and economic flows is large and cannot be explained by taxes and subsidies, a brief explanation of the difference is warranted, e.g., "The difference between financial and economic costs arises from price controls on the inputs."

Summary of benefits and costs:

As noted previously (Section E1), the proposed PSSP is directly linked with the Government of Turkey's overall economic reform program which will structurally transform the Turkish economy by reducing state involvement and advancing market reforms. Many state-owned enterprises are characterized by low productivity—low output per worker. This key benefit of the PSSP is to help improve the productivity of certain segments of the Turkish industrial sector (in accordance with paragraph 3 of the OM on Financing Severance Pay in Public Enterprises Reform Operations, dated March 5, 1996, which states that "severance pay should be an integral part of the project aimed to make an enterprise or sector more productive"). Only those SOEs that can demonstrate: (a) an expected positive rate of return on the investment of severance within a four year period (i.e., the reduction in the number of employees must result in a decrease in overall operating costs without a corresponding loss of production; (b) that the investment is in accordance with Turkey's industrial strategy; and (c) that the investment will lead to an overall increase to either production, profits or exports at the enterprise or sector level. In addition, there must be evidence that the payment of severance is an appropriate use of public funds and where it is not feasible for the new owner to make such payments according to one or more criteria agreed with the Bank

Moving workers via severance payments and from jobs where they are not productive and receive public subsidies to jobs where they are productive and do not receive public subsidies reduces public budget outlays and increases GDP. Public budget outlays will decline to the extent that redundant workers who are to be redeployed to new jobs now receive indirect or direct government subsidies. Even if displaced workers are not successful in finding productive jobs, public budget outlays will decline if, as expected, the costs of labor redeployment measures, including temporary income support, are less than the cost of the subsidies to keep workers in unproductive jobs. At the same time, GDP will increase to the extent that the jobs filled by redeployed workers are new jobs or higher productivity jobs than they would otherwise have been. Specialized counseling, requalification training, and improved job placement services have been found to raise productivity by bringing about more efficient matching of job seekers and the skill requirements of existing jobs (*OECD Employment Outlook, 1993, page ix*).

Main Assumptions: *Job Loss Compensation (Severance)*: production from privatized enterprises will be maintained at levels that are equal, or are sufficiently high, to offset the costs of severance payments to reduce labor costs. *Labor Redeployment*: investment in labor redeployment programs results in a net positive impact on job placement.

Cost-effectiveness indicators[1]**:** *Job Loss Compensation (Severance):* The reduction in the number of employees, must show an expected positive rate of return on the investment of severance within a four year period, and must result in a decrease in overall operating costs without a corresponding loss of production. *Labor Redeployment:* the job placement rate for workers participating in labor redeployment programs will be equal to or better than those in similar programs in Turkey and the region.

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[1]These indicators should compare the project with a suitable comparator, e.g., unit project costs of alternative project designs or international standards.

Annex 5: Financial Summary

TURKEY: Privatization Social Support Project

Years Ending
(US$ Million)

IMPLEMENTATION PERIOD							
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Total Financing Required Project Costs (US$M)							
Investment Costs	53.90	105.60	174.80	18.00	0.00	0.00	0.00
Recurrent Costs	0.10	0.10	0.10	0.10	0.00	0.00	0.00
Front End Fee	2.50	0.00	0.00	0.00	0.00	0.00	0.00
Total Project Costs	56.50	105.70	174.90	18.10	0.00	0.00	0.00
Total Financing	56.50	105.70	174.90	18.1	0.00	0.00	0.00
Financing							
IBRD/IDA	38.10	74.20	122.50	12.70	0.0	0.0	0.0
Government	15.90	31.50	52.40	5.40	0.0	0.0	0.0
Front End Fee	2.50	0.0	0.0	0.0	0.0	0.0	0.0
Central	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provincial	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Co-financiers	0.0	0.0	0.0	0.0	0.0	0.0	0.0
User Fees/Beneficiaries	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Project Financing	56.50	105.70	174.90	18.10	0.0	0.0	0.0

OPERATIONAL PERIOD							
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Total Financing Required Project Costs							
Investment Costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recurrent Costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Project Costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing							
IBRD/IDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Government	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Central	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provincial	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Co-financiers	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Project Financing	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Annex 6: Procurement and Disbursement Arrangements

TURKEY: Privatization Social Support Project

Procurement

The procurement activity under this project is limited since, the allocation of Loan proceeds is to be spent as funds as per criteria and special arrangements agreed upon with the Bank. Goods under the IBRD financed components of this project will be procured in accordance with the Bank's Guidelines: *Procurement under IBRD Loans and IDA Loan published in January 1995* including all revisions up to January 1999. Contracts for Consulting Services required for the Project will be awarded following the World Bank Guidelines *"Selection and Employment of Consultants by World Bank Borrower"*, dated January 1997, revised in September 1997 and January 1999. The project elements, their estimated cost and procurement methods, are summarized in Table A. Other procurement information, including capability of the implementing agency, estimated dates for publication of GNP and the Bank's review process is presented in Tables B and C.

Table A: Project Costs by Procurement Arrangements
(US$ Million)

Expenditure Category	ICB	Procurement NCB	Method Other[2]	N.B.F.	Total Cost[1]
1. Works	0.00	0.00	0.00	0.00	0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
2. Goods	0.00	0.00	0.33	0.00	0.33
	(0.00)	(0.00)	(0.28)	(0.00)	(0.28)
3. Services	0.00	0.00	3.92	0.00	3.92
	(0.00)	(0.00)	(3.50)	(0.00)	(3.50)
4. Job Loss Compensation Payments	0.00	0.00	322.31	0.00	322.31
	(0.00)	(0.00)	(225.62)	(0.00)	(225.62)
5. Labor Redeployment Services /3	0.00	0.00	25.87	0.00	25.87
	(0.00)	(0.00)	(18.10)	(0.00)	(18.10)
6. Incremental Operating Costs	0.00	0.00	0.00	0.36	0.36
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
7. Front End Fee	0.00	0.00	2.50	0.00	2.50
	(0.00)	(0.00)	(2.50)	(0.00)	(2.50)
Total	0.00	0.00	355.29	0.36	355.29
	(0.00)	(0.00)	(250.00)	(0.00)	(250.00)

1/ Figures in parenthesis are the amounts to be financed by the IBRD Loan. All costs include contingencies

2/ Includes goods to be procured through international and national shopping, consulting services, services of contracted staff of the project management office, training, technical assistance services, and incremental operating costs as well as Front End Fee. Loss Compensation Fund not subject to commercial procurement practices (OM March 5,1996). Labor Redeployment Fund per Consultant and Goods Guidelines, depending on nature of services, as agreed with the Bank and defined in the POM. NBF= Non Bank Financed.

3/ Includes National Competitive bidding for incubators.

Goods

Goods (approximately US$0.33 million) consisting of computer and office equipment as well as training materials and supplies will be grouped to the extent possible and considering project objectives, in package sizes that will encourage competitive bidding. The following methods of procurement will be followed:

(i) **International Shopping (IS).** These procedures, by comparing at least three quotations from two different countries will be used for the purchase of office and computer equipment, estimated to cost less than US$100,000 per contract for an aggregated amount of US$0.15 million.

(ii) **National Shopping (NS).** These procedures, by comparing at least three quotations from qualified national firms, will be used for contracts estimated to cost less than US$50,000 equivalent up to an aggregate of US$0.18 million.

Selection Procedures for Consulting Services

Contracts for Consulting Services and training will be packaged to combine related skills and services, in order to make them attractive and increase competition as well as to reduce the number of contracts to be managed by the PCU. The following methods of procurement will be followed:

(i) **Quality and Cost-based Selection (QCBS)** procedures will be used for contracting consultant services and training relating to the Job Loss Compensation Component, the Labor Redeployment Component and the Social Impact Component including the various studies. Aggregate amount US$3.20 million equivalent.

(ii) **Quality Based Selection (QBS)** will be used for contracting Labor Redeployment services in accordance with the provisions of para. 3.2 of the Guidelines following criteria and procedures acceptable to the Bank and set forth in the Project Operational Manual (POM).

(iii) **Individual Consultants** will be hired in accordance with Section V of the Guidelines. Individual consultants will be used for Project Management Specialist, Financial Specialist, Procurement Specialist and Administration staff for an aggregate amount of US$0.67 million. Consultants will be selected based on individual's qualification and with Bank's prior approval.

Job Loss Compensation Payments

Severance pay expenditures (aggregate US$322.31 million) are not subject to commercial procurement practices and, therefore, no specific procurement arrangements are applicable. Severance payments are to be conducted following specific criteria agreed by the Bank. (See Implementation summary for the Job Loss Compensation Component, Annex 2). The severance pay procedure is according to the Operational Memorandum, dated March 1996, "Financing of Severance Pay in Public Enterprise Reform Operations".

Labor Redeployment Services

Procurement for Labor Redeployment Services will be based on Section 3.2 of the Consultant Guidelines, or Section 3.3 or 3.15 of the Procurement Guidelines, depending on the type of services being procured, following criteria and procedures acceptable to the Bank as described in the Project Operational Manual (POM). These include, inter alia (i) the type of community services to be provided, (ii) the agencies eligible to provide said services, and (iii) the eligible costs that will be reimbursed in the service delivery contracts as described in Annex 2 of the PAD, and further defined and discussed in the Project Operation Manual (POM). Contracts for services such as employment counseling, retraining and small business assistance are generally not expected to exceed US$60,000. The Bank's no-objection is required for contracts exceeding US$60,000. Procurement under Labor Redeployment Services will be carried out by the two lead agencies (ISKUR, KOSGEB) and their local offices and generally be carried out on a service delivery contract basis. Service contracts for small business incubators are not expected to exceed US$250,000, and will be subject to National Competitive Bidding, as further described in the POM. ISKUR, KOSGEB local offices can execute contracts up to US$20,000 and contracts over this amount must be submitted to the lead agency head office for review and no-objection. Lead Agencies (ISKUR, KOSGEB) can give no-objections for contracts up to US$40,000 and contracts over this amount must be submitted to the Privatization Administration for review and no-objection. The Privatization Administration can review and give no-objection to contracts up to US$60,000. The initial three contracts for each type of Labor Redeployment services, regardless of value, and all contracts over US$60,000, must be submitted to the Bank for review and no-objection. In addition, during the regular 6-month project supervisions, an ex-post review of selected projects will be carried out.

Operating Costs

PCU civil servants salaries, office materials and supplies, communication expenses, etc. would be financed by the Government for the duration of the project (US$0.36 million).

Notification of Business Opportunities

A General Procurement Notice (GPN) will be published in the "Development Business" around the period of Loan Negotiations and will be annually updated. For large-value consultants contracts, invitation for bids will be advertised in the Development Business and national gazette, and in the case of NCB, in a major local newspaper (in the national language).

Review by the Bank of Procurement Decisions

Scheduling of Procurement. Procurement of goods and services for the Project will be carried out in accordance with the agreed Procurement Plan (Table B), which will be updated if necessary and included in the progress reports for Bank review.

Prior Review

(a) *Goods:* Prior review of bidding documents, including review of evaluation, recommendation of award and contract will be conducted for the first two contracts for International and National Shopping contracts regardless of their value.

(b) *Consulting Services*: Terms of reference for all consulting assignments will be subject to prior Bank review. Request for Proposal (RFP), short lists, terms of condition of contracts as well as evaluation reports and recommendation for award will be prior reviewed by the Bank for contracts for technical assistance as well as training for individual consultants above US$30,000 and firms above $60,000.

(c) *Labor Redeployment Services*: Prior review by the Bank will be required for the first three contracts for each type of Labor Redeployment services, regardless of value.

After award of contracts, should any material modifications or waiver of terms and conditions of a contract resulting in an increase or decrease above 15% of the original amount, the Bank will reserve the right to prior review of such modifications (including modifications to contracts for consulting services).

The PCU would keep a complete and up-to-date record of all procurement documentation and relevant correspondence in its files. All other procurement documents and procedures would be subject to the Bank's ex-post review during supervision missions. In such cases, the PCU would provide for review of all the relevant documentation (invitation to bid/request for proposals, conditions of contract, etc.).

Action Plan for strengthening Agency's Capacity to Implement Project Procurement

The capacity assessment is completed. Specific recommendations and an action plan to strengthen the procurement capacity of the Privatization Administration (PA) was defined during appraisal.

The Privatization Administration's Project Coordination Unit (PCU) will have the overall responsibility for the managing, monitoring and reporting of all procurement activities under the Privatization Social Support Project. The procurement activities, however, are limited, since approximately 90% of the project costs are allocated for severance payments that are not subject to commercial procurement practices in accordance to World Bank's Operational Memorandum, dated March 1996.

Based on the analysis of both the agency's procurement capacity and the information gathered, the following recommendations are made to improve their capacity to carry out procurement under the project.

- Establish a Procurement/Reporting Department in the PCU. This department will consist of a Department Head (civil servant) and will be supported by a full time Procurement Specialist (individual consultant), a full time Reporting and Communications Specialist (individual consultant), a full time translator/interpreter and a staff assistant. The Department Head has been appointed, and the rest of the staff shall be hired within thirty days of Loan

Effectiveness. Terms of Reference for the consultants and staff above are provided in the Project Operational Manual. All consultants shall be hired competitively following the proper advertisements.

- The PCU will be supported by a short term Project Management Specialist (international consultant) with extensive experience in international procurement as well as experience in World Bank (WB) financed projects. The specialist shall have a thorough knowledge of WB procurement procedures, guidelines and standard bidding documents issued by the WB that will be applicable for this project. The consultant shall be hired within thirty days of Loan Effectiveness in order to participate as a presenter in the first project supervision mission.

- The Procurement/Reporting Department Head shall attend WB recommended procurement training offered by the WB Country Office, ILO Turin, or other agreed training during the early stages of project implementation. Upon his/her return, the Department Head shall organize in-house training for all PCU staff dealing with procurement as well as the staff of the other lead agencies.

- During the first project supervision, a procurement seminar shall be held for all project related staff from PA and other agencies participating in the project. This will serve as an introduction to Bank's operational procedures, including WB procurement procedures and practices.

- The PCU Procurement and Reporting Department shall set up a reference library containing all the WB procurement related documentation, including the updated versions of the Guidelines, templates for Procurement Notices, standard bidding documents(SBDs) and standard request for proposals(RFP), standard evaluation forms, check lists and Memorandums issued by OSCPR, as well as required forms needed to input the information into the WB system.

- The Project Operational Manual, which includes key elements regarding procurement (e.g., the TORs and the Field Operational Manual for the Labor Redeployment Fund) has been completed and agreed with the Bank during negotiations. The Project Operational Manual, including the Field Operational Manual for the Labor Redeployment Fund has been completed and agreed at negotiations for review of compliance with Bank Procurement Guidelines, including the procedures under the Labor Redeployment Fund. The Project Operational Manual also includes eligibility criteria as per Bank Guidelines for government owned/supported agencies.

- During appraisal, the eligibility of state universities to participate in bidding for this project was discussed. The mission referred to the Operational Memorandum dated August 1999. The Bank will allow participation of universities and research institutions when the services are of a unique and exceptional nature and no suitable alternatives from private sector consultants are available.

- The Procurement Plan included in the Project Appraisal Document must be adhered to and updated quarterly as part of the Project Management Report.

- The PCU will set up an integrated Management Information System (MIS), in cooperation with the Labor Assistance Group, which provides for management of all financial transactions and procurement transactions, including the tracking and monitoring of all contracts, including those under the Labor Redeployment Fund.

- The MIS shall have the capacity to record the large amount of small contracts under the Labor Redeployment Fund. Samples from other WB-financed projects shall be obtained in order to design the most appropriate system that will enable updates and linkages to the financial management system for the project.

- Bank supervision missions shall be scheduled at least every six months and will include a Procurement Accredited Staff. Mission Aide Memoires will address procurement issues and include specific Annexes summarizing results of procurement post reviews.

Retroactive Financing

Retroactive financing in the amount of US$24 million can be provided for in the proposed Project for severance payments, labor redeployment services, goods, and consultant services/training. Both severance payments and labor redeployment services are already underway, in support of the privatization program, and there is a need for some consultants—particularly in the PCU—to assist in quick project start-up. Only those contracts will be acceptable under retroactive financing which will meet the Bank's procurement guidelines.

Table B1. Turkey: Privatization Social Support Project
Procurement Plan

Description	Type	Proc. Method	Proposed Number of Packages	Estimated Total Cost (US$000)	Invitation GPN/SPN Local ad	BID Docs/ RFP 1. prepar. 2. Docs. Issued	Bid/RFP 1. opening 2.evaluation 3.Recomm for award	contract signing	contract complete
Goods									
LAG Office Eq. Administration & Mgt.	G	IS	1	$67	GPN Nov. 2000	Invitation To Quote Jan. 2001	Feb. 2001	March 2001	April 2001
Planning & Assessment Office Eq.	G	NS	2	$67		Invitation To Quote Jan. 2001	Feb. 2001	March 2001	April 2001
Deliver Labor Redeployment Services Off Eq	G	IS	1	$80		Invitation To Quote Jan. 2001	Feb. 2001	March 2001	May2001
PCU Office Eq.	G	NS	3 (throughout life of project)	$120		Invitation To Quote Jan. 2001 (1st package)	Feb. 2001	March 2001	April 20
Services									
Job Loss Compensation + Labor Redeployment + Social Monitoring.	TA/ TR	QCBS	1	$2,181.7	SPN: Dec. 2000 SL Jan. 2001	Feb.2001	Issue RFP Feb.2001 Proposal due April 2001 Eval/Recomm May 2001	June 2001	July 2004
Social Impact of Economic Reform Program	TA	QCBS	1	$196.9	SPN: Dec. 2000 SL Jan. 2001	Feb.2001	Issue RFP Feb.2001 Proposal due April 2001 Eval/Recomm May 2001	June 2001	July 2002
National Social Assistance System	TA	QCBS	1	$189.1	SPN: Dec. 2000 SL Jan. 2001	Feb.2001	Issue RFP Feb.2001 Proposal due April 2001 Eval/Recomm May 2001	June 2001	July 2002

Description	Type	Proc. Method	Proposed Number of Packages	Estimated Total Cost (US$000)	Invitation GPN/SPN Local ad	BID Docs/ RFP 1. prepar. 2. Docs. Issued	Bid/RFP 1. opening 2.evaluation 3.Recomm for award	contract signing	contract complete
Privatization Impact	TA	QCBS	1	$612.5	SPN: Dec. 2000 SL Jan. 2001	Feb.2001	Issue RFP Feb.2001 Proposal due April 2001 Eval/Recomm May 2001	June 2001	July 2004
Project Mgt. Specialist (Int'l)	TA	IC	1	$110				Dec. 2000	Dec. 2002
PCU Staff (loc) (1) Financial (2) Procurement (3) Reporting/Communications (4) Translator (5) Staff Assistant	TA	IC	5	$564				Dec.2000	Dec. 2004
PCU Staff International Training	TR		Several	$32	As identified for the first 3 years of the project				
PCU Staff Local Training	TR		Several	$32	As identified throughout the life of the project.				
Other									
Job Loss Compensation Payments	Payment	N/A	Several	$322,310.1	Demand driven, as identified throughout the life of the project. Disbursement expected during the first three years of the project.				
Labor Redeployment Services	Services	Para. 3.15 Guidelines	Several	$25,865	Demand driven, as identified throughout the life of the project Disbursement expected over the four years of the project.				
Incremental Operating Costs		NBF		$360					

Table C: Summary of Procurement Activities

Section 1: Procurement Review							
	ICB	**NCB**	**IS**	**NS**	**Minor Works**	**Other Methods**	**Percentage of loan amount subject to prior review**
Goods Procurement thresholds: Individual and aggregate			Below $100,000 Aggregate: $0.15 million	Below $50,000 Aggregate: $0.18million			25%
Prior Review			First 2 contracts	First 2 contracts			
	QBCS (firms)	**QB**	**Fixed Budget (firms)**	**Least Cost**	**Consultant Qualifications**	**Single-Source**	**Individual Consultants**
Consultants	Aggregate: $3.20 million						Aggregate: $0.67 million
Prior Review	TOR and RFP packages for all contracts						TOR and qualifications for all assignment contracts above $30,000
Ex-post Review	Ex-post review mechanism: Review carried out in accordance with Para. 4 of Appendix 1 of the Bank's Guidelines and reviews during supervision missions.						

Section 2: Capacity of the Implementing Agency in Procurement and Technical Assistance requirements	
Brief statement Overall responsibility for Project management and coordination will rest with the Privatization Agency (PA). The PA will be supported by Technical Assistance consisting of: Procurement Specialist, Financial Management and communication/reporting staff and support staff (these positions must be advertised) plus an international Project Management Specialist will provide short term assistance.	
Country Procurement Assessment Report or Country Procurement Strategy Paper status. A CPAR was conducted in 1997. A new CPAR is scheduled for October 2000. The Government will follow the agreed Bank procurement procedures as described in this document and in the Loan.	Are the bidding documents for the procurement actions for the first year ready by negotiations ? Yes[] No [X] RFPs and bidding documents for the first year of project implementation are being prepared and will be ready by Loan effectiveness. (TORS for TA are drafted, as are all procedures for Labor Redeployment Services, and were agreed during negotiations.)

Section 3: Training, Information and Development on Procurement
Estimated date of Project Start-up Mission/Launch Workshop: January 2001 Estimated date of publication of General Procurement Notice: November 2000. Indicate if there is procurement subject to mandatory SPN in Development Business: Yes [X] No [ ] Domestic Preference for Goods: Yes [ ] No [X] Domestic Preference for Works, if applicable: Yes [ ] No [X] Retroactive financing: Yes [X] No [ ] Explain: Advance procurement: Yes No [X]
Explain briefly the Procurement Monitoring System: All procurement related documentation that requires Bank's prior review will be cleared by Procurement Accredited Staff (PAS) and relevant technical staff. There is one package above mandatory review thresholds by RPA. The PA will maintain complete procurement files which will be reviewed by Bank's supervision missions. The Procurement Plan will be updated quarterly as part of the PMR. Procurement information will be recorded by the PA and submitted to the Bank as part of the quarterly and annual progress reports. This information will include: revised cost estimates for the different contracts; revised timing of procurement actions, including advertising, bidding, contract award, and completion time for individual contracts; as well as compliance with aggregate limits (within 15%) on specific methods of procurement Co-financing: . No
Section 4: Procurement Staffing
Indicate name of Procurement Staff or Bank's staff part of Task Team responsible for the procurement in the Project: Name: E. Villatoro and D. Fretwell (TA only) Ext: 3-2486 Explain briefly the expected role of the Field Office in Procurement : Only if required

Overall Procurement Risk Assessment

Frequency of procurement supervision missions proposed: One every 6 months (includes special procurement supervision for post-review/audits). A mid-term review is scheduled for November 2002.

Disbursement

Table C: Allocation of Proceeds

Expenditure Category	Amount in US$ thousands	Financing Percentage
1. Goods	250.0	100% of foreign expenditure; 100% of local expenditures (ex-factory); and 85% of local expenditures for other items procured locally
2. Consultant Services & Training	3,150.0	89%
3. Job Loss Compensation Payments under Part A.1 of the Project	203,055.0	70%
4. Labor Redeployment Services under Part B.2 of the Project	16,295.0	70%
5. Front End Fee (1%)	2,500.0	
5. Unallocated	24,750.0	
Total	250,000.0	

Annex (B) Financial Management and Disbursement Arrangements

1. **Summary of Financial Management Assessment:** The Project was reviewed in detail by a Bank FMS during pre-appraisal and a detailed action plan was developed to ensure that an adequate financial management system is in place prior to Board presentation (see Chapter E, Section 4.4). During project life, an FMS will take part in supervision missions to monitor the FM of the PMU and ensure compliance with ongoing FM covenants. A recent review by the project FMS confirmed that the FM system fully satisfies the Bank's minimum financial management requirements.

2. **Auditing:** The Project Coordination Unit (PCU) will be responsible for ensuring that the financial statement, Special Account, and SOEs are audited by an auditor, acceptable to the Bank, in accordance with standards on auditing that are acceptable to the Bank. The negotiations confirmed that auditing services for the Project will be provided by the Treasury Controller and are not financed by the Bank.

3. **Disbursement Arrangements:** While an acceptable disbursement mechanism based on PMRs is not in place, disbursements will take place using the traditional disbursement mechanism. All disbursements against contracts for goods costing US$100,000 or more equivalent, services for consulting firms costing US$60,000 or more and individual consultants costing US$30,000 or more, as well as audit fees, training and incremental operating costs will be fully documented. Disbursements below these thresholds will be made against certified Statements of Expenditure (SOEs). This documentation will be made available for the required audit as well as to the Bank supervision mission, and will be retained by the PCU for at least one year after receipt by the Bank of the audit report for the year in which the last disbursement was made. The processing, disbursement and monitoring of the allocations of the proceeds of the Loan and Borrower counterpart financing would be managed by the PCU in coordination and consultation with the Undersecretariat of Treasury.

A review of the Financial Management System was undertaken to: (a) review the presence of the necessary elements for sound project financial management system, such as internal controls, project accounting, project staffing and audit arrangements; (b) assess the project's capacity and readiness for the implementation of LACI; and (c) prepare a time-bound action plan for strengthening the financial management system to achieve compliance with minimum LACI standards. This action plan has now been carried out.

4. **Special Account:** To facilitate timely project implementation, the Government will establish, maintain and operate, under terms and conditions acceptable to the Bank, a separate Special Account denominated in US dollars to be managed by the PCU. The minimum amount of the application should be 20% of the authorized allocation. The replenishment applications should be submitted by the PCU on a monthly basis, and must include reconciled bank statements as well as other appropriate supporting documents. A conversion account (USD to Turkish Lira) may also be established, as well as separate accounts for Government contributions (USD and conversion). The authorized allocation for the Special Account will be US$20 million. However, during the initial stage of the project, an amount limited to US$10 million will be deposited in the Special Account. When the aggregate amount of disbursement realizes US$40 million, the amount deposited in the Special Account will be increased to the full authorized allocation of US$20 million. The Special Account will be audited annually by

auditors acceptable to the Bank. At the present time, these audits are performed by the Treasury Department for all Bank projects in Turkey.

5. **Project Management and Coordination and Staffing:** The Project Coordination Unit (PCU) will be directly responsible for financial management during project life. The PCU will be overseen by the Privatization Administration. The PCU has recruited a full-time project Financial Management Department Head. In addition, a project accountant, financed by the project, who has advanced level training in finance and accounting, will be recruited. The project accountant would be responsible for financial management and control under the Project itself and would report to the Financial Management Department Head. To ensure the appropriate segregation of duties, transaction processing staff will be responsible for the primary data entry for each of the components once the project becomes operational. The overall operating budget for the PCU will be approximately US$1.1 million over the term of the Project.

6. **Accounting:** A project financial and accounting system has been selected, based on the needs of the Project. The system to be used has, *inter alia*, an accounting and internal control system with the capacity to record and retrieve in a timely manner, all financial and procurement transactions under the Project. The system will: (a) record and reports all assets, liabilities, and financial transactions and procurement activity of the Project; and (b) provide reliable financial information for managing and monitoring project activities. The accounting system (chart of accounts) will be classified by component and category of expenditure, and is able to capture data by sub-component at the level of individual activities. It will also reflect the various sources of funds. Furthermore, the system will provide information on the receipt and use of funds and will be able to produce financial reports comparing budget with actual expenditures at any given time. The system will provide financial data to measure performance when linked to the outputs of the Project.

7. **Financial Reporting:** The Government will be responsible for the appropriate accounting of the funds provided by the IBRD under the Loan, for reporting on the use of these funds, and for ensuring that audits of the financial statements or reports are submitted to the Bank. A computerized accounting system is being established at the PCU. Once trained, the Accountants at the PCU would maintain and prepare quarterly financial reports as part of Project Management Reports. Although an acceptable financial management system has been established, disbursements will start using traditional disbursements methods -- SOEs reimbursements, direct payments, etc. After the PCU has gained experience with the financial management system and reporting under project management reports (PMRs), and provided that the financial management system is reviewed and found capable of handling it, the project will consider moving to PMR-based disbursements. The PCU will maintain accounts for the Project and will be responsible for preparing Project Management Reports (PMR -- see Annex 9 of the Project Financial Management Manual) on a quarterly basis, and furnish to the Bank not later than 45 days after the end of each calendar quarter, a PMR for such period, which:

(a) (i) sets forth actual sources and application of funds for the project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the project for the six-month period following the period covered by said report; and (ii) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;

(b) (i) describes physical progress in project implementation, both cumulatively and for the period covered by said report, and (ii) explains variances between the actual and previously forecast implementation targets; and

(c) sets forth the status of procurement under the project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

8. **Project Operational Manual (POM)*:*** The POM was agreed during negotiations, and includes the financial management policy and procedures manual developed during the course of establishing the financial management system. This manual comprises: (a) special emphasis on accounting and auditing policies, standards and internal controls; (b) the role of the financial management systems in project management and implementation; (c) the accounting arrangements required for project management, including the format for and content of project financial reporting; and (d) the auditing arrangements that will be used during project implementation.

Annex 7: Project Processing Schedule

TURKEY: Privatization Social Support Project

Project Schedule	Planned	Actual
Time taken to prepare the project (months)	Eight months	
First Bank mission (identification)	June 20, 2000	June 20, 2000
Appraisal mission departure	July 19, 2000	July 20, 2000
Negotiations	September 18, 2000	Oct. 23, 2000
Planned Date of Effectiveness	January 2001	

Prepared by: David H. Fretwell, Task Team Leader, ECSHD

Preparation assistance: Carmen Laurente, Program Assistant, ECSHD

Bank staff who worked on the project included:

Name	Specialty
David Herbert Fretwell, ECSHD	Task Team Leader
Hjalte Sederlof, ECSHD	Principal Operations Officer/PTL
Darrell Prokopetz, ECSHD	Social Protection Specialist
Virginia Jackson, ECSHD	Senior Operations Officer
Evelyn Villatoro, ECSHD	Procurement Specialist
Dominic Haazen, ECSHD	Financial Management Specialist
Carmen Laurente, ECSHD	Program Assistant
Ferda Sahmali, ECSHD, Ankara	Operations Officer
Ibrahim Akcayoglu, ECSHD, Ankara	Operations Officer
Jeanine Braithwaite, ECSPE	Economist
Robert Gourley, PSDCR	Senior Private Sector Development Specialist
Dilek Barlas, LEGEC	Senior Counsel
Rohit Mehta, LOAEL	Senior Disbursement Officer

Annex 8: Documents in the Project File*

TURKEY: Privatization Social Support Project

A. Project Implementation Plan (Project Operational Manual)

A Project Implementation Plan (Project Operational Manual—POM) has been jointly prepared by the Borrower and Bank team, and agreed during negotiations. The POM contains, for each component: detailed objectives, activities, implementation procedures, performance and outcome indictors, implementation schedules, performance and output indicators, terms of reference for all technical assistance, detailed budgets, and procurement arrangements. The POM also contains the LACI action procurement, financial, and reporting. Finally, the POM contains a detailed Field Operational Manual for operation of Labor Redeployment Services.

B. Bank Staff Assessments

The Financial Assessment and Project Management/Procurement Assessment were completed with the Government during appraisal by FMS and PAS staff and are on file.

C. Other

The initial sector report titled *"Policy Options to Address the Social Impact of Economic Reform—Turkey"* February 17, 2000, and updated chapters were created during appraisal, July 20, 2000).

*Including electronic files

Annex 9: Statement of Loans and Credits

TURKEY: Privatization Social Support Project

Status of Bank Group Operations (Operations Portfolio)
As of Date 11/09/2000

Closed Projects	119

Active Projects

Project ID	Project Name	Last PSR Supervision Rating b/ Development Objectives	Implementation Progress	Fiscal Year	Original Amount in US$ Millions IBRD	IDA	GRANT	Cancel.	Undisb.	Difference Between Expected and Actual Disbursements a/ Orig.	Frm Rev'd
P009044	AGRIC RES	S	S	1992	55	0	0	6	7	13	7
P009093	ANTALYA WATER SUPPLY	S	S	1995	100	0	0	0	65.3	32.9	0
P009089	BASIC ED I	HS	S	1998	300	0	0	0	178.1	173	0
P044175	BIODIVERSITY/NR MGT	S	S	2000	0	0	8.2	0	7.7	-0.1	0
P009065	BURSA WATER & SANITA	S	S	1993	129.5	0	0	20	6	22.9	-1.3
P008985	CESME W.S. & SEWER.	S	S	1998	13.1	0	0	0	11.7	4.9	0
P048851	COMMODITIES.MKT.DEV.	S	S	1999	4	0	0	0	3.4	2.5	0
P009023	E ANATOLIA WATERSHED	S	S	1993	77	0	0	0	24	35.3	0.1
P065188	EFIL	S	S	2000	252.5	0	0	0	209.3	-43.1	0
P068394	EMG. EARTHQUAKE RECOV. - EERL	S	S	2000	252.5	0	0	0	0	0	0
P058877	EMGY FLOOD RECOVERY	S	S	1999	369	0	0	0	235.5	179.8	85.3
P009064	EMPLOYMENT & TRG	U	S	1993	67	0	0	0	26.4	26.4	0
P068792	ERL	S	S	2000	759.6	0	0	0	375	125	0
P009076	HEALTH II	U	S	1995	150	0	0	0	70.9	96.2	5.2
P009073	INDUSTRIAL TECH	S	S	1999	155	0	0	0	143.2	-2.4	0
P068368	MARMARA EARTHQUAKE EMERGENCY RECONSTRUC.	S	S	2000	505	0	0	0	449.7	229.7	0
P048852	NAT'L TRNSM GRID	S	S	1998	270	0	0	0	269.8	166.9	0
P038404	ODS PHASEOUT 2	S	S	1996	0	0	14	0	7.4	7.4	0
P009095	PRIM HEALTH CARE SER	S	S	1997	14.5	0	0	0	14.2	14.2	5
P009102	PRIV IMPLMT	U	U	1994	0	0	0	0	0	0	0
P009072	PRIV. OF IRRIGATION	S	S	1998	20	0	0	0	13.6	10.9	2.1
P035759	PUBLIC FINAN. MGT.	S	S	1996	62	0	0	5	41.8	46.8	14.4
P038091	ROAD IMPR. & SAFETY	S	S	1996	250	0	0	0	88.5	91.1	0
P009071	TEK RESTRUCT	S	S	1991	300	0	0	26.7	20.7	47.4	35.4
Result				Result	4105.8	0	22.2	57.7	2269.3	1280.8	153.2

Turkey
Statement of IFC's
Held and Disbursed Portfolio
As of 08/31/2000
(In US Dollars Millions)

FY Approval	Company	Held Loan	Held Equity	Held Quasi	Held Partic	Disbursed Loan	Disbursed Equity	Disbursed Quasi	Disbursed Partic
1998	Adana Cement	15	0	0	10	15	0	0	10
0/98	Alternatif Bank	14.44	0	0	12	9.44	0	0	12
1995/96	Arcelik	38.75	0	0	17.2	38.75	0	0	17.2
2000	Arcelik LG Klima	12.98	0	0	8.64	12.98	0	0	8.64
1994/97	Assan	6.26	0	4.5	5	6.26	0	4.5	5
2000	Banvit	20	5	0	0	0	0	0	0
1994/96/97	Borcelik	0	0	0	0	0	0	0	0
1995/96	CBS Boya Kimya	0	0.65	0	0	0	0.65	0	0
1994	CBS Holding	4	0	0	0	4	0	0	0
1996	CBS Printas	0	0.62	0	0	0	0.62	0	0
1992	Cayeli Bakir	16.8	0	0	0	16.8	0	0	0
1994	Cerrahogullari	0.61	0	0	0	0.61	0	0	0
1990/93	Conrad	0	0	0	0	0	0	0	0
1997/98	Demir Leasing	4.44	0	0	0	4.44	0	0	0
0/94/96	Demirbank	21	0	0	11	21	0	0	11
1989	Edirne	1.21	0	0	0	1.21	0	0	0
1995	Ekspres Bank	1.43	0	0	0	1.43	0	0	0
1993/96	Eldor	3.76	0	0	0	3.76	0	0	0
1988/93/96	Elginkan	9.58	0	0	0.76	9.58	0	0	0.76
1995	Entek	24.5	0	0	24.84	24.5	0	0	24.84
1997/98	Finans Leasing	4.44	0	0	0	4.44	0	0	0
1992/99	Finansbank	10	0	0	35	10	0	0	35
1994/98/00	Garanti Leasing	3.91	0	0	23.88	3.91	0	0	23.88
1994/95/96	Global Security	0	0	0	0	0	0	0	0
1999	Gumussuyu Kap	4	0	2.55	0	4	0	2.55	0
1998	Indorama Iplik	10	0.66	0	0	10	0.66	0	0
1998/00	Ipek Paper	0	0	0	15	0	0	0	15
2000	Isiklar Ambalaj	0	0	10	0	0	0	7	0
1994/98	Isvicre Hayat	0	0.08	0	0	0	0.08	0	0
1990	Kepez Elektrik	12.35	0	0	0	12.35	0	0	0
1988/90	Kiris	7.88	0	0	0	7.88	0	0	0
1996	Kocbank	7.14	0	0	0	7.14	0	0	0
1996	Koclease	8.57	0	0	0	8.57	0	0	0
1992/97	Korfezbank	10.5	0	0	18.5	10.5	0	0	18.5
1990/92	Koy-Tur	0	0	0	0	0	0	0	0
1991	Kula	4.47	0	0	0	4.47	0	0	0
1993/96	Medya	0	0	4.99	0	0	0	4.99	0
1998	Modern Karton	20	0	0	10	20	0	0	10
1991	NASCO	10.18	0	0	3.55	10.18	0	0	3.55
1998	Ottoman	20	0	0	80	20	0	0	80
1997	Oyak Bank	10	0	0	10	10	0	0	10
1998	Pasabahce-Schott	13.35	0	0	13.35	13.35	0	0	13.35
1983/94/98	Pinar ET	11	0	0	0	11	0	0	0
1994/00	Pinar SUT	14.24	0	0	0	0	0	0	0
0/97	Rant Leasing	2.15	0	0	0	2.15	0	0	0
1999	SAKoSa	21.18	0	0	20.72	21.18	0	0	20.72
1986/90	Silkar Turizm	3.23	0	0	3.68	3.23	0	0	3.68
1993/96	Sise Ve Cam	9.14	0	0	12.18	9.14	0	0	12.18
1998	Soktas	10.5	0	0	0	10.5	0	0	0
1996	TCRA	0	0.1	0	0	0	0.05	0	0
1995	TDD	0.8	0	0	0	0.8	0	0	0
1999	TEB Finansal	5	0	0	0	5	0	0	0
1994	Tekfen	0.71	0	0	0	0.71	0	0	0
1997	Toprak Leasing	2.67	0	0	0	2.67	0	0	0
1979/82/83/89/91/96/99	Trakya Cam	0	1.18	0	0	0	1.18	0	0
1995/99	Turk Ekon Bank	15	0	0	20	15	0	0	20
2000	Turkish Banks	33	0	0	0	0	0	0	0

1993/98	Turkiye Garanti	16.36	0	0	77.73	16.36	0	0	77.73
1999	Unye Cement	19.09	0	0	0	19.09	0	0	0
1999	Uzel	20	0	0	15	7.94	0	0	5.96
1970/71/82/83/98	Viking	10.92	0	0	0	10.92	0	0	0
1995	Yalova Acrylic	2.5	0	0	1.33	2.5	0	0	1.33
1997/98	Yapi Kredi Lease	3.01	0	0	0	3.01	0	0	0
0	ALease	4.44	0	0	0	4.44	0	0	0
1994	AYTAC	4.67	0	0	5.83	4.67	0	0	5.83
Total Portfolio:		561.16	8.29	22.04	455.19	476.86	3.24	19.04	446.15

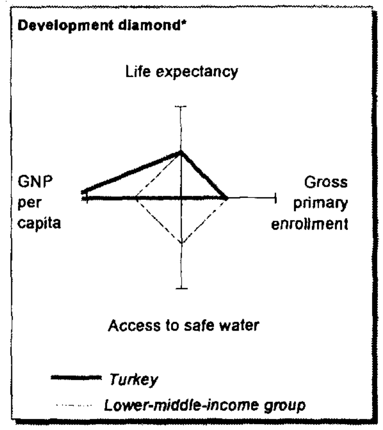
Approvals Pending Commitment

		Loan	Equity	Quasi	Partic
2000	Pinar Sea	4000	0	0	0
2000	BICT	20000	0	5000	0
1999	CBS Group Restr	5800	0	0	0
1995	ENTEK - KOC	0	0	0	15000
1999	Ege Seramik	18000	5000	0	0
2000	Erbakir	5000	0	5000	0
Total Pending Commitment:		52800	5000	10000	15000

Turkey at a glance

8/31/00

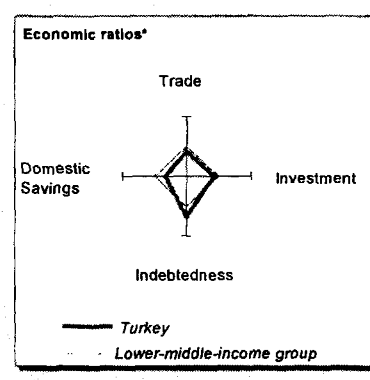
POVERTY and SOCIAL	Turkey	Europe & Central Asia	Lower-middle-income
1999			
Population, mid-year *(millions)*	64.3	475	2,094
GNP per capita *(Atlas method, US$)*	2,900	2,150	1,200
GNP *(Atlas method, US$ billions)*	186.6	1,022	2,513
Average annual growth, 1993-99			
Population *(%)*	1.5	0.1	1.1
Labor force *(%)*	2.6	0.6	1.2
Most recent estimate (latest year available, 1993-99)			
Poverty *(% of population below national poverty line)*	..	..	..
Urban population *(% of total population)*	74	67	43
Life expectancy at birth *(years)*	69	69	69
Infant mortality *(per 1,000 live births)*	38	22	33
Child malnutrition *(% of children under 5)*	10	8	15
Access to improved water source *(% of population)*	..	..	86
Illiteracy *(% of population age 15+)*	15	3	16
Gross primary enrollment *(% of school-age population)*	107	100	114
Male	111	101	114
Female	104	99	116


Development diamond*

KEY ECONOMIC RATIOS and LONG-TERM TRENDS

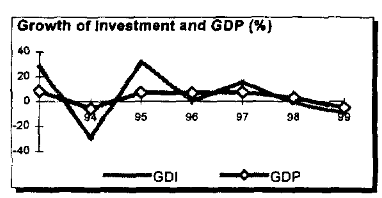
	1979	1989	1998	1999
GDP *(US$ billions)*	91.7	107.1	201.2	185.7
Gross domestic investment/GDP	14.1	23.5	24.2	23.3
Exports of goods and services/GDP	3.1	16.2	24.3	23.2
Gross domestic savings/GDP	11.5	21.9	20.6	19.6
Gross national savings/GDP	14.4	26.6	25.9	23.5
Current account balance/GDP	-1.5	0.9	1.0	-0.7
Interest payments/GDP	0.3	2.5	1.7	2.4
Total debt/GDP	17.4	38.8	48.2	54.8
Total debt service/exports	28.7	32.4	26.5	34.8
Present value of debt/GDP	..	..	49.9	..
Present value of debt/exports	..	..	160.9	..

	1979-89	1989-99	1998	1999	1999-03
(average annual growth)					
GDP	5.0	4.0	3.1	-5.1	5.5
GNP per capita	2.4	2.5	2.3	-7.8	4.1
Exports of goods and services	..	11.0	12.0	-7.0	5.9

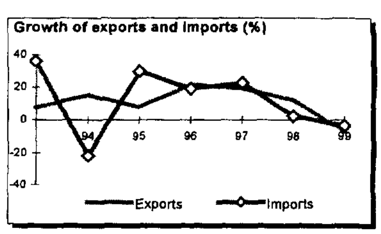

Economic ratios*

STRUCTURE of the ECONOMY

	1979	1989	1998	1999
(% of GDP)				
Agriculture	27.9	17.4	18.5	15.8
Industry	23.8	32.8	25.0	24.3
Manufacturing	16.0	21.4	15.5	14.6
Services	48.3	49.8	56.5	60.0
Private consumption	77.0	68.8	66.7	65.2
General government consumption	11.5	9.3	12.7	15.2
Imports of goods and services	5.7	17.8	27.9	26.9


Growth of investment and GDP (%)

	1979-89	1989-99	1998	1999
(average annual growth)				
Agriculture	1.1	1.6	9.3	-5.2
Industry	7.3	4.5	1.8	-6.7
Manufacturing	7.5	5.4	1.0	-6.0
Services	4.0	4.0	3.1	-3.9
Private consumption	..	4.0	0.1	-3.9
General government consumption	..	4.0	7.8	6.5
Gross domestic investment	..	4.6	-1.4	-9.5
Imports of goods and services	..	11.1	2.3	-3.7
Gross national product	4.9	4.1	3.9	-6.4

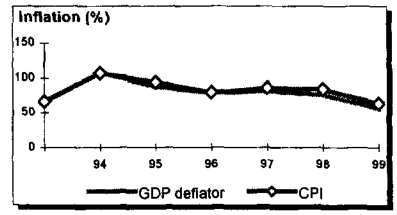

Growth of exports and imports (%)

Note: 1999 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

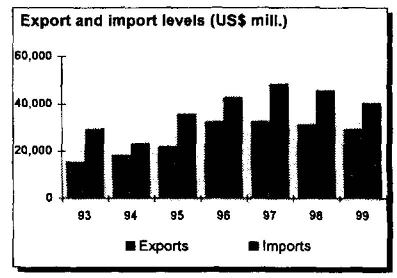
PRICES and GOVERNMENT FINANCE

	1979	1989	1998	1999
Domestic prices				
(% change)				
Consumer prices	..	63.0	83.7	63.5
Implicit GDP deflator	75.8	75.7	75.7	56.2
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	21.5	24.6	25.4
Current budget balance	..	4.2	-5.7	-14.4
Overall surplus/deficit	..	-5.2	-13.4	-23.4



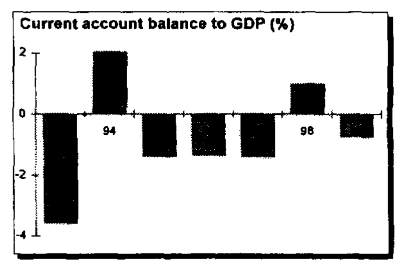
TRADE

	1979	1989	1998	1999
(US$ millions)				
Total exports (fob)	2,261	11,780	31,221	29,326
Textiles	428	3,911	10,510	9,830
Processed agricultural products	1,081	1,971	2,141	1,840
Manufactures	1,732	10,437	23,873	23,755
Total imports (cif)	5,069	15,792	45,921	40,693
Food	85	890	510	444
Fuel and energy	1,817	3,406	4,501	5,376
Capital goods	1,403	3,953	11,033	9,062
Export price index *(1995=100)*	..	85	87	82
Import price index *(1995=100)*	..	90	86	84
Terms of trade *(1995=100)*	..	94	101	98



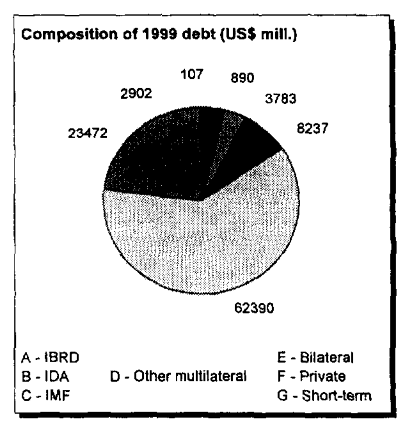
BALANCE of PAYMENTS

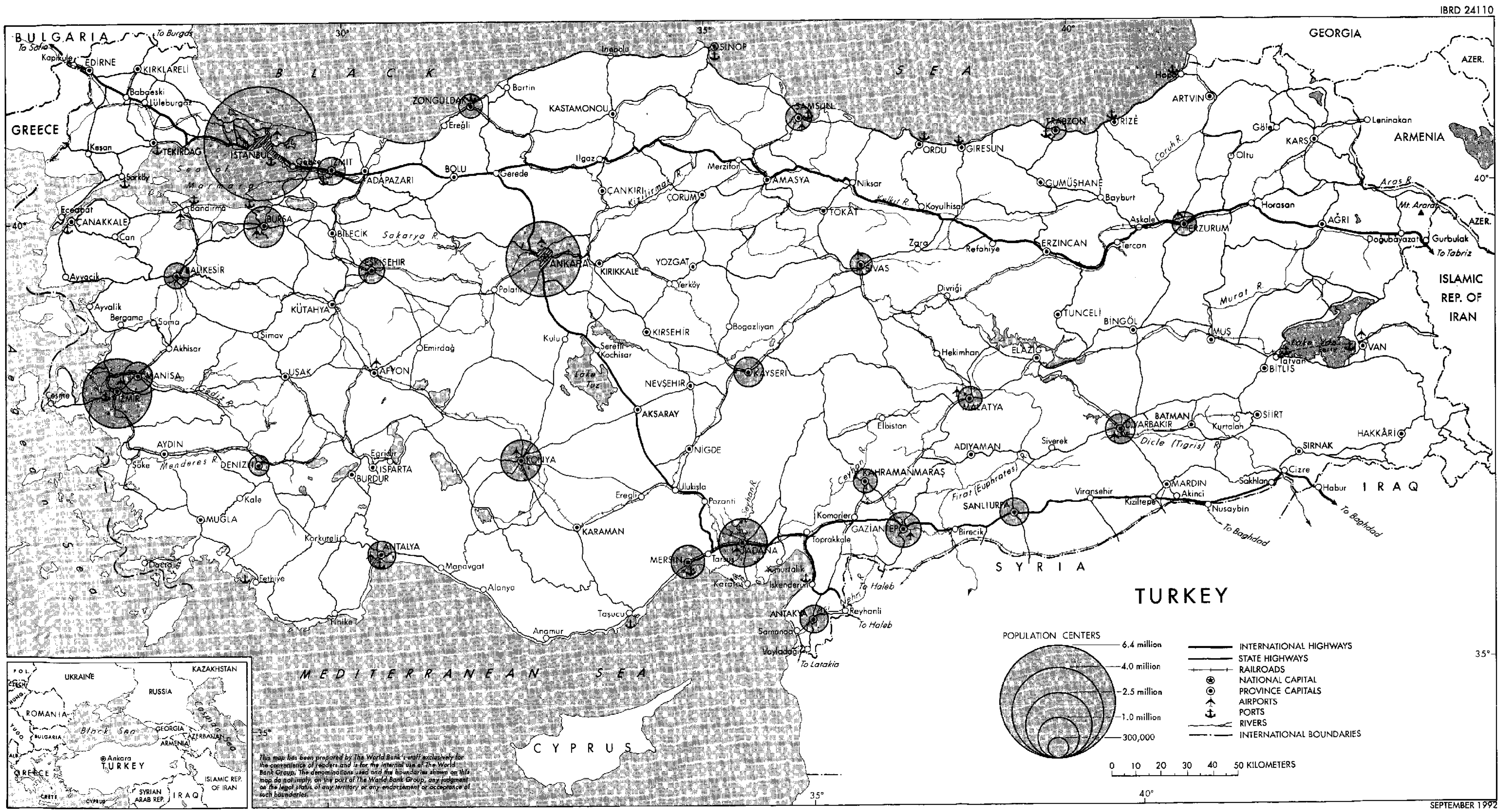
	1979	1989	1998	1999
(US$ millions)				
Exports of goods and services	2,969	17,612	52,037	44,548
Imports of goods and services	5,182	18,464	55,299	48,726
Resource balance	-2,213	-852	-3,262	-4,178
Net income	-1,009	-1,745	-481	-2,361
Net current transfers	1,810	3,558	5,727	5,175
Current account balance	-1,412	961	1,984	-1,364
Financing items (net)	1,300	1,801	-1,537	6,570
Changes in net reserves	112	-2,762	-447	-5,206
Memo:				
Reserves including gold *(US$ millions)*	..	9,283	29,499	34,128
Conversion rate *(DEC, local/US$)*	31.1	2,122	259,627	416,686



EXTERNAL DEBT and RESOURCE FLOWS

	1979	1989	1998	1999
(US$ millions)				
Total debt outstanding and disbursed	15,929	41,577	96,906	101,781
IBRD	890	5,869	3,304	2,902
IDA	190	162	112	107
Total debt service	1,340	7,092	16,513	18,316
IBRD	105	1,010	924	845
IDA	3	6	7	7
Composition of net resource flows				
Official grants	52	95	37	80
Official creditors	964	-555	-118	-760
Private creditors	3,068	1,631	-153	-3,269
Foreign direct investment	75	663	573	138
Portfolio equity	0	56	2,888	-1,727
World Bank program				
Commitments	306	604	956	1,165
Disbursements	280	419	271	384
Principal repayments	36	506	684	616
Net flows	244	-87	-414	-232
Interest payments	72	510	246	236
Net transfers	172	-597	-660	-468




IBRD 24110
TURKEY
POPULATION CENTERS
6.4 million
4.0 million
2.5 million
1.0 million
300,000
INTERNATIONAL HIGHWAYS
STATE HIGHWAYS
RAILROADS
NATIONAL CAPITAL
PROVINCE CAPITALS
AIRPORTS
PORTS
RIVERS
INTERNATIONAL BOUNDARIES
0 10 20 30 40 50 KILOMETERS
BULGARIA
GREECE
GEORGIA
ARMENIA
AZER.
ISLAMIC REP. OF IRAN
IRAQ
SYRIA
CYPRUS
BLACK SEA
MEDITERRANEAN SEA
Sea of Marmara
ISTANBUL
ANKARA
IZMIR
BURSA
ADANA
KONYA
ANTALYA
MERSIN
GAZIANTEP
KAYSERI
ESKISEHIR
SAMSUN
TRABZON
ERZURUM
MALATYA
DIYARBAKIR
SANLIURFA
KAHRAMANMARAS
ANTAKYA
SIVAS
ZONGULDAK
BALIKESIR
MANISA
DENIZLI
EDIRNE
KIRKLARELI
TEKIRDAG
CANAKKALE
IZMIT
ADAPAZARI
BOLU
KASTAMONU
SINOP
ÇANKIRI
ÇORUM
AMASYA
TOKAT
ORDU
GIRESUN
GUMÜSHANE
RIZE
ARTVIN
KARS
AGRI
ERZINCAN
TUNCELI
BINGÖL
MUS
BITLIS
VAN
ELAZIG
ADIYAMAN
MARDIN
SIIRT
HAKKÂRI
SIRNAK
BATMAN
KIRIKKALE
YOZGAT
KIRSEHIR
NEVSEHIR
NIGDE
AKSARAY
KARAMAN
AFYON
USAK
KÜTAHYA
BILECIK
ISPARTA
BURDUR
MUGLA
AYDIN
To Baghdad
To Haleb
To Latakia
To Tabriz
To Sofia
To Burgas
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UKRAINE
RUSSIA
KAZAKHSTAN
ROMANIA
Black Sea
Caspian Sea
Ankara
SYRIAN ARAB REP.
SEPTEMBER 1992