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PROJECT PERFORMANCE ASSESSMENT REPORT

TURKEY

PRIVATIZATION IMPLEMENTATION ASSISTANCE & SOCIAL SAFETY NET PROJECT (LOAN 3728-TU)

July 25, 2001

Sector and Thematic Evaluation Group
Operations Evaluation Department

Currency Equivalents (annual averages)

Currency Unit = Turkish Lira (TL)

US$1.00 = TL14,470 (end-Dec 1993)
US$1.00 = TL38,730 (end-Dec 1994)
US$1.00 = TL59,650 (end-Dec. 1995)
US$1.00 = TL107,780 (end-Dec. 1996)
US$1.00 = TL205,610 (end-Dec 1997)
US$1.00 = TL314,460 (end-Dec 1998)
US$1.00 = TL541,400 (end-Dec 1999)
US$1.00 = TL670,000 (end-Dec 2000)

Fiscal Year

Government: January 1–December 31

Abbreviations and Acronyms

CAS	Country Assistance Strategy
GOT	Government of Turkey
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion Report
KOSGEB	Small & medium industry development organization
LAP	Labor Adjustment Program
OED	Operations Evaluation Department
PA	Privatization Administration
PHC	Privatization High Council
PIAL	Privatization Implementation Assistance Loan
PPAR	Project Performance Assessment Report
RVP	Regional Vice-President
SAR	Staff Appraisal Report
SOE	State-owned enterprise

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The World Bank
Washington, D.C. 20433
U.S.A.

Office of the Director-General
Operations Evaluation

July 25, 2001

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Project Performance Assessment Report on Turkey Privatization Implementation Assistance and Social Safety Net Project (Loan 3728-TU)

Attached is the Performance Assessment Report prepared by the Operations Evaluation Department (OED) on the above project, which was supported by a loan of US$100 million to the Republic of Turkey. The loan was approved in FY94 and closed in December 1999, eighteen months later than originally scheduled. A total of US$70 million was canceled.

The objectives of the project were to accelerate privatization, help ensure a transparent and professional process, and lay the basis for sustained divestiture of state-owned enterprises and fiscal contraction. It sought to build up institutional capacity to manage the more complex workload entailed by a larger restructuring and divestiture program and to alleviate the adverse impact of state-owned enterprise (SOE) downsizing and divestiture on displaced workers and their families by fully integrating social safety net measures, including labor adjustment programs, into the divestiture process.

The project ran into difficulty right from the start, because the Constitutional Court annulled the legal framework under which the Privatization Administration (PA) operated. New legislation had to be passed by Parliament to restore the PA's legal mandate. Thereafter implementation progress was very slow due to political instability. The inability of GOT to privatize was due to the weak legal framework and insufficient broad-based political support for privatization at time of fragile and short-lived coalition governments. The premise of the project was that GOT would carry out an accelerated SOE privatization program, but governmental decisions to privatize SOEs were successfully challenged in the courts. As a result, actual privatizations during the 1990s were consistently far below GOT's announced intentions.

The overall project outcome is rated as unsatisfactory because the project failed to meet its original development objectives. The main reasons for the failure were the lack of strong political will to advance privatization and insufficient continuity in government. With hindsight it is apparent that the project was premature, poorly designed, over-ambitious and took insufficient account of the narrow political base of support for the privatization of SOEs in Turkey.

The overall institutional development impact of the project is rated as modest. Sustainability of the project benefits could not be evaluated. Borrower performance is rated as unsatisfactory. The sole difference is the assessment rating of the Bank's performance as unsatisfactory, compared to the Evaluation Summary's rating of satisfactory.

The key lessons from this project are:

- There must be a broad political constituency in favor of privatization if such programs are to succeed;
- Building public support for the privatization of SOEs is a slow process and should be an integral part of any government's economic reform program;
- Political risks need to be understood and assessed early in the project cycle and they should be an explicit feature of the appraisal of privatization projects;
- Technocratic assistance provided by the Bank to the privatization process cannot substitute for the absence of political commitment and is wasted if there is insufficient public support for privatization.

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This report was prepared by Sunil Mathrani, Consultant, who assessed the project in January 2001, under the supervision of Fernando Manibog, Task Manager. William B. Hurlbut edited the report. Marcia Bailey provided administrative support.

Principal Ratings

	Loan 3728-TU	
	ICR	***Performance Assessment***
Outcome	Unsatisfactory	Unsatisfactory
Sustainability	Unlikely	Non-evaluable
Institutional Development	Modest	Modest
Bank Performance	Satisfactory	Unsatisfactory
Borrower Performance	Unsatisfactory	Unsatisfactory

Key Staff Responsible

	Loan 3728-TU		
	Task Manager	*Division Chief*	*Country Director*
Appraisal	I. Lieberman	I. Lieberman	M. Wiehen
Midterm	H. Moritz	F. Batzella	K. Lay
Completion	V. Goel	I. Zurayk	A. Chhibber

PREFACE

This is a Project Performance Assessment Report (PPAR) on the Turkey Privatization Implementation Assistance and Social Safety Net Project for which the Bank approved a loan (3728-TU), of US$100 million on May 3, 1994. The original closing date of June 30, 1998 was extended until December 31, 1999. A total undisbursed balance of US$70 million was canceled.

This report is based on the Implementation Completion Report (ICR) prepared by the Europe and Central Asia Region, issued on May 9, 2000, the Staff Appraisal Report, loan documents, project files and discussions with Bank staff. An Operations Evaluation Department (OED) mission visited Turkey in January 2001 to discuss the effectiveness of the Bank's assistance with the government and the different project implementing agencies. The collaboration and assistance of all their officials are gratefully acknowledged.

Following standard OED procedures, the draft of this PPAR was sent to the borrower for comments before finalization. Comments received are included as Annex B to the assessment report.

Background

1. Turkish economic conditions in 1990s were largely a continuation of the previous decade, with high inflation, high budget deficits and an excessively high public sector borrowing requirement (PSBR), which peaked at an unsustainable 17% of GDP in 1993. Budgetary transfers to non-financial SOEs accounted for nearly half of the PSBR. The decade was also characterized by political instability and a pronounced stop-go cycle of growth and recession. Macroeconomic imbalances were exacerbated by underlying structural weaknesses in the tax system, public sector governance and an over-sized public sector that underwent little fundamental reform.

2. In early 1993, the CAS correctly stated that "GOT needs to take strong and effective action to reduce the fiscal deficit on a permanent basis. It requires the restructuring of the SOE sector through commercialization and/or privatization of SOEs" ... Although GOT has "confirmed its commitment to commercializing and/or privatizing SOEs, the political and legal environment has not been supportive." This statement accurately summarizes the situation that prevailed for virtually the entire decade. Despite several false dawns, substantive action to privatize SOEs only commenced in 1999.

3. A new coalition government came to power in mid-1993 with Mrs. Tansu Ciller as Prime Minister. Her government had an ambitious reform agenda and sought Bank help with SOE privatization[1] during a visit to Ankara by the Regional Vice President in July 1993. The Bank was very receptive and keen to increase lending since net transfers to Turkey were sharply negative. It quickly mobilized a large team to prepare a technical assistance project on a fast-track basis to assist with the implementation of GOT's privatization program. Preparation was completed in three months and the loan was negotiated just two months later. Even though the Board date had to be postponed because of a macroeconomic crisis,[2] the Privatization Implementation Assistance and Social Safety Net project (known as PIAL) was approved by the Board in May 1994, just 10 months after it was first mooted.

1. As early as the mid-1980s, GOT had prepared a master plan for SOE privatization with assistance from a Bank TA Loan, but this was not implemented.

2. Characterized by inter alia, the 150% depreciation of the currency in just 3 months, forcing GOT to announce an austerity package and negotiate a Standby Agreement with the IMF.

Project Objectives

4. According to the Staff Appraisal Report (SAR), the project aimed to promote efficiency and productivity and further the development of the private sector by providing assistance for an accelerated privatization process that would help lay the basis for sustained fiscal contraction. It sought to build up institutional capacity to manage the more complex workload entailed by a larger restructuring and divestiture program. Another important objective was to alleviate the adverse impact of SOE downsizing and divestiture on displaced workers and their families by fully integrating social safety net measures, including labor adjustment programs, into the divestiture process.

5. The project funded privatization and financial advisory services, a public information campaign to build support for privatization, studies to facilitate future privatization, particularly of public utility services and the development of a social safety net to deal with the social consequences of the expected labor retrenchment. It also financed a number of unrelated activities such as the development of a taxpayer identification system and actuarial training.

6. Following a mid-term review, the project was restructured and its objectives slashed, although these changes were not formalized in a memo to the Board. Support for privatization and labor adjustment programs ceased and three partial loan cancellations amounting to two-thirds of the original loan, took place before loan closure. The revised development objectives as stated in the final PSR are striking for their generality: "enhance efficiency and productivity in various sectors of the Turkish economy through technical assistance, studies, training and financing of equipment." They do not provide an adequate basis for assessing the project's performance and this assessment follows the approach of the ICR in using the original objectives to determine performance ratings.

Concept, Design and Quality at Entry

7. The justification for a massive US$100 million technical assistance loan to Turkey is puzzling unless intangible factors are taken into account. One of these factors can be described as the 'Ciller' effect. It is likely that Mrs. Ciller was looking for adjustment rather than project lending, but this was ruled out at the time due to the lack of an IMF-endorsed macroeconomic program. However, the Bank's top management and its main shareholders felt the need to show support to the reform-minded Prime Minister of a key country in the region. Even though Bank staff were clearly aware[3] of the narrowness of the political constituency for privatization, the Bank decided to proceed with the operation anyway, given

3. After preappraisal the TM, in a memo to the CD dated 22 November 1993 stated: "There is still not a specific key individual, other than the Prime Minister, driving privatization." He recommended that the RVP write to the PM and suggest the appointment of a Minister in charge of privatization.

the need to make a visible gesture of support for the new Ciller government. The signal to the world in making the loan was more important than its content. The project therefore took on a political importance right from the start because its Labor Adjustment Program (LAP) was publicized as the GOT solution to expected SOE job losses. The 'politicization' of the project later proved to be a handicap in devising a solution to its poor implementation performance (paras 15-16).

Design

8. The project design did not sufficiently take into account the Turkish legal context. GOT's prior attempts to privatize by decree had failed under legal challenge and there was no legal basis for privatizing public utilities. The appraisal team recognized that that a privatization law to set out the basic principles and objectives of privatization was needed, and the Bank recommended that such a law be put before Parliament[4]. However, they concluded that the project could proceed even without the passage of such a law. In their judgment, (which was endorsed by the Bank's Legal Department), there were sufficient industrial SOEs in the Privatization Administration's (PA) portfolio for which existing laws were adequate for privatization. This justified the Bank's decision to go ahead, even though *public utility* privatization required new legislation because, as public economic organizations (rather than enterprises), they were not covered by the commercial code and were unable to sell their assets. Other Bank staff working on reform of the Turkish power sector suggested prior to appraisal that the leverage of the upcoming loan offered an opportunity to get a comprehensive privatization law drafted and passed, which would cover all enterprises, including public utilities. However, these suggestions were ignored in the rush to process the loan as fast as possible. At the Board, one of the Executive Directors also pointed out that legal hurdles had been an obstacle to privatization in the past and commented on the modesty of the project in the setting of conditions to improve the legal framework. Subsequent events (para 15) would confirm that it was a mistake to proceed with the project without a satisfactory privatization law in place.

9. At a total appraised cost of US$129 million, the project was considerably over-sized and this became a handicap when the project ran into difficulty. Taking action to cancel or downsize a US$10 to 20 million project would not have been noticed, but the size of PIAL gave it high visibility in the public eye[5]. The inclusion of a large component (US$20 million) to finance a local media campaign in favor of privatization was imprudent because of the difficulty in monitoring procurement of a service for which prices are not determined on a competitive basis.

10. The loan comprised the following components: technical and financial support for privatization, including management of SOE liabilities pursuant to privatization; development of a social safety net, including labor adjustment programs and studies to underpin policy

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4. Letter from the Country Director to the Prime Minister dated 3 December 1993, just prior to project appraisal.

5. After the mid-term review a letter dated 17 December 1996 from the Country Director to the Minister of State recognized that the "project is over-designed and the Loan amount needs to be adjusted downward...However, the Bank recognizes that such an adjustment would be viewed as a vote of no confidence..."

reform on social security and pensions; preparation of a regional development program for the Zonguldak region (where a high concentration of layoffs was expected); and analytical work to facilitate further privatization, including regulatory frameworks for telecommunications and private provision of infrastructure. The inclusion of small components unrelated to the core issues addressed by the project (such as the training of actuaries, studies to reform the social security and pensions systems and the setting up of a computerized taxpayer ID system), was unwise. They dispersed the focus of the project and could have been addressed by other ongoing operations. In addition, their inclusion complicated any decision to cancel the project, since these components performed somewhat better than the privatization program and were later used as the main justification to extend the closing date of a project that deserved to have been canceled several years earlier.

11. Lessons from the poor track record of the Bank's TA projects in other regions, such as the inadvisability of excessive foreign TA, were ignored. Over 80 percent of the cost of the privatization component (US$71 million) was expected to be in foreign exchange. The reliance on such a high degree of foreign advisory services in a middle income country with a reasonably developed skill base in finance and management is striking.

Appraisal

12. The diagnosis of institutional weaknesses in the PA was accurate, but the remedies were inappropriate. A massive dose of technical assistance to the PA was unlikely to be the key to success, given (i) the institutional problem of the PA's lack of autonomy and micro-management of its work by the Privatization High Council,[6] and (ii) policy conflicts within the PHC itself. In addition, the PA was insufficiently involved in project appraisal, which hindered ownership by the main implementing agency. Finally, the lack of a PIU for the project was an additional shortcoming because none of the top managers within the PA had specific responsibility for the project and hence gave it insufficient importance.

Assessment of project risks

13. The biggest shortcoming at appraisal was the poor assessment of political risks. The lack of a national consensus in favor of privatization was known to the Bank and is mentioned in the SAR. Bank staff in charge of the project, while recognizing that the need for large-scale privatizations had not been properly explained to the Turkish public,[7] do not appear to have realized the potential difficulty this presented to GOT. There was considerable 'loyalty' to SOEs, particularly amongst older people, a generalized fear of job losses and public concern about the impact on the cost of goods, since people had grown accustomed to buying many products made by industrial SOEs at subsidized prices. These factors, in conjunction with a free press, a parliamentary democracy and an activist labor movement were major obstacles that would take considerable time to overcome. Greater realism and a better sociopolitical

6. The PHC is chaired by the Prime Minister and comprises four ministers.

7. Hence the need to finance GOT's public relations campaign.

analysis of the acceptability of privatization in Turkish society was clearly needed for the appraisal of a project entirely predicated upon GOT's ability to carry out such unpopular measures.

14. For all of the above reasons, the overall quality at entry of the project is assessed to be unsatisfactory.

Project Implementation

15. Since the ICR provides an accurate and objective account of the project's history, it is unnecessary to provide more than a brief summary here. The project ran into difficulty right from the start, taking nine months to be declared effective, because in mid-1994 the Constitutional Court annulled the legal framework under which the PA operated. It therefore lost its mandate to implement any privatizations. New legislation had to be passed by Parliament later that year to restore the PA's legal mandate. Thereafter implementation progress was very slow due to political instability and institutional weaknesses, particularly frequent changes in the management of the PA. The PA was also hampered by the need to seek PHC approval for operational matters. All decisions taken by the latter had to be unanimous, which was not easy, given that the PHC members represented different political parties, some of whom disagreed with privatization.

16. GOT's inability to undertake privatizations on the scale envisaged at appraisal was the fundamental cause of the project's implementation problems. At that time it was expected that at least one-half of the 22 SOEs in the PA portfolio and a further half of 34 GOT share participations would be sold by the time of the mid-term review (MTR), i.e, about18 months after the loan was approved. The MTR itself was delayed by over a year and the above targets were abandoned since only three of the 22 SOEs had been sold. Much more modest goals set at that time also proved to be unattainable. The inability of GOT to privatize was due to the weak legal framework and insufficient broad-based political support for privatization at time of fragile and short-lived coalition governments. The premise of the project was that GOT would carry out an accelerated[8] SOE privatization program, but despite the parliamentary approval of a new privatization law in late 1994[9] (that permitted the Loan to be declared effective), major governmental decisions to privatize SOEs were successfully challenged in the courts. As a result, actual privatizations during the 1990s were consistently far below GOT's announced intentions. Most loss-making enterprises on the privatization list for many years were not sold. Many SOEs were repeatedly prepared for privatization, using consulting services funded by the project, but in the end few sales took place.

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8. As compared to its prior track-record.

9. Law No. 4046 provides the legal basis for GOT to privatize SOEs, but successful litigation by opponents of privatization has shown that it needs revision.

17. In an effort to improve performance after the mid-term review, the project was restructured by dropping two components and by including a new one.[10] It also underwent two partial loan cancellations since it was soon apparent that the available funds considerably exceeded any likely utilization. By the time of closure less than a third of the loan had been disbursed. The project could probably be successfully implemented today, but is no longer required because the PA can use privatization proceeds to hire its own advisers and consultants.

18. It is important to note that in 2000, after the project had closed, GOT's privatization program had its most successful year. Total sale proceeds were about US$2.5 billion, far more than had been achieved in any previous year. This confirms the importance for privatization programs of a stable government with broad-based political support. It also shows the capabilities of the PA to undertake privatizations without Bank-financed assistance.

Other project components

19. The Labor Adjustment Program was designed to assist SOEs with pre-layoff labor planning, and to assist workers retrenched by privatization to return to productive employment as soon as possible. However, it had little use made of it since few SOEs were sold and few workers laid off. For this reason it was dropped from the project after the 1997 restructuring.[11] Nevertheless, the design of the LAP and the experience and skills acquired in developing it should prove to be useful under the follow-on project, PSSP,[12] that was approved by the Board in December 2000. This component has contributed to the strengthening of the Turkish Employment Agency as well as the Small Business Administration (KOSGEB).

20. KOSGEB designed and set up a small business incubator in the coal mining town of Zonguldak with positive results. The economy of Zonguldak is heavily dependent on the declining state-owned mining industry and suffers from high unemployment. About twenty small businesses[13] were set up and over a hundred jobs created at a total cost of less than $0.5 million, a low average cost per job, particularly when compared to the subsidies per employee received by the coal mine. Several tenants have outgrown the available space and moved out of the incubator premises. The lack of a micro-credit agency to provide short-term working capital is a constraint to the growth of the new enterprises.

21. The overheads costs of the incubator are being met on a sliding scale by KOSGEB, which expects the incubator to be self-financing by 2003, i.e., 5 years after its creation. Considering that the concept of business incubation was new to Turkey, the difficulties linked

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10. Technical support for SOE privatization and for labor adjustment services was dropped, while a study for energy sector reforms was added.

11. With the exception of support for the small business incubator.

12. Privatization Social Support Project, for which the Bank made a $250 million loan, 90% of which is to finance severance pay.

13. Garment manufacturing is the most common activity.

to the depressed economic climate of Zonguldak and the prevailing mentality there of dependence on state assistance, this component can be considered as a success. The model is expected to be replicated in other towns under the PSSP.

22. The PIAL project financed computer hardware and software to help the Ministry of Interior set up a database and identifier system for all Turkish citizens (MERNIS). This nationwide project will take several more years to complete,[14] so the impact of Bank assistance cannot yet be assessed.

23. The impact of the studies[15] carried out under PIAL for the energy sector reform and privatization program has been positive, although implementation has been delayed due to the need for legislative approval of the recommended reforms.

Institutional development impact

24. The project's institutional development impact on the Privatization Administration (PA) was less than anticipated because of the small number of people directly involved in implementing the project. The in-house strategic and legal advisers to the PA were handicapped by the frequent changes in the top management,[16] some of whom did not feel that there was a need for the TA. The PA was dissatisfied with the cost and quality of some of its consultants. It appears that the lack of progress in undertaking privatizations may have led to the consultants withdrawing their most experienced staff to work elsewhere. Nevertheless, some of the experience gained in implementing the PIAL is likely to have proved useful in the design of the follow-on PSSP project, for which the PA has been designated as implementing agency.

25. The project was a fillip to local consulting capabilities because the TA furnished to the PA and the numerous preparatory studies carried out on SOEs slated for privatization program were mainly carried out by the local affiliates of foreign consulting firms. They have gained in experience and expanded their activities considerably, in part as a result of the project. The use of consultants by the public sector has also increased as a result of the PA's activities. Thus, indirectly the project has beefed up Turkish consulting firms, who now are much less reliant on their foreign partners.

26. The institutional development impact of the project on Treasury staff was negligible, with the exception of the component for the training of actuaries, which appears to have been useful, given the short supply of such skills in Turkey.[17] Facilities for the training of actuaries

14. In a letter from the Government of Turkey dated June 27, 2001, The Ministry of Internal Affairs, General Directorate of Census provided an update, stating that the goals defined for the first stage of the MERNIS feasibility report were reached and that, by 2002, MERNIS will begin to function fully. The letter from the Government of Turkey is provided in Annex B.

15. These include studies on electricity regulation and electricity market law, liberalization of the gas market, the petroleum law, and the transfer of operating rights for generation plants.

16. The PA has had 13 Presidents since its creation in 1985.

17. There are only about 40 certified actuaries in the whole country.

at Turkish universities were also funded by the project. As discussed earlier (paras 18-20), the Turkish employment agency and the small business administration also gained in skills and experience and are stronger entity today.

27. For the above reasons, the overall institutional development impact of the project is assessed as modest.

Bank and Borrower Performance

BANK PERFORMANCE

28. **Preparation & Appraisal:** It should be recognized that the Bank, which has often been criticized as being slow and unresponsive to its clients, exhibited commendable promptness in preparing and processing this project. Unfortunately the imperative of speed probably contributed to the shortcomings in the Bank's performance during preparation and appraisal (para 7), particularly as regards legal issues and its poor appreciation of the local political economy (para 12).

29. **Supervision:** The project was supervised regularly, although there were discontinuities due to changes in task manager. Supervision would have benefited if it had been delegated to the Country Office, particularly as regards response times to communications from the implementing agencies. Its implementation difficulties were clearly recorded in BTOs and PSRs. The project was continuously rated as unsatisfactory for both its implementation performance and development objectives from effectiveness to closure. But the problems it faced were not adequately addressed by the Bank's Regional management in its communications with GOT. There was little correspondence from the RVP to the PHC or Minister in charge of privatization. Nor does the threat of a formal suspension of disbursements appear to have been used. Staff gave consideration to canceling the project at the time of the mid-term review, but opted for an informal restructuring and partial loan cancellation instead. Bank staff used their best efforts to try and assist the PA to carry out its mandate and sought to find ways to use the available funds productively by including several small components that had not been initially envisaged. However, in practice this amounted to micro-level tinkering which could in no way overcome the fundamental handicap faced by the project – GOT's unwillingness or inability to privatize SOEs.

30. With hindsight it is clear that the Project should have been canceled in 1995-6 in the wake of the departure from office of the Ciller government, but its high profile made this difficult. Subsequent incoming governments always made out that they too were committed to privatization and both the Bank and GOT were afraid that outright cancellation would be interpreted as a sign of no confidence in the incoming government. As a compromise, three partial cancellations were carried out to reduce the burden of paying commitment charges on funds which would never be drawn upon, but the project was allowed to continue past its

original closing date in order to complete studies and procurement unrelated to the privatization program. *Technical* performance by Bank staff during supervision was satisfactory, but due to the reluctance of the Bank's Regional management to take appropriate remedial action, this assessment reviews overall Bank performance during supervision to have been unsatisfactory.

BORROWER PERFORMANCE

31. GOT's performance in project preparation was unsatisfactory because of its acceptance of a loan that exceeded its needs and for activities that it did not need to borrow for. During implementation the PHC's inability or unwillingness to take decisions combined with the low-decision making threshold of the PA were significant contributors to the slow pace of project execution. The PA did not make the best use of the PIAL financial resources at its disposal and the internal consultants to the PA were not used effectively. The media campaign was wasted due to poor timing and had to be suspended due to procurement irregularities. Compliance with loan covenants was poor. While GOT was not responsible for the political obstacles to its privatization program, it was reluctant to cancel a project that no longer had a rationale in the absence of privatization. For these reasons, overall Borrower performance is assessed as unsatisfactory, just as indicated by the Evaluation Summary.

OVERALL PROJECT ASSESSMENT AND RATINGS

32. This assessment confirms the findings of the Evaluation Summary that the project failed to meet its original development objectives and that the overall outcome was unsatisfactory. The main reasons for the failure were the lack of strong political will to advance privatization and insufficient continuity in government. With hindsight it is apparent that the project was premature, over-ambitious and took insufficient account of the narrow political base of support for the privatization of SOEs in Turkey. Overall political instability in Turkey, with frequent changes of government in the 1995-97 period also contributed to the difficulty of pursuing a controversial privatization program.

33. The overall institutional development impact of the project is rated as modest in light of its contribution to strengthening of some of the implementing agencies. Sustainability of the project benefits is not evaluable, given the overall paucity of benefits from the project. Both Bank and Borrower performance are rated as unsatisfactory. The differences in ratings between the assessment and the Implementation Completion Report (ICR) are for: (i) sustainability, which the ICR considers as unlikely, and the assessment rates as not evaluable, given the paucity of project benefits; and (ii) Bank performance, which the ICR rates as satisfactory, and the assessment rates as unsatisfactory, in view of the Bank's reluctance to take appropriate remedial action when the project was continuously rated as unsatisfactory from effectiveness until closure.

Lessons Learned

The following lessons can be drawn from this project:

- There must be a broad political constituency in favor of privatization if such programs are to succeed;
- Building public support for the privatization of SOEs is a slow process and should be an integral part of any government's economic reform program;
- Political risks need to be understood and assessed early in the project cycle and they should be an explicit feature of the appraisal of privatization projects;
- Technocratic assistance to the privatization process cannot substitute for the absence of political commitment and is wasted if there is insufficient public support for privatization;

Also, as previously demonstrated by other projects:

- Legislation critical to the success of projects should be passed *before* a Bank loan is approved by the Board;
- The Bank should be less reluctant to use remedies at its disposal in the event of unsatisfactory Borrower performance. and
- Most technical assistance projects have little lasting impact on the development of institutional capabilities.

Annex A

Basic Data Sheet

Privatization Implementation Assistance & Social Safety Net Project (Loan 3728)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as percent of appraisal estimate*
Total project costs	129	34.4	27%
Credit amount	100	29.9	30%
Cofinancing	29	4.5	16%

Project Dates

	Original	*Actual*
Identification		September 1993
Preparation		October 1993
Appraisal	November 24, 1993	December 13, 1993
Negotiations	February 14, 1994	February 18, 1994
Board Presentation	May 3, 1994	May 3, 1994
Signing		May 5, 1994
Effectiveness	November 1, 1994	February 28, 1995
Mid-term Review	November 20, 1996	September 15, 1998
Project Completion	June 30, 1998	June 30, 1999
Project Closing	October 31, 1998	December 31, 1999

Loan/Credit Disbursements: Cumulative Estimated and Actual *(amounts in US$ thousand)*

	FY94	*FY95*	*FY96*	*FY97*	*FY98*	*FY99*	*FY00*
Appraisal Estimate	5,000	33,000	64,000	85,000	100,000	100,000	100,000
Actual	0	4,597	13,873	17,187	23,545	27,468	29,960
Actual as Percentage of Estimate	0	13.93	21.68	20.22	23.54	27.46	29.96
Date of Final Disbursement February 1, 2000							

Bank Resources: Staff Inputs (Actuals)

Stage of Project Cycle	*US$(000)*
Preparation to Negotiations	648.4
Negotiations to Completion	834.6
Total	1,483.0

Annex B

Comments from Borrower

Comments of Ministry of Internal Affairs-General Directorate of Census

As a result of examining the performance audit report which has been prepared by World Bank, for the privatization implementation assistance and social safety net project (PIAL): The opinions with reference to MERNIS Project in Item 22 do not reflect the current status of MERNIS Project. For this reason, it is necessary for us to make the following explanation:

The goals defined in at first stage of MERNIS feasibility report, which was prepared by the World Bank were reached. In this context, the computer infrastructure of 923 province office has been completed, and all the staff have been trained, the MERNIS application software as a result of system engineering contract has been prepared, and this software is being used by all province offices. 28 October 2000 social security numbers are given to all Turkish citizens, the transfer operations of these numbers to state institutions are continuing, for learning social security numbers easily, a web site was prepared. At this stage, the studies for establishing the communication network between 923 province offices and center are started. By the 2002, will have completed all the operations and MERNIS will begin to function fully.