

PROJECT NAME:	SECOND PRIVATIZATION SOCIAL SUPPORT PROJECT (PSSP2)
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LOAN AMOUNT: US \$465 million

DURATION: September 15, 2005 to June 30, 2009

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BACKGROUND: Turkey is confronted by major issues in enhancing its competitiveness to benefit from globalization and prepare for the progressive economic integration with the European Union (EU). The State-owned Enterprises (SOEs) have been a drag on the productivity of the Turkish economy for years, and the government has been implementing a bold privatization program particularly over the last three years. Privatization runs against public perceptions in Turkey which are frequently negative. Addressing public perception and the real social costs of workers made redundant as a result of privatization are important elements in ensuring an effective and sustainable privatization program. 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 most of the remaining SOEs.

In addition to enhancing competitiveness, privatization of SOEs will make a sizeable contribution to both fiscal management and the reconfiguration of the public sector. The sale proceeds of privatized enterprises will be used in the management of Turkey's public debt which currently amounts to some 51% of GDP. On the reconfiguration of the public sector, removing the state's role in the management of large and strategic enterprises such as Turkish Airlines and Turk Telecom will enable the state to focus more on its core roles of economic management, service delivery and appropriate market regulation.

PROJECT OBJECTIVE: The development objective of the PSSP2 is to support the Government's Privatization Program, through mitigating the negative social and economic impact of the privatization of SOEs, and in the process, improve the effectiveness of labor redeployment services and small business incubators.

PROJECT DESCRIPTION: The PSSP2 will achieve this through three closely related components, namely: (i) Job Loss Compensation (JLC) to assist workers made redundant as a result of the privatization process; (ii) Labor Redeployment Services (LRS) to help affected workers find alternative employment (including the development of small business incubators); and (iii) Project Management, to ensure effective implementation and monitoring.

(a) **JLC:** This component is ameliorating the temporary negative social and economic impact of job loss compensation on workers displaced during privatization of SOEs. This component finances severance and related payments, as regulated by law, to workers displaced by job loss due to the privatization of SOEs. It is expected that a total of 29,000 workers will receive these benefits at a total cost of Euro 420 million. Limited local technical assistance (TA) will be used to assist in the implementation of JLC.

(b) **LRS:** 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 a variety of LRS, including job counseling, placement services, and labor retraining, through the Turkish Employment Agency (ISKUR), and business

advisory services and small business incubators through the Small and Medium Industry Development Agency (KOSGEB). LRS will be delivered to workers in 21 SOEs being privatized, including approximately 11,000 unemployed workers through sub-contractors to ISKUR and KOSGEB. Seven new small business incubators are being established, in addition to the six ongoing, financed under the PSSP. Small amounts of TA, training and goods will be provided to ISKUR and KOSGEB to assist in program implementation and build up their capacity. A program of case study evaluations will be undertaken of the effectiveness of LRS to improve service delivery throughout the life of the PSSP2.

(c) Management: The objective of this component is to manage the PSSP2 effectively as a whole. The component will also finance limited TA 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.

IMPLEMENTING AND MONITORING: The primary implementing agency will be the Privatization Administration (PA) under the Prime Minister's Office. Technical implementation of the JLC and LRS components of the project will be managed by a technical Labor Adjustment Group (LAG) within the PA. Administrative operations will be handled by a Project Coordination Unit (PCU) with Financial and Procurement/Reporting Departments within the 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.

JLC: The PA will identify SOEs qualifying for Bank financing of JLC based on Investment 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. The PA will 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 21 SOEs are to be agreed with the Bank).

LRS: This component will be coordinated by the LAG 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 LRS; (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 LRS is to be contracted to local services providers in keeping with the POM and LRS Field Implementation Manual as agreed with the Bank.

RESULTS ON THE GROUND: As of September 2007, a total of over 5,000 workers have received JLC support. An additional 2,500 workers have received LRS, resulting in the placement of about 1,000 workers. Three new small business incubators are now functioning.

BENEFITS: The primary benefits are to: (a) improve the productivity of former SOEs, through shedding of excess labor; (b) ensure that workers displaced by SOE restructuring do not fall into poverty, by provision of temporary income support; and (c) expedite the return of workers displaced by privatization and the economic reform program back into the labor market, by provision of labor redeployment services.

PROJECT STATUS: The project was approved by the Board on June 14, 2005 and became effective in January 2006. Project implementation is now progressing well as it follows directly the same format as the successful PSSP which was completed in December 2005.