

## **Evaluation of Structural Fiscal Transformation Reforms in Turkey: Reform Fatigue and Reform Ownership Problems**

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### **Türkiye’de Yapısal Mali Dönüşüm Reformlarının Değerlendirilmesi: Reform Yorgunluğu ve Reformlara Yönelik Sahiplenme Problemi**

#### **Abstract**

Distinctive features of the IMF supported fiscal adjustment programs is the implementation of structural fiscal reforms. Turkey completed many structural reforms aiming at an efficient market system and an effective public sector from 2000 to 2005. However due to the resistance against the reforms and changes experienced particularly in the second half of 2000 and 2002 and to the lack of “commitment” and “ownership” in the reforms the reforms were neither designed duly nor implemented completely. Turkey should commit and undertake structural reforms to be performed in public fiscal management. Such commitment necessitates a strategic management for the reforms in the medium term.

**Key Words** : Stabilization Programs, Structural Reforms, Fiscal Adjustment.

**JEL Classification Codes** : H00, H11, E62.

#### **Özet**

IMF destekli mali uyum programlarının ayırt edici özelliklerinden bir tanesi de yapısal mali reformların uygulanmasıdır. Türkiye 2000–2005 döneminde piyasa ekonomisinin ve kamu sektörünün etkin ve etkili işlemesine yönelik birçok yapısal reformu tamamlamıştır. Bununla birlikte, özellikle 2000–2002 döneminde reformlara olan direnç ve sahiplenme eksikliği reformların gerek tasarım gerekse uygulama sürecinde tam olarak uygulanmasının önüne geçmiştir. Türkiye kamu maliyesine yönelik yapısal reformları sürdürmeli ve bu konuda taahhütlerine yönelik bir kararlı bir tutum ortaya koymalıdır. Bu tür bir kararlılık reformların yönetiminde orta vadeli bir stratejik yönetim ihtiyacını da gerektirmektedir.

**Anahtar Sözcükler** : İstikrar Programları, Yapısal Reformlar, Mali Uyum.



## **1. Structural Reforms in Fiscal Programs**

Structural reforms become a vital part of stabilization programs implemented jointly with the IMF. Failure of programs to achieve the economic targets or to get the desired results in issues that are initially considered to be the main problematic fields in economy (such as inflation, level of public deficit, etc.) despite of the commitment to fulfill targeted policies continuously kept structural reforms on the forefront. It is remarkable that priority is given to revenues, but mostly taxes in reform fields of the programs relating to structural reforms. Almost half of the fiscal reforms are designed to set tax policies and to structure the tax administration. The reason for so much focus on revenues is because of accumulated problems of structural nature and existence of financial performance criteria such as primary surplus that are important for implementation of the program. Structural reforms are followed by other reform fields relating to fiscal policies and public spending system including social security in the program.

The medium term success of the stabilization programs is associated with the efficient design and implementation of the structural reforms under the impact of the lessons learnt from the country practices. Distinctive features of the IMF supported fiscal adjustment programs is the implementation of structural fiscal reforms. The sustainable success of the programs from a medium term perspective becomes identical to the fiscal reforms including structural measures.

The structural reforms and such measures are significantly emphasized, provided that the taxes are to be reduced and social expenditures are inevitably to be increased. Not only IMF but also the host countries inevitably underline the structural reforms as an obligatory tool for efficiency in the second phase of the program or in the other phases of the program when the institutional transformations are intensively felt through. Under such conditions on the contrary to the general perception of the structural reforms, the short term expectations is to realize efficient distribution and use of resources and consequently to use less resources.

The structural reforms employed in IMF programs are divided into nine categories; such as tax policy and tax administration; salaries and public personnel reform; social expenditures; other expenditures; public enterprises reform, privatization, improvement of private sector, social security and retirement reform, institutional reforms and pricing of public services (IMF, IEO, 2003: 61).

The IMF supported 15 stabilization programs<sup>1</sup> are evaluated on the basis of fiscal structural reforms, and the distribution and weighted evaluation of the structural reforms and conditionality's are given in the below table.<sup>2</sup>

**Table: 1**  
**The Distribution of Fiscal Reforms According to the Fields and Conditionality's in IMF Supported 15 Programs (%)**

	Fiscal Reform Areas	Fiscal Reforms Acc. to Conditionality's
<b>A) Revenues</b>		
1. Taxation Policy	26	25
2. Tax Administration	14	9
<b>B) Expenditures</b>		
3. Wages and Public Personnel	12	10
4. Social Expenditures	7	5
5. Other Expenditures	2	3
<b>C) Quasi Fiscal Activities</b>		
6. Public Enterprises, Privatization, Improvement of Private Sector	19	25
7. Social Security and Retirement	4	4
<b>D) Institutional Arrangements</b>		
8. Institutional Reforms	11	12
<b>E) Pricing</b>		
9. Pricing Policies	5	7
<b>Total</b>	100	100

*Source: IMF, Fiscal Adjustment in IMF-Supported Programs, IEO, 2003.*

The structural reforms mainly focus on the fields of revenues, but mostly taxes. The 40% of the fiscal reforms are designed at taxation policies and tax administrations. The tax reforms focus on the VAT or the extension and efficiency of VAT and other expenditure taxes. The income tax and taxes imposed on wealth such as property tax are not emphasized.

The quasi fiscal policies rank the second. The main policies are created in the following fields: restructuring public enterprises, privatization, private sector participation in public sector intensive sectors, and social security and retirement system.

The reforms thirdly focus on the sub titles of expenditures with the ratio of 20%. Mainly the remuneration and public personnel reform items are pronounced among the expenditures. The control and limitation of the remunerations and the status and working

<sup>1</sup> These 15 programs: Romania, Tanzania, Algeria, Bulgaria, Phillipinnes, Equator, Senegal, Eqypt, Pakistan, Jordan, Ukraïn, Costa Rica, Venezuela, Uruguay and Peru.

<sup>2</sup> For detailed evaluation see; IMF, Fiscal Adjustment in IMF-Supported Programs, Independent Evaluation Office, 2003.

principles for the public personnel are given priority. The rest of the policies related to the expenditures are designed for the rationalization of the public investment program and the reduction of expenditures in general.

Public reforms mainly concentrate on the efficiency of public expenditures such as the transparency in public accounts and budget, broadening the scope of the budget, budget preparation process, development of fiscal control and audit.

The policy on pricing of public services (for the public benefit) is least concentrated area among the nine categories. Policies regarding the fiscal impact of energy prices can be given as example.

When the structural measures according to the conditionality's are examined, the taxes but particularly taxation policies rank the first with the ratio of 40%. The taxation conditionality's are followed by the structural conditionality's regarding the public enterprises, privatization and development of private sector.

The dilemma of the political decision making mechanism (political – bureaucratic) also affects the structural reforms throughout the implementation of the stabilization programs. The decision making mechanism is under a time and market pressure to prepare and implement a list of fiscal measures to minimize the debt burden and eliminate the disequilibria causing instability during the preparation phase of the program's objectives. Moreover the measures to be included in the list should promote growth and protect social priorities. In the vast majority of the cases it is not possible to prepare a strategy for the settlement of this dilemma in the short term; and quality may be sacrificed for discipline. It is also known that the decision making mechanisms have a tendency to create some palliative and non-transparent “creative” solutions – formulations under such dilemmatic conditions. However, such solutions do not contribute to the quality in fiscal adjustment; on the contrary, have distorting effects on the government's balance sheet as stated in the above paragraphs. Consequently the correlation between the quality of the fiscal policies and structural and institutional reforms is highlighted during the implementation of stabilization policies. (Emil et al, 2003: 18-19)

Some challenges are observed in the design of the structural measures such the lack of ownership. Consequently the reforms are not implemented in the due time and due manner and may have an impact on the expectations in economy and may adversely affect the fiscal policy. The structural reforms are overemphasized as a result of unsuccessful fiscal adjustment program, unpredictable fiscal crises or crises due to the external shocks. Thus the structural reforms designed over the capacity of the country cannot be duly implemented; and the fiscal policy of the program is misperceived provided that the measures are dependent upon the conditionality's.

Certainly the concept “reform fatigue” is under debate in the countries implementing programs in recent years. As it is stressed above the countries starting to implement a wide range of reforms, may lose their initial pace and efficiency due to different factors such as capacity challenges and internal inconsistency.

Despite of strong willingness by decision-makers, it does not seem possible to ensure lasting quality in expenditure and revenue-related policies without a decent and properly functioning tax administration and accurate mechanism for expenditure management. A properly functioning tax administration is the one that works on the grounds of a simple legislation, has the capacity to raise awareness amongst tax-payers, is able to make rapid and equitable collections, is equipped with information technologies and highly educated human resources with a continuous capacity to make systematic and periodical audits. Similarly, public expenditure management should be made in such a way that is fiscal-discipline centric, where expenditures are prioritized on the grounds of strategic plans within limit values, budget implementation turns into a performance-based structure focusing on service outcomes and auditing of expenditures can be made with this understanding. Only in this way, it will be possible to ensure quality and sustainability in measures (Emil et al, 2003: 13).

## **2. What Happened in Turkey After 2000?**

Turkey began the year 2000 with a comprehensive IMF supported fiscal adjustment program designed in 1999. In 1998 the relations were launched by a Staff Monitoring Program agreement. The relations were transformed into stand by negotiations as from the second half of 1999. And Turkey initiated a new period with IMF that would have an impact on economic and social life in medium term. In this period, Turkey signed and implemented three consecutive stand-by agreements with IMF: the first stand by agreement covered the 2000 and 2002 period, the second one covered the 2002 and 2004 period, and the final one in 2005 covered the 2005 and 2007.

Main fiscal policy target in 18<sup>th</sup> stand by program starting in 2000 is to decrease public debt stock to ensure a sustainable public finance structure. Basic performance criteria of the adjustment program was to reach a primary surplus level of 3,7 percent in ratio to GNP. Confidence problem experienced during the implementation of the program and the crises resulted in a revision in the fiscal policy targets and the performance criteria set at the level of 3.7% of GNP was increased to 5% (2001), 5.5% (2nd half of 2001) and finally 6.5% (in 2002) respectively. Recent effective program, which is 20<sup>th</sup> stand by program, has agreed to keep the primary surplus level at 6,5 percent in ratio to GNP and to continue with the public finance reforms, mainly in the field of social security and tax administration.

Program defined overall public sector primary surplus was realized as 4,2 percent in ratio to GNP during the 2000-2002 implementation period. This actually is corresponding to a level above the original program target (3,7 percent) despite the conditions prevailing in the aftermath of the earthquake. When we have a look at the institutional distribution of the actual primary surplus; it is found out that agencies under the general government are responsible for 102,4 percent. The reason for the ratio to exceed hundred percent is that state economic enterprises incurred a primary deficit in ratio of 2,4 percent.

Primary surplus target, being the major performance criteria of the 19th stand-by agreement, was increased to 6,5 percent during the 2002-2004 period. 2003-2004 average certified that the target was met with the final reviews. 88,7 percent of the realizations were from the general government and 11,3 percent from the SEE's. Share of the consolidated budget in terms of its contribution to primary surplus declined from 94 percent to 83 percent.

The consequences of the fiscal measures showed that Turkey had a performance capacity of primary surplus in the ratio 4-4,5% as a share of GNP. This figure sometimes stated as higher than 4,5% via butcher type of cut, some technical issues and fiscal tricks such as the postponement of the expenditures, inadequate reporting of the expenditures through the loops of the accounting and reporting system, and corrections in the fiscal tables of some institutions under an environment where expenditure reforms were not efficiently implemented.

Structural reforms have been getting more important for Turkey in order to get eliminate negative effect of the tight adjustment which is costly on economic and social asset level of Turkey and to keep program on sustainable path.

The first letter of intent outlining the 18<sup>th</sup> stand by arrangement provided for a comprehensive reform process for public finance with the aim of ensuring transition to a sustainable structure in public finance and improving the quality of public. Reform in public finance was categorized in four chapters: agriculture reform, social security reform, public finance management and transparency, and tax policy and administration.

The February 2001 economic crisis resulting in deviation of the program from fundamental economic policies first led to Program for Transition to a Strong Economy (PTSE) and then to the 19<sup>th</sup> stand-by arrangement. What is distinctive about the PTSE and the new stand-by is that they defined fields and steps of the structural reform in depth and improved conditionality on structural reforms. There was an attempt to reinstate confidence in international and local markets by reinforcing structural reforms as a means of showing decisiveness in implementing the program. The 19<sup>th</sup> stand-by arrangement and the letters of intent provided thereafter had quite a detailed annex on structural reforms.

Although this annex was considerably narrowed down in letters of intent of 2004 structural issues showed effect in 2004 due to sustainability of fundamental structural conditionality. Hence, starting of the 20<sup>th</sup> stand-by with the letter of intent submitted to the IMF depended on meeting structural reforms that were foreseen in the previous stand-by including mainly the tax administration reform.

In countries such as Turkey that have a high public debt stock and delayed program achievement, structural fragility fields are always considered as a risk perception. Even recent evaluations of circles close to IMF focus on effective implementation and continuation of structural reforms as the main approach to diminish crisis perception in countries like Turkey.

Rogoff, former Chief Economist of IMF and current Director of the International Development Center, Harvard University points out to the high possibility of an economic crisis in emerging economies. In his article (2004), Rogoff discusses: “Many countries including Turkey and Brazil have public foreign debts sizeable but acceptable in all criteria.(...) Many markets will be involved in the upside-down effect to come. (...) But yet, countries to experience crisis would be the ones deviating from their reform process and the ones having specific problems such as South Africa. (...) As a result of the developments to emerge, G7 countries will further increment interest rates. Turkey can be protected from adverse effects of this environment only if she continues with her current economic program.”

Undoubtedly, this and other similar evaluations may be subject to different types of criticism in terms of their approach. But the point that should be kept in consideration is that there is the need to be prepared for political and economic turmoil on the horizon for the world economy. To do this, it is particularly important to properly design and effectively implement structural reforms.

Problems faced in design and implementation of structural reforms influence expectations in economy having a negative effect on the fiscal policy in place. Initial economic conditions are generally problematic in countries that apply a stabilization or structural adjustment program with the IMF. This affects structural reforms in two aspects.

- First is the level of implementation of structural reforms intended for taxation and expenditures? If there is a need for severe structural reforms in these fields, the emerging capacity and management problem would also have a negative effect on the fiscal adjustment program. The need for expenditure reforms, in particular, manifests itself in expenditure cuts and priorities. However, what is more important in that sense is that existence of urgent problems may prevent decisive implementation of structural reforms although they are in the agenda. Best example to that in Turkey is the fall back in some of the revenue and expenditure-related measures scheduled

even to a level that the planned level of spending was exceeded. Failure to make the necessary savings for social security and health expenditures throughout the program is perhaps one of the best examples that may be given in this respect.

- Second is the postponement or insufficient implementation of structural reforms that must be completed for sustainability of the program in medium term causing a boomerang effect in measures after a while. The relieving atmosphere after overcoming of initial trouble gets more attention than the structural transformation process that requires a more complicated and difficult process. Postponing the enforcement dates of laws or making amendments that would bring past experiences rather than developing strategies to solve problems before or after enforcement of the law are concrete reflections of this situation. Public Procurement Law, Public Finance Management and Control Law are best examples to this situation in Turkey.

Issues covered by the structural reform as announced in December 1999 with the 18<sup>th</sup> stand-by arrangement concretely entered the Turkish agenda thereafter. Reform efforts that were accelerated with crises and that increased structural fragility were actually in the form of rediscussing the controversial issues of 1998, reformulating arrangements or completing legislative works that were continuously postponed as in the social security system and revenue administration.

Structural reforms within stand-by arrangements are classified mainly under two groups; first, the ones intended for increasing general market effectiveness and second public sector reforms (please see annex 1 table).

It is not always possible to make distinction in reforms aimed at efficiency of the market system in public sector reforms. Ensuring a more competitive market within the rules of the game actually means reducing the role of the public in economy and changing the way of making business for actors in economy including the public. This can be translated into an influence of regulations intended for more competitiveness and effectiveness of the market on either the public sector or on the contrary of reform-like policy decisions and arrangements on the private sector.

Although structural reforms stand-by arrangements have always had a special implication, implementation of such reforms with enforced legal regulations have been mostly discussed as an indicator of determination for overcoming crises and negative events in economic and financial structure or for enhancing confidence in the program.

### **3. Problems Faced in Turkey in Structural Reform Process**

Attempts for public sector structure and the related arrangements can be divided into three parts relating to problems faced in Turkey:

- i. Design Problem. Lack of proper prioritization due to problems in institutional infrastructure and capacity in preparing reforms;
- ii. Problems of ownership in reforms. Problems experienced in sufficient level of ownership by relevant parties;
- iii. Problem of Strategic Management and Reform Fatigue. Problems encountered in timely and proper level of implementation, lack of integrated strategic management in implementation of enacted regulations and loss of faith in reforms.

Let's take each of these items one by one in detail.

#### **3.1. Design Problem of Structural Reforms**

Although structural reforms were part of stabilization programs, preparing them and completing the legal processes require a significant institutional infrastructure and determination in both political and administrative sense. Determination means sustaining the same level of legal and institutional amendments in foreseen reforms with the same level of sensitivity from the very beginning until the very end. Institutional infrastructure, on the other hand, can be accomplished by fulfilling the strategy for reform fields, applying the roadmap and draft regulations with a competent and contemporary approach that would catch up with future demands. Efforts spent for this purpose prior to the program would alleviate the capacity problem of this process. Hence, the foremost criterion in successful implementation of structural reforms is determination. This can be seen in comparing examples of Bulgaria and Argentina. Bulgaria implemented the structural reforms that transformed its system in the post-elective process in second half of 1990's whereas Argentina consumed the first half of 1990's most fulfilling the liabilities of the program and performed arrangements that led to reverse effects in general policies (as in local authorities).

The best examples for design problems in Turkey are the ones encountered in the Public Procurement Law and Banking Law.

The Public Procurement Law was amended seven times after it was passed. Two of these amendments were even before enforcement of the law. The most remarkable of these amendments was made in July 2003 with the Law no 4964. Article 51 of the Public Procurement Law of 70 articles was in a sense rewritten with the amendment in 2003. The

amendments made actually extended the scope of deviation from the law both in institutional and quantitative ways. The problematic provisions that were identified in the first version of the law were corrected in this atmosphere with the effect of the institutional capacity problem, conservative approach of the authorities that prepared the draft and resistance against change. The two latter points should be attributed significance. A total of five drafts were prepared in almost two years of time by a joint commission set up by the Ministry of Finance and Ministry of Public Works and Settlement. Although other central authorities and ministries made input in the drafts prepared on the grounds of possible problems, it would not be correct to say that such views were effectively considered. However, the law was amended in every six months after enforcement of the law as a result of the intentions for violating the law and concrete problems experienced in practice.

Another example that can be given for the design problem is the Banking Law. The Banking Law was passed in June 1999 and underwent a fundamental amendment in December 1999 with the starting of the reform process. The law was amended for a total of eight times after it was passed. With the Law no 5387 that was passed from the Parliament in July 2005, the legal arrangement relating to banks was rewritten.

### **3.2. Insufficient Level of Ownership**

Ownership in the reform process and reforms themselves particularly in the last 15 years has been one of the fundamental problems hindering the success of reforms. Laws and other legal regulations as well as institutional modifications enforced without sufficient level of ownership by political and administrative authorities were either subject to alterations by retrospective revisions or became inapplicable before put in practice.

Arrangements, which are considered as part of conditionality of the program in place but enacted without sufficient level of ownership due to absence of internal dynamics, are far from providing the desired results in practice. What may be even more risky in terms of its results is the fact that new arrangements (that are enforced after some time of postponement) may sometimes further complicates the existing structure.

This problem may especially be experienced in situations, where the reforms are presented in an integrated manner. Lack of performance in interrelated reform areas or sub-fields makes foreseen reforms inapplicable. The best example to that is the reforms intended for Social Security in Turkey. One of the determinant factors in this unresolved problem of the social security system reform is unwillingness presented by governments in solution of this problem and enforcement of policies that essentially contradict with the legal arrangements despite of the fact that this has been one of the most fundamental fields of deficit in public finance. Another important example for Turkey is the design of secondary legislation in away that would overcome vagueness in functioning of the system or underquality and insufficient content of practices stemming from such arrangements

when compared to the principles that the related arrangements are based on. The most recent example to that is under quality of the Medium Term Program and Medium Term Fiscal Plan enacted as per the Public Finance Management and Control Law no 5018 meeting neither the main framework presented to in Article 16 of the law nor similar country experiences. This is a concrete indication of insufficient level of ownership or unchanged mentality in bureaucracy.

### **3.3. Problem of Strategic Management and Reform Fatigue**

Problem of strategic management is perhaps the most deep-seated issue of structural reforms in the Turkish public sector particularly after commitment in implementing such reforms. In a system with a traditional and deep-rooted public administration, where a considerable part of arrangements laying the ground for implementation is run by dispersed and ad hoc legal regulations rather than framework laws and mostly by traditional solutions, strong nature of certain institutional structures and unchanged modes of working for long years come up as dynamics affecting the success of change particularly in practice. The circles that would be mostly affected by the transformation of reforms both within and outside the public domain put a remarkable resistance and opposition to change.

Reform arrangements that were legalized with the pressure of crises despite of notable resistance and all kinds of problems can be efficiently implemented with functionality only with proper management of the reform process. Unless the reform process can be efficiently managed both on micro and macro levels, the transformation process would very naturally be reversed.

On the other hand, this may influence the quality and efficiency in the process of legalization for reforms. Unexpected financial crises that may or may not be resulting from external shocks lead to an exaggerated focus on structural reform fields and extremely swift legalization of legal arrangements, which hinders sufficient level of implementation of structural reforms designed beyond the administrative capacity of the country suffering from internal consistency, timing and prioritization problems. Legal arrangements that are continuously postponed may be passed with a rush due to concerns as to misperception of fiscal policies and delays in structural reforms that are bound by strict conditionality most of the time resulting in another postponement process. The best practical examples may be the Law on Public Finance Management and Control and the Law on Establishment of the Directorate General for Revenues.

The practical problems of these two legal documents were mainly as follows:

- Enforcement articles were postponed,
- Pilot application results were not broadened at the desired level and could

not be reflected on budgetary talks and processes of evaluation for practical results,

- A draft amendment was prepared by the Ministry of Finance even before enforcement of the law,
- The Medium Term Program and the Medium Term Fiscal Program that were prepared for the new budgetary process of the law were extremely insufficient contradicting with the framework envisaged in relevant articles of the law and the best practices in various countries as a continuum of previous habits.

The Law on Establishment and Duties of the Directorate General for Revenues that was passed in 2005 were structural conditions as mentioned in the letters of intent as from 2002, starting year of the 19<sup>th</sup> stand-by arrangement, but constantly postponed in terms of implementation. The new arrangement foresees establishment of a brand new Directorate General for Revenues. Restructuring of the administration is based on the principle of separating the policy-making process and the taxation process and of establishing an autonomous and effective tax administration that is free from political influence. It wouldn't be wrong to say that the new arrangement that passed the Parliament with a jet speed record fails to bring along sufficient level of assurance in administrative and financial autonomy of the revenues administration from the perspective of arrangements laying ground for functionality. Provisions stipulating the fields of responsibility and authority for the Minister and Directorate General for Revenues are not clear enough. Therefore, the enforced arrangement is considered as the modified version of the inevitable process of change that was prepared with inputs from both inside and outside since 2000 without changing existing balances.

Another concept, which is getting controversial in some countries implementing the program in recent years, is the 'reform fatigue'. Countries that attempt to cover a broad range of issues with their reform process may lose the initial speed and efficacy in implementing reforms due to reasons such as insufficiency of capacity or internal inconsistency of reforms. The level of reform fatigue in Turkey is debatable. The 'reform fatigue' concept defined in early 2003 should in fact be considered together with the problem of mismanagement of reforms. The problem of coordination between reforms together with the problem of internal consistency in arrangements for structural reforms as defined in matrix table point out to weakness in reform management. This is so for also secondary arrangements. Provisions contradicting with the main arrangement may exist in secondary arrangements as a part of resistance by the existing structure or lack of perception of the reform.

The new situation that has emerged after 2003 presented itself with declaration of the new government to implement a comprehensive reform program followed by an

urgent action plan covering this commitment. The government ruling with the November 2002 election got into the effort of preparing and enacting many bills aiming at restructuring public administration beyond public finance management. Legal arrangements such as the Basic Draft Law on Public Administration, draft laws on local governments (such as Law on Municipalities, Law on Metropolitan Municipalities, Law on Special Provincial Administrations, Law on Local Administrative Unions, etc.), Draft Law on Public Staff Management, Draft Law on the Administrative Procedures, Law on Right to Access to Information, Draft Law on State Secrets, Turkish Penal Code were among the most discussed legal documents. The problem of inter-consistency and complementary features of all these interventions and legal documents becomes more evident in the content of draft laws presented to the Parliament and in particular, amendments made by the Parliament.

One of the major problems of this reform attempt aiming at reconsidering public administration from scratch is the most comprehensive explanation of cons and pros of the reform to those, who would be affected from the process either positively or negatively. In this respect, the public administration reform is different than the other reform components defined under structural reforms. Today, banking reform may affect market actors, politicians and public administration directly, but may have indirect effects on the society in broader terms. The same applies to insurance sector. Reformation of the social security system is a specific reform although it covers broader segments of the society. Similarly, tax reform aims at restructuring of a particular field. However, what makes the public sector reform a unique one is that is not intended only for a specific sector. The public administration reform essentially aims at the way of functioning of the state with the claim of changing old behaviors, powers and habits. In this respect, those who would be affected by the reform are the public administrations themselves (with their staff and institutions), institution of politics, legal system (constitutional system, administrative law), public finance management system, government-citizen relations, central – local government relations and some sub-factors and actors involved in these relations (TESEV, 2004:1). In the process that started with the program, large scope of reforms, compliance of drafts and laws to the general legal system including the Constitution and the problem of self-timing and prioritization strategies in evidently justifies the thesis of governance problem and reform fatigue.

#### **4. Conclusion**

The studies conducted before and after the stand by arrangements initiated by the Staff Monitoring Agreement showed that there was no problem in the definition of the framework for the structural reforms. The causes and the solutions offered to the accumulated problems were identified through the studies carried out by internal dynamics and/or under the impact of the external dynamics. The main issue lies in the realization of the change and/or transformation in the political and administrative processes. It underlines design and management challenges and ownership problem.

Turkey took lessons from the crises that she undergone. Turkey completed many structural reforms aiming at an efficient market system and an effective public sector and installed the infrastructure for legislative amendments from 2000 to 2005. However due to the resistance against the reforms and changes experienced particularly in the second half of 2000 and 2002 and to the lack of “commitment” and “ownership” in the reforms the reforms were neither designed duly nor implemented completely. Today we are face to face with a structure contended with intermediate results and outcomes always left behind the targeted structure and change despite the intensive efforts. The wave of change reaccelerated particularly in 2003 and 2004 was started in public management which has a really wide scope. There were management challenges and lack of prudence in the implementation of the reforms due to the problems in the objectives. Cumulatively all the said problems highlighted the frustration in structural reforms. Turkey should commit and undertake structural reforms to be performed in public fiscal management. Such commitment necessitates a strategic management for the reforms in the medium term. Otherwise there would be negative expectations both in the markets and other sections due to the adverse effects of the failed reforms. Moreover there would be a risk of distortion in the immunity system of the country due to the complicated fiscal structure.

**Annex: 1**  
**Structural Reforms and Related Arrangements in 1999-2004**

<b>A. Structural Reforms Intended for Increasing Market Effectiveness</b>	
<b>Issues</b>	<b>Fundamental Arrangements</b>
<b>I. Acceleration of the privatization process</b>	1999- <i>Constitutional</i> amendment, 1999/2000- A series of laws were amended including <i>the Council of State Law</i> (4492), <i>the Law on Delivery of Some Investments and Services Within the Framework of BOD Model (3996)</i> . 2000- <i>The Law on Principles to be Followed in Case of Arbitration in Conflicts Arising from Concession Agreements on Public Services</i> no 4501 2001- Arbitration Law no 4686
<b>II. Increasing Competitiveness and Effectiveness in Energy Market</b>	1999 – The Law Amending <i>the Law on Delivery of Some Investments and Services Within the Framework of BOD Model</i> no 4493 2001- <i>Electricity Market Law</i> no 4628 2001 – The Law on Natural Gas Market Amending the Electricity Market Law no 4646
<b>III. Increasing Competitiveness and Effectiveness in Telecommunication Sector</b>	2000- The Law Amending <i>the Law on Telegram and Telephone Services, Law on Establishment and Duties of the Ministry of Transport</i> no 4502 and annexed tables of the Decree (...) 2001- <i>The Law on Telegram and Telephone Services, Law on Establishment and Duties of the Ministry of Transport</i> no 4673
<b>IV. Reregulating the Alcohol Products Market</b>	2001- The Law Amending <i>the Law on Spirit and Spirit Products</i> no 4619

<p><b>V. Reregulating the Civil Aviation Market</b></p>	<p>2001- <i>The Law Amending the Turkish Civil Aviation Law</i> no 4647</p>
<p><b>VI. Improving the Investment Climate</b></p>	<p>2003- <i>Law on Working Permits of Expatriates</i> no 4817 2003- <i>Law on Foreign Direct Investment</i> no 4875</p>
<p><b>VII. Increasing Competitiveness and Effectiveness in Agriculture Sector</b></p>	<p>2000- <i>Law on Agricultural Sales Cooperatives and Unions</i> no 4572 2001- <i>Sugar Law</i> no 4634 2002- <i>Law on Tobacco, Tobacco Products, Restructuring of the Directorate General for Tobacco and Alcohol Products Enterprises, Production, Domestic and Foreign Sales and Purchasing of Tobacco and Tobacco Products Amending Law no 4046 and Statutory Decree no 233</i> (4733)</p>
<p><b>VIII. Regulating Financial Markets</b></p>	<p>1999/2004- <i>Banking Law</i> no 4389 (This Law was amended seven times, four being comprehensive amendments, after enacted.) 2001- <i>The Law Amending the Law on the Central Bank of the Republic of Turkey</i> no 4651 2001- The Law Amending Some Laws and Statutory Decrees no 4684 (Restructuring of Public Banks) 2002- <i>The Law on Restructuring of Debts to Financial Sector and Amending Some Laws</i> no 4743 (A regulation amending the Banking Law known as Istanbul approach)</p>
<p><b>B. Reforms Intended for Increasing Effectiveness in Public Sector</b></p>	
<p><b>I. Budgetary Unity: Settlement of Funds</b></p>	<p>2000- <i>The Law on Settlement of Some Funds</i> no 4568 (Some of the funds were settled with a Cabinet Decree enforced in the same year) 2001- <i>The Law on Settlement of Some Funds</i> no 4629 2001- The Law Amending Some Laws and Statutory Decrees no 4684 (regulating provisions on <i>settlement of some of the remaining funds and arranging revenues and expenditures of settled funds</i>)</p>
<p><b>II. Ensuring Effectiveness in Preparation and Implementation Process of the Budget</b></p>	<p>2001-2004 <i>The General Macro Framework of the Budget Was Clarified and Institutional Budgetary Upper Limits Were Set</i> as Indicators part of the decisions by High Planning Council 2003-2004 A budgetary coding system applicable for the budget in proximity to international standards (IMF GFS 2001, AB ESA 95) providing a functional classification within the framework of <i>Transition to Analytical Budgetary Coding System</i> 2003- <i>The Law on Public Finance Management and Control</i> no 5018 passed the Parliament and was scheduled for early 2006 with later postponements</p>
<p><b>III. Ensuring Efficiency in Public Procurement</b></p>	<p>2001- <i>Expropriation Law</i> no 4650 2002- <i>Public Procurement Law</i> no 4734 (implementation year 2003-After enforcement, the Law was amended for a total of seven times, one being with the Law no 4964 in July 2003, which was in a sense rewording of the Law.) 2002- <i>Public Procurement Contracts Law</i> no 4735</p>

<p><b>IV. Ensuring Efficiency and Transparency in Public Borrowing</b></p>	<p>The Law on <i>Public Finance and Borrowing Management</i> no 4749 enforced in 2002- 2003</p>
<p><b>V. Ensuring Efficiency in Tax Policies and Restructuring of the Tax Administration</b> (No concrete step was taken in this period about restructuring of the tax administration.)</p>	<p>2000/2003- In 1998, fundamental provisions of <i>the Law Amending Various Laws</i> no 4369 were first postponed with laws no 4446 and 4783 and then cancelled, which in a sense meant turning back to the old system that became more complicated (particularly for direct taxes). 2002- <i>The Special Consumption Tax Law</i> no 4760 (SCT was for the first time introduced into the taxation system). 2003- Law Amending the Tax Procedures Law, Personal Income Tax Law and Corporate Income Tax Law no 5024 (<i>Transition to Inflation Accounting</i>) 2004- <i>Law on Encouragement of Investments and Employment Amending Some Laws</i> no 5084</p>
<p><b>VI. Restructuring the Social Security and Protection System</b> (No concrete step was taken in this period about restructuring of the Social Security authorities.)</p>	<p>1999- <i>Unemployment Law</i> no 4447 (Many provisions of this regulation were later cancelled by the Constitutional Court) 2001- <i>Law on Saving and Investment System for Individual Retirement</i> no 4362 2003- Turkish Employment Organization Law no 4904 2003- Law on Establishment of the Social Security Institution no 4947</p>
<p><b>VII. Modifying Practices for Public Intervention in Agriculture Sector</b></p>	<p>2001/2004- <i>The Direct Income Support System</i> Put in Practice By Authorization of the Council of Ministers with the Law No 4733 and Provisions Enforced in Tax Laws 2001- The Law Amending Some Laws and Statutory Decrees No 4684 within the framework of <i>settlement of duty losses</i> of the agriculture sector and enforcement of fundamental principles 2003- Law on <i>Restructuring of Problematic Agriculture Credits Furnished to Growers by Ziraat Bank of the Republic of Turkey and Agricultural Credit Cooperatives</i> no 4876</p>
<p><b>VIII. Restructuring Public Banks and Regulating Duty Loss Mechanism</b></p>	<p>2001- The Law Amending Some Laws and Statutory Decrees No 4684 within the framework of <i>settlement of duty losses</i> of the agriculture sector and enforcement of fundamental principles (This law and the cabinet decrees that followed as well as more than 100 arrangements on duty losses were cancelled.) 2001- Cabinet decrees <i>Cancelling Cabinet Decrees</i></p>

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