

PUBLIC-PRIVATE PARTNERSHIP AS A POLICY
INSTRUMENT: THE CASE OF ÇALBİR

A THESIS SUBMITTED TO
THE GRADUATE SCHOOL OF SOCIAL SCIENCES
OF
MIDDLE EAST TECHNICAL UNIVERSITY

BY

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IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR
THE DEGREE OF MASTER OF SCIENCE
IN
POLITICAL SCIENCE AND PUBLIC ADMINISTRATION

JULY 2007

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ABSTRACT

PUBLIC-PRIVATE PARTNERSHIP AS A POLICY INSTRUMENT: THE CASE OF ÇALBİR

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July 2007, 142 pages

This dissertation assesses the nature and features of public-private partnerships in the case of ÇALBİR. In this study, the public policy literature (especially policy transfer, policy formation and implementation, and network approach) has been used to explain the policy process for the adoption of such a policy instrument. The findings of this study can be summarized as: Firstly, this study indicates that the selection of policy instrument- public private partnership- in the case of ÇALBİR was not neutral as the proponents of managerialism assert but it was ideological. Secondly, there occurred a democratic legitimacy problem for the establishment of public-private partnerships in ÇALBİR case when citizens in the elections elected a mayor who was against privatization. Thirdly, after the establishment of public-private partnership the steering performed by ÇALBİR is not traditional command and control mechanism but instead it is managerial collaboration and persuasion mechanism. In addition, local government's working in accordance with managerial principles has brought about the elimination of public values. Lastly, this study shows that public-private partnership is not efficient enough due to compensation fee paid in early years, high operating expenses, and blurring of boundaries between public and private sector. Therefore, the main argument of this dissertation is that public-private partnerships as policy tools should be assessed case by case since so called characteristics of

public-private partnerships such as efficiency, and equity may not exist as in case of ÇALBİR.

Key Words: Public-private partnerships, water infrastructure management service, privatization, privatization, managerialism, governance, network.

ÖZ

POLİTİKA ARACI OLARAK KAMU ÖZEL SEKTÖR ORTAKLIĞI: ÖRNEK OLAY ÇALBİR

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Yüksek Lisans, Siyaset Bilimi ve Kamu Yönetimi Bölümü
Tez Yöneticisi: Doç. Dr. Yılmaz Üstüner

Temmuz 2007, 142 sayfa

Bu tez kamu- özel sektör ortaklıklarının özelliklerini ÇALBİR örnek olayında değerlendirmektedir. Bu çalışmada kamu-özel sektör ortaklığı politika aracının politika sürecini açıklarken kamu politikası (özellikle politika transferi, politika oluşturma, uygulama ve ağ yaklaşımı) literatüründen faydalanılmaktadır. Bu tezin bulguları şu şekilde özetlenebilir: İlk olarak, bu çalışma ÇALBİR örnek olayında politika aracının- kamu özel sektör ortaklığı- seçiminin işletmecilik anlayışının savunduğu gibi tarafsız olmayıp ideolojik olduğunu göstermektedir. İkinci olarak, ÇALBİR örnek olayında halkın özelleştirmeye karşı bir belediye başkanı seçmesi kamu özel sektör ortaklığının kurulması konusunda meşruluk sorunu ortaya çıkmıştır. Üçüncü olarak, kamu-özel sektör ortaklığının kuruluşundan sonra ÇALBİR tarafından uygulanan kontrol, geleneksel kontrol mekanizmalarının dışında işletme anlayışına dayanan işbirliği ve ikna mekanizmasıdır. Buna ek olarak, yerel yönetimin işletme anlayışıyla çalışması kamu değerlerinin ortadan kalkmasına sebep olmuştur. Son olarak; bu çalışma kamu özel sektör ortaklığının, işletmecinin ilk yıllarında ödenen telafi ücreti, yüksek işletme masrafları ve kamu ve özel sektör arasındaki sınırın belirsizleşmesinden dolayı yeterli verimliliğe sahip olmadığını göstermektedir. Bu yüzden, bu tezin temel iddiası kamu özel sektör ortaklıklarının her bir örnek olay için ayrı ayrı değerlendirilmesi gerektiğidir çünkü kamu özel sektör ortaklıklarının verimlilik ve hakkaniyet gibi özellikleri, ÇALBİR örnek olayının da gösterdiği üzere, mevcut olmayabilir.

Anahtar Sözcükler: Kamu- özel sektör ortaklığı, su altyapı yönetimi hizmeti, özelleştirme, işletmecilik, yönetim, ağ.

To my family

ACKNOWLEDGMENT

I would like to express my gratitude to my esteemed supervisor Assoc. Prof. Dr. Yılmaz Üstüner for his guidance in my studies, and contribution to my intellectual development by patiently showing my deficiencies.

Also, I would like to thank Prof. Dr. Şinasi Aksoy for his comments and criticisms regarding my studies and to Assoc. Prof. Dr. Erkan Erdil for his constructive suggestions. I would like to gratefully thank Mustafa Bayırbağ and Ümit Sönmez for their support and tolerance during my writing the dissertation. Lastly, I am indebted to my roommates Fatma Tütüncü and Özlem Gölgeliođlu for their patience.

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CHAPTER I

INTRODUCTION

In late 1970s, global world economy witnessed a crisis which led to the change in economic understanding both at international and national level. The premises of these changes were liberalization, deregulation, and privatization. As a result, public sector has been subject to serious transformations. One of the manifestations of this transformation is the burgeoning dominance of managerialism (consumerism, strategic management, PBB budgeting, performance management, cost benefit analysis, and the like) through which the norms of private sector being integrated into public sector organizations. The other one is the increasing privatization movement, both of which in essence reflect the state's restructuring.

Although the ideas of corporate culture were advocated in 1980s, means for privatization were prevalent in that period. Put it differently, it was suggested by its advocates- New Right ideologues- that there should have been privatization as much as possible since privatization would guarantee both democracy and efficiency. In that respect, different forms of privatization, such as privatization of SEEs (state economic enterprises), contracting out of goods and services were in the agenda as means in reaching in small state idea.

From the beginning of 1990s these policies have been subject to criticism due to their serious repercussions and failures since retreat of the state from the market had brought about negative externalities. To respond to these failures, the idea of regulatory state has come into the agenda. The emergence of independent regulatory bodies has been proposed to be major indicators of the regulatory state. Besides, the role of public organizations and NGOs in the provision of goods and services in the market as well as private sector has been defended as a panacea to

the failures of private sector during the 1980s. Despite the fact that role of government in the market has been acknowledged, the argument that they should operate in accordance with the principles of managerialism has not disappeared. In other words; while private sector is blamed for its failure to impede externalities, public sector is still accepted as inefficient. Therefore, whereas it is claimed that public sector lacks the resources necessary for the investments (fiscal dimension) and also deprives efficiency, private sector alone leads to social externalities. To guarantee efficiency, quality, financial assistance, equity, fair pricing, there is a need for new forms of service delivery in which both public and private sector will overcome the failure of the other. This new form of public service delivery is called as public-private partnership and its legitimacy is justified on the basis of reasons presented above (although the blurring of boundaries between public and private sector- due to managerial understanding in all sectors- will again lead to negative externalities is ignored).

The implementation of this new privatization instrument in water service provision sector may have serious deficiencies. Those supporting privatization ignore that water is a basic human right and everyone has the right to access water. As Water Deregulation Report stated:

Those in favor of privatization tend to see water as an economic proposition and are concerned with the failures in many countries to provide and develop basic services. They look at the economic realities of paying for it and have pragmatic views about how to do this. Governments are concerned with their responsibility to provide a service to the people and they accept that commercial profit may be a part of this. It may also be more efficient and cheaper. Those who are against privatization hold the position that water is a basic human right, that should be available to everyone, if necessary at no cost to the consumer....They do not believe that privately financed providers will deliver to all segments of the community, but that only a state controlled or cooperative organization will do this....Many regard cost recovery as unacceptable, without consideration of the need to fund the service (Water Deregulation Report, 2006: 16).

Proponents of privatization claim that privatization will enhance the quality and quantity of water through technology, and economic techniques (such as cost-

benefit analysis); therefore, it is asserted that more people will access water. However; when the service is privatized, only those who have ability to pay can access to water. Since private sector targets at making profits as well as recovering the costs, the tariffs will inevitably be higher. Thus, there is a dilemma in this understanding. Yet, quite contrary to water as a human right understanding, the costs of water service should also be recovered for the sustainability of water infrastructure system. The values such as ‘parsimony’ and ‘diligence’ also have to be adopted by the public sector (Kickert, 1997: 750). In that sense, managerial techniques can be adapted, if possible, to public sector (but not managerial values) in order to recover costs. That is, public sector should be reformed instead of introducing privatization since under public ownership more people can have access to water with low (but cost recovery) tariffs when compared to private sector. Due to the dominance of neo-liberalism after 1980s, privatization option is more dominant than public sector’s provision. Especially as a result of the decisions taken at the international conferences after 1992, public-private partnerships have come into water sector agenda and public sector provision option is being increasingly ignored. The privatization policies, especially public-private partnerships, in water infrastructure management sector at international level are transferred via World Bank to developing world and are implemented through the loans of World Bank (Of course IMF, WTO, EU, and other international organizations have an impact on the introduction of privatization to all sectors; however, World Bank (WB) has a leading role in adoption of these policies at local level). WB is giving loans to the local governments (that do not have sanitation and sewerage system) for building their own infrastructure provided that they establish a public-private partnership with an international private operator.

The case of Çeşme- Alaçatı Water Sanitation and Sewerage Project, which constitutes the case study of this work, is the repercussion of the privatization policy (or introduction of public-private partnership policy tool) in Turkey. The focus of this study is public-private partnership arrangement which is becoming a new form of service delivery. The emergence of this new form in developing

countries is used for opening new markets for the private sector. This aim is mainly realized through World Bank loans. It is maintained that public sector is extravagant due to its under-pricing. Such an under-pricing, as it is asserted, leads to the excessive consumption of water which is a very scarce resource. More than that, public sector, as it is asserted by the proponents of privatization, lacks the incentive and technology to escalate the quality of water (environmental emphasis). Another argument is that public sector is incompetent to impede water losses owing to its using low technology. In addition, it is maintained that public sector lacks resources to do necessary investments due to budgetary constraints.

In this study public-private partnership arrangements with respect to economic, environmental, and social concerns will be assessed. The evaluation of the public-private partnership policy instrument will be undertaken by means of the case study. The case study to be studied is public-partnership in water infrastructure management in the peninsula of Çesme. Çesme- Alaçatı Water Sanitation and Sewerage Project has been the second project in Turkey for this new form of service delivery in water sanitation and infrastructure (The first one has been Antalya Municipality). However, it is the first one within the framework of ATAK Project (Mediterranean-Aegean Tourism Infrastructure and Coastal Management Project) implemented by Ministry of Tourism¹ and also is the first practice through which a municipality union is established to realize public-private partnership.

In Turkish context, public-private partnership for small municipalities is established in the following fashion: Firstly, a union is set up, then union contracts out the water management service to a private sector. Private sector is responsible for collecting bills and repairing the water and sewerage network, whereas Union is authorized to determine tariffs and doing investments. Private operator collects bills and puts the money into the Union's account. Union reimburses some percentage of money to the operator from this account, and the remaining part of the account is used by Union for paying the loan and its interest taken from World

¹ In this study, the expression of "Ministry of Tourism" will be used because in period 1989 and 1997 (the period of the case study of this study) the name of this ministry was Ministry of Tourism; however, today its name is "Ministry of Culture and Tourism".

Bank, and for making investments for the water and sewerage network. If Union is unable to reimburse its debt, there is Turkish Treasury guarantee for the loan.

In building the theoretical framework, a review of relevant literature and an analytical perspective were implemented. In the analysis of the case, interviews and evaluation reports prepared by World Bank and ÇALBİR (Çeşme and Alaçatı Municipalities Infrastructure Union) were taken into account. In-depth interviews were also made about this case study. Such interviews both promoted analysis of the case study and evaluation of the partnership model. Interviews were conducted with ex- mayor and mayor of Çeşme Municipality, ATAK project consultant of Ministry of Tourism, Çeşme- Alaçatı Water Sanitation and Sewerage Project Expert of ÇALBİR, ÇALBİR staff, and ÇALBİR ex- assembly member. Due to the emphasis of this study on policy transfers of World Bank, World Bank's Implementation Completion Report, Staff Appraisal Reports for Çeşme- Alaçatı Water Sanitation and Sewerage Project were dissected. These reports were very helpful in understanding World Bank's country strategy on Turkey. Besides, State Planning Organization's Five Year Development Plans, ÇALBİR Assembly Decision Document, and ACER Consultant Limited's Feasibility Report for Çeşme Peninsula were also studied.

Within this context, in *Chapter II* the transformation of global world economy and its impacts on nation states will be explored. Especially the impact of the crises of world economy in late 1970s necessitated special emphasis. The introduction of liberalization, deregulation, and privatization has led to a decrease in scope and scale of nation states in markets. Such a decrease has also been justified theoretically by Virginia, Austrian, and Chicago Schools on the grounds that public sector is generally inefficient and undemocratic. In addition to this theoretical background, in order to ensure legitimacy for increasing globalization, the concept of governance has been introduced in almost all branches of social sciences since 1990s. Despite the fact that the concept has many meanings in different disciplines, its emphasis on participation, multi actors, multi institutional mechanisms seems to aim to provide legitimacy for the present economic

understanding. In the next part of this chapter, the focus of this theoretical part will be on environmental globalization since the scope of this study- water service provision- embraces both economic and environmental aspects. Notably after the introduction of the concept of sustainable development, economic understanding is internalized in environment. In this part, the main aim is to indicate how economic interest has captured environmental issues. Then, the emphasis will be on water policy at international, regional, and national levels since environmental dimension of this study is associated with 'water scarcity' problem. At the international level, many conferences and forums relating to water problem have been organized in the last three decades²: All these conferences and forums focused on scarcity of water all around the world. However, there occurred a shift in defining water problem in International Conference on Water and the Environment, Dublin (1992). In Dublin Conference, economic value of water has been introduced for the first time. The emphasis on economic value of water led to the transformation of international consensus from-delivery of water services through public sector- to – delivery of water services via private sector. At regional level, in line with the change in the understanding of water infrastructure management, European Union has also changed its water policy with Water Framework Directive.

Having defined the theoretical framework behind economic and environmental globalization, in *Chapter III* the theoretical foundations of public-private partnership will be explicated. Notably, the main concern will be to specify peculiar characteristics of this instrument. Then the disadvantages of public-private partnership instrument such as blurring of boundaries, accountability, and transparency will also be taken into account. In the next part, the assessment of this policy instrument in practice- ÇALBİR – will be made. In this case study,

² United Nations Water Conference (1977), Global consultation on Safe Water and Sanitation for the 1990's (1990), International Conference on Water and the Environment, Dublin (1992), UN Conference on Environment and Development (UNCED Earth Summit) (1992), Ministerial Conference on Drinking Water Supply and Environmental Sanitation, Noordwijk (1994), International Conference on Population and Development, Le Caire (1994), UN Conference on Human Settlements (Habitat II), Istanbul (1996), First World Water Forum, Marrakech (1997), 2nd World Water Forum, La Hague (2000), United Nations Millenium Declaration (2000), International Conference on Freshwater, Bonn (2001), World Summit on Sustainable development, (Rio + 10), Johannesburg (2002), 3rd World Water Forum, Kyoto (2003), 4th World Water Forum, Mexico (2006).

these policies have been, as already mentioned, transferred by World Bank which is a leading actor for policy transfer to local governments. The privatization (public private partnership policy instrument) policy has been realized in water sector by ATAK Project which was initiated by World Bank and Ministry of Tourism. The policy formulation and implementation phases of this policy and the role of World Bank in these processes will be explored in this part. Afterwards, the pre-establishment phase of public- private partnership in ÇALBİR case will be examined. This will be the appraisal of public-private partnership understanding in practice- in the context of such factors as efficiency, accountability, equity, and the like. Finally, the suggestions of the recent World Bank Working Paper of Mobilizing Private Finance for Local Infrastructure in Europe and Central Asia: An Alternative Public- Private Partnership Framework will be analyzed since this paper proposed solutions for improving public-private partnership arrangements in that broader region where Turkey is also located. This Working Paper is also expected to shed light on future developments in water sector in Europe and Central Asia Region.

CHAPTER II

THE ROLE OF THE STATE IN GLOBAL ECONOMY

2.1. Economic Globalization and State

Throughout its history, global economy has witnessed different stages of evolution: laissez faire, Keynesian, and neo-liberal period. These different phases, indeed, indicate the flexibility of the global economic system against crises. In this chapter, a macro level analysis of world economy will be made. The global economy will be examined under three stages: laissez faire, Keynesian, neo-liberal period. Especially, the transformation of global economic order in 1970s and 1980s will be the main focus of this chapter. After explicating the economic dimensions of globalization in neo-liberal period, environmental dimension of globalization will be the focus since the main theme of this dissertation is water and water service privatization via public-private partnership. In that sense, this chapter is a theoretical introduction for the following chapters.

2.1.1. Laissez Faire Period:

Laissez faire period was predicated on the idea of the minimal state. Adam Smith's ideas were so dominant in economic understanding. According to him, state could only have four functions: rule of law, defense, provision of public goods, and infrastructure such as the education. In that period, markets were superior mechanisms and government should only be the facilitator of the market and should refrain itself from commercial activities as soon as possible (Hughes, 1998: 92).

This was the period under the hegemonic leadership of Britain. The economic order was based on laissez -faire policies at national level and low trade barriers to

the international movement of goods, capital, and labor at the international level. The economic stability was ensured both at national and international level via the Gold Standard and the principle of balanced budgets (Chang, 2004: 42). In other words, this economic order was not only the economic model for states but also for the global economy.

The liberal economic constitution was therefore both a doctrine centered on the ideals of liberal political economy- free trade, sound finance, and laissez faire- and a reflection of the institutional means by which the British economy and the global economy were coordinated and governed. The celebration of the power, productivity, and efficiency of markets as the main instrument of economic governance was the backbone of laissez-faire vision (Gamble, 2000: 115).

The excessive laissez-faire period confronted with 1929 crisis- “Great Depression”. The period between the crisis and World War II, there was no dominant international economic system. Due to the instability in the international economic order, states started to impose trade barriers. United States of America (USA) abandoned free trade in 1930, and world free trade system ended in 1932 with Britain’s reintroduction of tariffs (Chang, 2004: 42).

During this instability period there was an absence of a hegemonic leadership in the international economy. USA had a weak institutional structure during 1920s and 1930s. It did not have a central bank that would coordinate both international and her domestic economy (Schwartz, 1994: 206). World War II had led to the enhancement of her coordinating capacity of international economy and its domestic economy. In other words, USA had the capacity to implement a new international economic order. USA had two advantages while performing this function. Firstly, USA had a small proportion of exports and imports in her GDP; thus, USA could implement international economic order without taken into consideration her domestic policy. Secondly, USA could run balance-of-payment deficits without devaluating her currency due to ‘willingness of other countries holding dollars’ (Schwartz, 1994: 221).

2.1.2. Keynesian Period

In 1944, a new international economic order, Bretton Woods System, was established and three economic international institutions were created so as to guarantee the new order: International Monetary Fund, World Bank, and GATT. IMF and World Bank had a role in supporting stable exchange rates and post-war rebuilding. GATT had a limited membership for only the countries adopting free trade (O'Brien and Williams, 2004:118). It would supervise the reductions in tariff barriers to ensure open market.

Pax Americana ensured the stable environment for nation states to implement their own national regimes. The national markets were regulated and controlled by states during this period and consequently economic collapse of Depression was overcome (Hollingsworth and Boyer, 1997: 435). John M. Keynes's ideas were very influential in this period. According to him, insufficient aggregate demand leads to the crisis in capitalist economy. As a result, there occurs an increase in unemployment. Also, since insufficient demand does not meet all production, there is a need for state intervention by means of demand management and fiscal policy so as to balance demand and supply side of the economy at the potential output where there is full employment. In Keynes's words;

The effective demand associated with full employment is a special case, only realized when the propensity to consume and the inducement to invest stand in particular relationship to one another. This particular relationship, which corresponds to the assumptions of the classical theory, is in a sense an optimum relationship (Keynes, 1936: 28).

In other words, markets were not perfect mechanisms and the failures of markets [monopolies, externalities (such as pollution), and provision of public goods] could be corrected via state intervention. This was *raison d'être* for state intervention. Such a pragmatist understanding led to the provision of many goods and services (health, education and housing, electricity, natural gas, telecommunication, water, post service, steel, coal... etc) by public sector instead of private sector in that period. The scale of public sector in the market seriously increased. Many of the industries were nationalized. Public enterprises fulfilled the

provision of goods and services in the market. In most of the developing countries import-substituting industrialization strategy was adopted and public enterprises became the integral part of that strategy.

As such, these firms supported specific coalitions, providing high wage jobs to workers, low-cost inputs to capitalists, political patronage to state bureaucrats, and subsidized goods and services to citizens.....became potent symbols of national pride and development aspirations....(Macleod, 2004: 2).

Indeed; state, labor, and industry coalition reflected the result of another analysis of Keynes: Distribution of income determines marginal consumption propensity. When effective demand is not sufficient in the societies where there is unequal distribution of income, the crises are continuous. Thus, state intervention is also necessary for distributive function (Saybaşıli, 1993: 23). In short, his ideas ensured the legitimacy bases for the government interventions, bargaining among industry, state, and unions. As Hollingsworth and Boyer claimed, recovery from Depression 'was not a victory of pure market mechanisms, but on the contrary the success was due to the taming of market by large corporations, unions, and of course, numerous state agencies' (1997b: 435). Nevertheless, there is not a single model at national level to tame markets. There are different coordination arrangements at national level such as states, networks, private hierarchies, markets, communities, associations. The selection of governance mechanisms is determined by social context within which they are embedded (Hollingsworth and Boyer, 1997b: 435).

Among other mechanisms, state as a coordinating mechanism is a bit different. States are the regulating and enforcing institutions for the actions of non-state mechanisms. To illustrate, states are the enforcer and definer of the property rights and regulator of fiscal and monetary policies. They may also be an economic actor in the market (Hollingsworth and Boyer, 1997a: 13). In a representative democracy, citizens elect politicians and politicians make policies in accordance with their citizen's needs. Non-elected officials implement these policies. Whereas politicians are accountable to their citizens, bureaucrats are accountable to elected

officials. In that sense, states are the legitimization mechanism for the system as a whole since states, at least in theory, represent the collective interests of its citizens.

There were three types of welfare regimes for developed countries in Keynesian period: conservative welfare states (such as Germany, France), liberal welfare states (such as United Kingdom, and United States of America), social democratic welfare regimes (such as Sweden, Norway) (Esping-Anderson, 1990). For instance, Anglo-Saxon model is heavily based on 'free and open markets as the main steering mechanism for a capitalist economy', whereas, according to Albert (1991), alternative models to Anglo-Saxon model (such as Germany, Sweden, and Japan) are reliant upon 'trust which facilitate long-term investment in new capacity, new technologies and human capital, restraint of domestic consumption and incomes, while at the same time guaranteeing high employment and low inflation' (Albert, 1991 paraphrased from Gamble, 2000: 121). Although there were varying degrees among states in each category, the role of the state in governing the economy was common in Keynesian period (Gamble, 2000:122).

This was also the era that the tools of monetary and fiscal policy were developed. States used reflation policies (increasing amount of money being used within the country so as to increase trade) via public spending or expansionary monetary policy. These expansionary policies were predicated on the belief that there was a trade-off between unemployment and inflation. It was assumed that high inflation was inevitable so as to decrease unemployment. Therefore, chronic inflation occurred during this period via the use of expansionary policies. However, it should also be stated that reflation policies were not only in favor of the labor but also the industry since these policies increased trade within the country. In short, this was the period that protectionist, interventionist, and collectivist view of state prevailed.

The interventionism dominated developed countries until 1970s and developing countries until 1980s. In 1970s developed countries witnessed recessions. The

crisis of 1970s was the structural crisis of the system whose main features were ‘diminished growth rates, a wave of unemployment and cumulative inflation’ (Dumenil and Levy, 2005: 9).

2.1.3. Neo-liberal Period

Official Keynesianism became outdated when stagflation crisis (high unemployment and inflation) occurred in 1970s. States could not cope with unemployment and inflation through expansionary policies. Until that time, it was assumed that there was a trade-off between unemployment and inflation; however, stagflation crisis indicated that there may not be such a relationship between them (Friedman, 1975).

It has been commonly stated that the reason behind these recessions was the surge in oil prices. However, this view ignores the other factors that ceased economic growth such as ‘the slowdown in productivity increases and decline of profitability that began in 1960s, the rising rates of inflation, the breakdown of international monetary system, the increased competition among national economies, and foreign debt explosion’ (Boyer, 1990: 1- 2).

In 1960s, United States witnessed first trade deficits since World War II. Despite the fact that Bretton Woods System brought about trade deficits in USA economy, it was ‘so efficient in rebuilding the European and Japanese industrial capabilities’ (Hollingsworth and Boyer, 1997b: 437). Nevertheless, this situation led to the increasing competition between USA and these countries. Bretton Woods was established on the strength of USA dollar. However, with the growth of European and Japanese economies, the system had to rely on US economy which ‘shrank relative to the global economy as the Japanese and European economies recovered from war’ (Schwartz, 1994: 221). When there occurred trade deficits in USA, devaluation of dollar was required. Nevertheless, there was another alternative: to replace the existing international exchange system. To stifle devaluation, USA introduced flexible exchange rates in 1971. This was also the time Bretton Woods System was ‘put in abeyance’. Bretton Woods System collapsed in 1973. In 1974,

'liberalization of capital flows' introduced by USA. United Kingdom became the part of this transformation in 1979, and then other European countries ensued (Dumenil and Levy, 2005: 11). In fact, this was the time when the profit rates declined within the main developed countries. The collapse in profit rates brought about the reduction in tax receipts when the public expenditure continued to escalate. This resulted in fiscal crises for states. In that sense, the reason behind the structural crisis was the falling rate of profits in developed countries. Therefore, states acted willingly to change the system, though USA started this process. As Schwarts claimed:

From 1945 to 1960 the United States unilaterally ran the international monetary system, and, like Britain in the nineteenth century, functioned as the global financial transactions. From 1960 to roughly 1975, the United States continued to act as the source of global liquidity but within the formal framework of the Bretton Woods system. After 1975 the international monetary system evolved a hybrid structure. Countries are using post- World War II institutional forms for preserving cooperation, but they do so in order to accommodate balance-of-payments financing the capital flow patterns that increasingly resemble those that existed in the nineteenth century (Schwartz, 1994: 223).

The period between 1945 and 1973 was the period that capitalist system repaired itself. During that period, there was a slow process of internationalization of finance, trade, and investment; however, this process continued without undermining the autonomy of nation states (Hollingsworth and Boyer, 1997b: 461). When the threshold in internationalization of capital was reached in 1970s, autonomy of nation states and fixed exchange rates had to be eliminated. Liquid capital such as assets grew in international trade. Financial innovations like this instrument enabled both increase in money supply and low rates of inflation (Boyer, 1990: 3). Nevertheless, this increasing international capital flow confined the states' capability to make their own national monetary policy (Schwartz, 1994: 220). Especially after the introduction of new international economic order, it was not possible for nation states to implement their Keynesian reflation policies. Unsuccessful 'national Keynesianism' policy of French socialist government in 1980s is a striking example (Hirst and Thomson, 1997: 349). The corporatist structure composed of states, industry, and labor was broken down owing to the

‘international competition of product markets and strong flows of money across countries’ (Hollingsworth and Boyer, 1997: 476).

Moreover, in many industrialized countries low wages became the strategy for states to attract foreign investment (Hollingsworth and Boyer, 1997b: 476). Most of the states have shifted their welfare spending from ‘full employment and universal social programs’ to the programs aiming to increase employability such as training or they have reduced their welfare spending to encourage people work at lower wages (Hoogvelt, 2001: 122). Therefore, social policy has been used as a regulatory instrument to get people into work. Thus, these policies are called ‘workfare’ (for the well-being of work) rather than ‘welfare’ (for the well-being of people) policies. To illustrate, in 1996 Job Seeker Allowance was introduced by British government.

Broadly speaking, JSA does not allow applicants to refuse jobs on the grounds of hour, wages or conditions of employment. Moreover claimants cannot determine a minimum wage for which they are willing to work without risking an accusation of not being available for work.....restrictions and refusals may result in benefit suspensions (Grover and Stewart, 1999: 81).

With Job Seeker Allowance, the eligibility to unemployment insurance was redefined and became very restricted. Instead, people were forced to return to employment. Furthermore, most of the countries changed their labor legislation to ensure flexible but less secure employment practices (Hoogvelt, 2001: 122). These deregulatory legislations led to the non-standard employment such as part time and temporary workers. Put it differently, welfare states were transformed into competitive states that pursued marketization and liberalization policies or deregulation policies such as labor flexibility ‘rather than attempt to take certain economic activities out of the market, to decommoify them’ as welfare states fulfilled (Cerny, 1999: 122).

This process also affected developing countries. These countries borrowed loans during 1960s and 1970s. The political goal behind these loans was ‘the fight against communism’ (Dumenil and Levy, 2005: 17). The rise in real interest rates

in 1979 had a serious impact on the debts of developing countries. Moreover, the structural crisis of the developed countries had an adverse effect on the exports of the developing countries to developed countries. Both of these reasons led to the 'debt crisis' in developing countries in 1980s (Dumenil and Levy, 2005: 17). After the debt crisis of 1980s and structural crisis of the economy, the role of IMF and World Bank changed. These supranational institutions started to ensure financial assistance to the countries confronted with crisis. However, they demanded from the debtor states to adopt structural adjustment programs including 'liberalizing of their economies and opening up trade and foreign investment' (Hoogvelt, 2001: 124). Thus, developing countries had to abandon their import-substitution model with export-oriented model. These points can explicate why there also occurred privatization and liberalization policies in developing countries.

As mentioned above, the reason behind the structural crisis of developed countries was chiefly stemmed from the reductions in profits. The scale of public sector in domestic economies had increased since post World War and it had brought about limited scale for private sector. To increase profits, at the national level public sector had to withdraw itself from the market, whereas at the international level there was a need for deregulatory and liberalization policies to open new markets. Developing countries were indirectly influenced. They were subject to debt crisis and then had to deregulate and liberalize their markets in order to take loans from IMF, and World Bank.

2.1.3.1. New Right

In parallel with these developments in 1980s, the recipe for the crisis of states came from Reagan, Thatcher, Mulroney governments and their followers in other countries. According to these New Right politicians, monetarist policy combined with deregulation and liberalization of markets, privatization, the introduction of managerialist ideas in public sector, and institutional restructuring of public organizations (such as emergence of quasi-autonomous bodies) were the remedy to cope with the crisis of the states (Pierre, 2000: 1). Increasing pressures for liberalization and privatization also affected other welfare regimes; however, they

protected their core welfare functions (such as Germany, French, and Sweden) (Keohane and Nye, 2000: 17).

Notwithstanding the crisis of welfare states stemmed from the factors mentioned above-especially from the crisis of international economic order, the crisis of welfare states was identified with inefficiency of state (such as over-expenditure, over-bureaucracy) via the critique of public choice theory. Inefficiency of state was also justified on the basis of interventionist character of the state (Friedman, 1967: Hayek, 1944). These studies became pioneering theories for the transformation of welfare states into minimal states during 1980s. Business administration theories also contributed to the process of restructuring of the states in accordance with private sector tenets. In that sense, the theoretical background behind New Right ideology can be categorized as Virginia School, Chicago School, and Austrian School, and Managerialism.

2.1.3.1.1. Virginia School

Public choice economists strictly criticized welfare economics. Public choice theory is against the view that the market is the only source of externalities. They claim that government is also the producer of the externalities (Tollison, 1972: 5). In that respect, they criticized welfare economists' view of state as the corrective mechanism for market externalities. In other words, they are against the conceptualization of state as perfect institution (Buchanan, 1972a: 15). Thus, public choice theory rejects the hierarchical view of public administration in which government is a superior body upon its citizens and instead they accentuate the individualistic view in which government is one among the other actors in the policy process (Massey and Pyper, 2005: 24). Public choice methodology is founded on the individualistic tools of micro-economic analysis and theory claimed that political institutions as well as firms have to be evaluated with respect to this analysis (Barry, 1983: 101).

According to theory, there is no difference between public and private organizations with respect to the motives of their employees. Bureaucrat is not 'the

role player' as assumed by sociology instead he is the 'maximizer' (Niskanen, 1971: 5). Individual is assumed to be 'self-interested, rational, adopting maximizing strategies' (Ostrom and Ostrom, 1971: 205). The main problem with bureaus supplying goods and services is that 'the objectives of the employees of bureaus are not completely consistent with those of the collective organization' (Niskanen, 1971: 20). In a hierarchy, almost all bureaucrats want to rise to superior positions. To succeed this aim, they make their choices in terms of their career goals. The people, who have moral principles or try to fulfill organizational goals rather than their personal goals, have lesser chance to be promoted (Tullock, 1965: 19- 20).

In addition, bureaucrats have information advantage-about the issues of his/her bureaus -over the sponsor organization (the organization which sponsors the expenditures' of the bureau); therefore, the sponsor is devoid of information for arranging 'the minimum budget necessary to supply this service' (Niskanen, 1971: 29-30). Bureaucrats maximize their bureau budget as a result of their personal interests, i.e. promotion and job security (Niskanen, 1971: 39). According to Tullock, since 'the external check of competition that is present in business organization is absent' since governments are monopolist (Tullock, 1965: 68).

Alongside the bureaucrats, public choice theory also perceives politicians as self-interested individuals. Politicians are vote-maximizers. For instance, they use their political power for their self-interest via 'cutting taxes to create an economic boom before elections, and raising them again afterwards' since their inherent motive is maximizing votes not fulfilling the demands of citizens (Massey and Pyper, 2005: 35). Shortly, public choice theory states that public institutions are inefficient due to the self-interest motive behind bureaucrats and politicians.

2.1.3.1.2. Chicago School

Chicago school is based on the positivistic methodology that focuses on observational statements. Friedman is the best known scholar in this school. Friedman is against the claim that natural and social sciences are different; by

contrast, there is a common method to study both of them. Laws of social behavior are predicated on observations. There is causality between capitalism and freedom.

Friedman conceives free market as 'a system of economic freedom and also a necessary condition for political freedom' (Friedman, 1962: 3- 4). The most notable advantage of the market is the 'diversity'. Market provides not only the economic freedom but also political freedom by eliminating coercion (Friedman, 1962: 15). In that respect; so as to preserve freedom the government's power should be restraint and decentralized. In the case of joining of both economic and political power, coercion is indispensable; however, when they are separate, economic power can serve as 'a check and a counter to political power' (Friedman, 1962: 16). Shortly, Chicago school claims that the casual relationship between liberty and capitalism can empirically observed.

According to Chicago school, government intervention led to the 'inflation, high unemployment, and expensive tax-funded welfare provision' which are the empirical results that intervention brought about. These results are not only the indicator of unsuccessful governments but also of the impediments for liberty (Massey and Pyper, 2005: 33).

2.1.3.1.3. Austrian School

In contrast to Chicago School, Austrian school starts from the human rather than observation as a methodology. Austrian school supports methodological individualism. According to this school, 'classes', 'states' or 'societies' cannot do anything, only individuals can act or do something. Individuals make preferences and these preferences are subjective; thus, an external authority or observer cannot know the individual's preferences (Barry, 1983: 98). Thus, state control should be confined.

According to Hayek, state control should be limited due to two main reasons. The first one is the economic reason. State should formulate general rules and thus individuals can utilize their freedom everywhere since only individuals can know

their best under specific circumstances. The more state controls or plans, the more difficult it is for an individual to act freely. The second reason is moral one. The state control directly leads to the state's making choice about individuals' situations; however, this will not create 'new opportunities open to all' since 'if the state is precisely to foresee the incidence of its actions, it means that it can leave those affected with no choice' (Hayek, 1944: 75- 76). For these reasons, Hayek asserts that state intervention to the individual choices is not impersonal. The superiority of market, according to him, stems from its impersonality and anonymity (Hayek, 1944: 20).

Besides, Austrian school criticizes welfare economics due to its ignorance of imperfect knowledge. Indeed, according to Austrian school, individuals make complex decisions through using their imperfect knowledge. They maintain that different people know different things and market 'gathers and transmits these discrete (and often contradictory) pieces of information, thereby coordinating that actions and plans of markets' (Denham, 1999: 11 quoted from Massey and Pyper, 2005: 34). Therefore, Austrian economics suspect that the state's welfare provision can eliminate market failures 'given the knowledge deficit inherent to the bureaucratic institutions used' (Massey and Pyper, 2005: 34).

2.1.3.1.4. Managerialism

Managerialism advocated that private sector principles have to be implemented in public sector (including its personnel, institutions, and administration....etc.); thus, inefficiency problem inherent in public sector would be eliminated.

The individualist and self-interested human and superiority of private sector view of the theories discussed above led to the adoption of 'managerialism' within the public sector. One of the main features of corporate culture is the usage of the term 'customer'. In parallel with public choice theory and writings of Hayek and Friedman, it is claimed that every person acts in accordance with their own interests and the best mechanism for fulfilling their needs is the market because in a competitive market individuals can influence the 'profits and behavior of

producers' via making choice among different producers (Potter, 1994: 250). The replacement of the term 'citizen' with 'customer' indicates that public interest or collective good is ignored; everybody is responsible for himself/herself.

Managerialist ideas have influenced the functioning and structure of public organizations. To respond their customers' needs public organizations should adapt their management to the changing conditions, according to managerialism. Strategic management has come into the agenda to determine 'organizational strengths and weaknesses in relation to a changing environment in order to highlight the product/market mix that will achieve optimum organizational performance' (Stewart and Ranson, 1988: 14). It targets at specifying goals and objectives, it make predictions about the future for the organization (Hughes, 1998: 149). Strategic management contains:

- The identification and articulation of a vision and longer term objectives that define what the organization wishes to achieve, both in general and in specifics;
- The adoption of a time frame or planning horizon within which these objectives are to be achieved;
- A systematic analysis of the organization's current capabilities- strengths and weaknesses- to ascertain what capabilities it must add or develop in order to achieve its objectives
- An assessment of current and emerging environmental factors that will affect its path to achievement of its objectives
- The identification of alternative strategies and selection of preferred strategy for achieving the objectives; and
- The integration of organizational efforts around this strategy (Ott and Russell, 2001: 308- 309).

There is a growing demand of central government and politicians from agencies so as to make budgetary decisions. In the long run, the organizations having unclear goals may not survive in the competition with other agencies for the resources (Hughes, 1998: 163). In that respect, budgetary system is also changed in accordance with performance indicators and output based assessment. Zero Base Budgeting (ZBB) and Planning Programming Budgeting (PPB) systems are being accepted in public sector. In ZBB, past expenditures are not the determinant for the quantity of future expenditures; therefore all departments have to justify their

budget every year (Hughes, 1998: 174). In PBB, government activities are composed of programs. It specifies objectives from larger to smaller ('ranking objectives') among distinctive programs. In ZBB, there is also ranking objectives; however, they are performed within a single program (Wildawsky, 1978: 491). Both of them are based on output based funding rather than input based one; in other words, programs with clear objectives are funded.

In order to fulfill their objectives and then gain appropriate resources from the government, organizations have to promote performance indicators based on quality and 3Es (efficiency, effectiveness, and economy). The main way to achieve these standards is output-oriented measurement, since according to managerialism scholars the results can be assessed numerically via focusing on performance criteria for the output. This is called 'Performance Management' and is composed of six phases:

- (1) Organization determines its objectives and goals (Cost-benefit analysis is used as specifying these objectives as well as assessing program results, and modifying program or policy goals).
- (2) Management chooses performance indicators to determine to what extent organization will achieve its objectives
- (3) The performance of the employees are evaluated regularly
- (4) Performance incentives are determined so as to motivate employees.
- (5) Financial and human resources are specified in the budget.
- (6) Over all organization success is evaluated at the end of each budget period (Ott and Russell, 2001: 273- 274).

Another main feature of managerialism is contractualism. Central governments or local governments should contract out services if in-house or public provision is found inefficient. In Coase's (1937) famous article of 'Nature of a Firm', he emphasizes that there is a limit to a firm size. When the production of a good is more costly within firm than its production in the market, then the good should be produced in the market. Put simply, under this condition firm should contract out

its service. This managerial theory is the theoretical foundation for the contracting-out arrangements in public sector. The purchaser/provider split is one of the repercussions of this understanding. The purchaser is the party who 'decides what will be produced', whereas provider is the party who fulfils the desired output and outcome (Hughes, 1998: 70). In fact, Coase's theory compares two options (in-house or market provision) with respect to the cost of employees. The contracts made with employees are the basic evaluation criteria. Contracting for staff is also basic element of contract culture or contractualism. Since last three decades, public personnel administration has turned into Human Resource Management which focuses on the costs of employees to the organization and improvement of the productivity levels of the staff. As mentioned above; according to managerialism, performance evaluation methods are crucial for increasing the productivity of employees. These methods are result-oriented. Managers have discretion to manage but they have to guarantee the result. In Hood's phrase they are 'free to manage' provided that they satisfy the result (Hood, 1990). In other words, there can be more than one way to achieve the desired result and manager is free to apply variety of means to reach the desired goal. There is no one best way. In that respect, the focus of public sector has become output-oriented rather than process-oriented. Rewards and punishments are the incentives of performance management. An employee who cannot achieve the desired goal may be subject to punishments, whilst an employee who achieves the accepted output may get rewards (Blundell and Murdock, 1997: 78).

Furthermore, corporate culture literature has led to the restructuring of the organization of public institutions. According to Vincent Ostrom (1973), there are varying optimum size of public institutions for different goods and services. Optimum size, 'will vary with the boundary conditions of different fields of effects inherent in the provision of different public goods and services'; therefore, there is no ideal types as Weber's bureaucracy. Different organizational arrangements can be applied for the provision of goods and services. The situation that professionals are accountable to the one single center of power disrupts the response to various preferences of citizens for many different public goods and services.

Accountability to one single center of power does not lead to maximum efficiency (Ostrom, 1973).

Decentralization and agentification are the most known types for restructuring the organizational structure of state institutions. Decentralization means delegation of administrative authority by central government to local or subunits. Proponents of Neo-liberalism believe that decentralized units are more efficient and more accountable to the citizens (customers according to NPM terminology) since it is claimed that decentralized units are more close to the citizens and have opportunity to learn the real pitfalls and preferences at the lowest level (Kjaer, 2004: 29). In addition, governments are decentralizing their 'executive, managerial, and service delivery functions within a framework of continuing policy control from the centre' which is called as 'agentification' (Massey and Pyper, 2005: 84). Agentification refers to the 'establishment of semi-autonomous agencies responsible for operational management' (Kjaer, 2004: 27). To illustrate, quangos (quasi-nongovernmental organizations) in UK that are subject to arms-length regulation, and independent regulatory authorities all over the world. As Cerny (1999) claimed, 'state as an institutional structure is not withering away; indeed, it is developing new and more complex structural forms and features in a more open, cross-cutting world' (p. 120). Agentification, decentralization are the implications of these complex structural forms.

Although Austrian School, Virginia School, Chicago School, and managerialism may seem in contradiction to each other in some aspects, all of them were used to justify that state was inefficient and undemocratic. According to these theories, state is inefficient because it is not operating in accordance with private sector principles and competition. State is undemocratic since liberty is being limited via state (Austrian school) and representative democracy is insufficient due to the self-interested elected and unelected officials (Virginia school). More than these, the collapse of Soviet Union buttressed the claims of New Right that 'state failure' is more harmful than 'market failure' (Kjaer, 2004: 130).

In 1980s, these claims became the reasons for the understanding of ‘minimal state’. In this period, the intervention of state was highly criticized and the dominant policy by New Right governments was privatization and deregulation. According to New Right ideologues, state should be withdrawn from the market as much as possible.

2.1.4. Governance

In the late 1980s, neo-liberalism started to become more influential in different welfare regimes and developing countries, on the one hand. On the other hand, there was a need for a concept that would legitimize neo-liberal ideology . The concept ‘governance’ was started to be used. However, there are different perceptions for the concept among scholars.

For some scholars governance is not a new concept. Rather, governance is ‘thinking about how to steer the economy and society, and how to reach collective goals’ (Pierre and Peters, 2000: 1). In this view, hierarchy, market, network and community are modes of governance. The networks are the dominant mode of governance among others in the period after 1990s.

Rhodes (1996) defines governance as ‘self-organizing, inter-organizational networks’. He considers networks as alternative to market and hierarchies; yet, he does not reject the ongoing role of markets and hierarchies. In a similar vein, Jessop (1998) refers governance as ‘heterarchy or self-organizing’. He categorizes three forms of heterarchy: interpersonal, inter-organizational, and inter-systemic (such as economic, political, legal, scientific, or educational systems). However, according to him, the term is often used for inter-organizational concerns such as ‘multiple stakeholders’, ‘private-public partnerships’ and ‘other kinds of strategic alliances’. Heterarchy’s characteristics of autonomy differs them from reliance on single hierarchy and their characteristics of interdependence separate them from the market structure (Jessop, 1998: 29- 30). Rhodes claims that “governance as self-organizing networks is a challenge to governability because networks become autonomous and resist central guidance” (Rhodes, 1996: 667).

Stoker stated that governance sometimes is used as the way ‘to provide the acceptable face of spending cuts’ (Stoker, 1998: 18). However, he also accepts that there are more than financial retrenchments of the states for the rise of governance. Rather, governance provides ‘the framework for understanding the changing processes of governing’. He presents five propositions to define governance. Firstly, governance rejects single one centre and structure of government. Rather, it accentuates the complex and fragmented systems of government. The main examples of these complexities are the purchaser-provider relations, involvement of private and voluntary sector for the delivery of services and strategic management, public-private partnerships. Secondly, the boundaries between private and public become blurred which gives rise to the voluntary sector who engages in ‘social market’ between market and public sector to tackle the social and economic issues. In addition to voluntary sector, private sector also takes the responsibility to remedy these problems. Thirdly, it is not possible for one actor to control the process since actors are interdependent; there is a need for negotiation to achieve goals; there are also rules of game that determine the outcome as well as resources. Fourthly, governance is ‘the autonomous self-governing networks of actors’. Fifthly, governance entails ‘new tools and techniques to steer and guide’ not to command. Having stated these propositions, Stoker defines governance as ‘living with uncertainty and designing our institutions in a way that recognizes both the potential and the limitations of human knowledge and understanding’ (Stoker, 1998: 26).

The network approach³ is complemented by hierarchical understanding. Multi-level governance literature in European Union acknowledges states have lost power against EU but it also insists that states are still key actors in EU. Multi-level governance embraces the relations between different levels and the interactions of actors at these levels. In other words, EU is composed of three levels- Europe, national, and sub-national- and the interactions between these levels constitutes a new political forum (John, 2000: 882) and each level

³ Alongside the network (pluralist) understanding of governance, there is also a corporatist understanding of governance in which policy is formulated between private, public, nongovernmental sector (Güler, Birgül "Yönetişim: Tüm İktidar Sermayeye", *Praksis*, 9 Kış-Bahar 2003, pp. 93-116).

(horizontally) is also consisted of multiple actors. In this political system, henceforth member states are not only political actors. There are also supra-national and sub-national actors.

Another type of governance is the community. Kooiman (2003) defines self-governance as ‘the capacity of societal entities to provide necessary means to develop and maintain their own identity, and thus show a relatively high degree of social-political autonomy’ (Kooiman, 2003: 79). Besides, he differentiates self-governance from deregulation and privatization. He stated that ‘much of what is sold as deregulation or advertised as self-regulation is better seen as forms of re-regulation or altering the traditional forms of public control into “steering at a distance”’ (Kooiman, 2003: 79).

Dunsire emphasizes a mode of governance-nature’s own mode- is the example of governance without governor. This kind of governance is ‘the outcome of conflict of opposed forces’ (Dunsire, 1993: 28). This is the steering by using opposing forces-he refers as ‘collibration’. It does not aim to reduce complexity so as to cope with it. Nevertheless, this mode of governance also does not reject government. ‘Government with a minimum use of power and resources’ may intervene when a group infringes upon the rights of the others but this will be a temporary support to the party in need. According to him, traditional understanding of steering which includes ‘to take command, to regulate or control’ is appropriate for ‘stable, simple, and homogenous societies’; however, in ‘volatile, complex, and, diverse societies, they become self-defeating’ (Dunsire, 1993: 33- 34).

Market as a governance mechanism reflects the understanding of New Right in 1980s in which state had to be withdrawn from economic activities such as provision of goods and services. The governance mechanisms that we have explicated above clearly show that governance is a mechanism for coordination rather than a new phenomenon.

Alongside this view, for some scholars governance is the manifestation of new period. Jessop stated that it is an era that the complex global world has been realized and therefore the dichotomies of market versus hierarchy (economics), market versus plan (policy studies), private versus public (politics), and anarchy versus sovereignty (international relations) have become meaningless with the introduction of this era (Jessop, 1998: 31).

According to World Bank, the term governance refers to the justification of the role of state in the economy. In contrast to the understanding of ‘withdrawal of state from the market’, it was accepted that the state must provide key services ‘such as education, health, and essential infrastructure, particularly when such services are directed at the poor and are not forthcoming from the private sector’ (World Bank, 1992: 6). Another dimension of governance is the need for a state for its provision of necessary institutions and framework for investment and production. State should be ‘market-friendly’; that is, state should ‘create an environment for the private sector, and to regulate where necessary’. Governments’ role should be shifted from direct provision to regulation excluding provision of key public services (World Bank, 1994: 12). To ensure these two functions, according to World Bank, (i) public sector management; (ii) accountability; (iii) legal framework for development; and (iv) transparency and information in the public sector should be enhanced. The deficiencies of public sector such as ‘lack of accountability’, ‘corruption’ are severe hindrance for sustainable development that encompasses economic, environmental, and social dimensions (World Bank, 1994: 12). In 1994 Report, World Bank defined the concept of governance which underlines the elements for the operating of public sector.

.....Good governance is epitomized by predictable, open and enlightened policy making, a bureaucracy imbued with a professional ethos acting in furtherance of the public good, the rule of law, transparent processes, and a strong civil society participating in public affairs. Poor governance is characterized by arbitrary policy making, unaccountable bureaucracies, unenforced or unjust legal systems, the abuse of executive power, a civil society unengaged in public life, and widespread corruption (World Bank, 1994: 12).

In public administration literature, Osborne and Gaebler (1993) in their book of *Reinventing Government* emphasized governance as a new period. According to them, bureaucratic organizations are appropriate for stable environment, whereas the entrepreneurial government is the most suitable one in an increasingly complex and changing world, the characteristic of today's world (Osborne and Gaebler, 1993: 15-16). They also use the concept of steering for government rather than rowing. In that respect, their book can be considered to be about governance. They define governance as 'the process by which we collectively solve our problems and meet our society's needs' (Osborne and Gaebler, 1993: 24). They suggest ten principles for 'governance' or 'better government':

1-Catalyzed Administration: Administration should transfer its activities to private sector (steering rather than rowing) 2-Citizenowned administration: Administration should authorize its citizens for producing their services as social entrepreneurs (enabling government). 3- Competitive Administration: There should be competition in the fulfillment of services and there should also be competition between public organizations. 4- Goal oriented administration 5- Outcome oriented administration. 6- Customer focused administration: This principle is indeed the result of the understanding that public and private organizations are similar. 7- Entrepreneur state: It emphasizes an administration that make profits rather than the administration that only spends. 8- Farsighted administration. 9- Decentralized administration 10- Market oriented administration (Osborne and Gaebler, 1993: 23- 24).

These different perspectives lead to the uncertainty about the term 'governance'. In fact, governance as a mode of societal coordination (structure) is more than state's steering. It also encompasses markets, networks, and community as modes of societal coordination mechanisms for the society. In addition, governance as an actor means 'more than government' (agency). Even though international institutions, private sector and NGOs involved in international policy making process and policy implementation since 1970s, the term has become popular in 1990s especially after its usage by international institutions such as World Bank, and United Nations....etc.

States are now sharing their authority with different actors (private sector, NGOs, trans-governmental and transnational networks, NGOs, and private

organizations.... etc.) at different levels (sectoral, local, regional, national, and international levels) in policy making and policy implementation. In that sense, the term is used as legitimization tool for all sectors: public, private, and NGOs and also international institutions. Therefore, it seems that the term serves to all these sectors. The term implies the revision of laissez- faire liberal understanding in 1980s and therefore it is used as the justification of the role of state in the economy via regulation or production of key services. Moreover, the term is used as the justification of role of NGOs and private sector in decision making and implementation at all levels. However, the term also refers the attempt to increase globalization, especially World Bank argues, via establishing independent regulatory agencies (which is used as a justification of the role of states in market) so as to ensure common trade standards all over the world.

Governance should be considered with globalization (here I refer to economic globalization). Governance, indeed, reflects the integration of national, regional, and local economies to the global market. To legitimize this process there is a need for governance since governance embraces all parties ranging from international organizations, multinational corporations, national governments, regional authorities, local agencies, international NGOs, and NGOs at national and local level. This is the actor based understanding of governance, as we have noted above. From a societal mode of coordination perspective, governance recognizes different institutional backgrounds. For instance, it recognizes different welfare state regimes. In that sense, institutionalism, and institutional economics is very influential in defining governance approach. It legitimizes itself through accepting different actors at every level in decision-making and implementation, and also through respecting different institutional backgrounds of states.

This legitimization is intensified with post-liberal understanding of democracy. In 1980s, the market was considered as democratic (popular capitalism- property owning) since state was accepted as coercive. However, with governance this view has been revised. According to Gray, human needs cannot only be satisfied by market. Market is not superior mechanism for democracy for all people. Every

human has different needs and so as to satisfy these various needs there is a need for plurality of institutions. Put it another way, 'negative freedoms' ensured by market is incomplete without the 'positive freedoms conferred by enabling welfare institutions' because 'different ways of life' should be respected (Gray, 2000: 18). In that regard, this understanding acknowledges that both market and state alone are insufficient for fulfilling different human needs; thus, there is a need for plurality of institutions as much as possible. At different contexts there may be different institutional combinations or partnerships. Whether the introduction of such arrangements (public-private partnerships in service delivery) is democratically successful or not will be one of the main concerns of this study.

The economic integration is being realized at supranational and sub-national level. Both globalization and decentralization are the main reasons that limit the scope and scale of states. At the international level, international financial institutions such as World Bank and IMF have strong role in shaping international economy (but also in shaping national economies). States are acting with International NGOs, trans-national corporations, governments. Regional blocks such as European Union (EU), North American Free Trade Agreement (NAFTA), and Asia-Pacific Economic Cooperation (APEC) also confine the power of states at international level. Members have to obey the rules of these regional blocks. At the national level, states have to share their role regarding policy making and policy implementation with international institutions (IMF and WB), national and international NGOs, local governments, private sector...etc. At the sub-national level, central governments increasingly delegate their authority to local public, private, and non-governmental organizations. Especially ethnic and cultural sentiments led to the delegation of authority to regional agencies as in Britain, Spain, and Canada (Keating 1996 paraphrased from Peters and Pierre, 2000: 17). In that sense, decentralization is seen as more democratic than centralization. Another concern with democracy for its supporters is that decentralization will ensure the fulfillment of local needs since central government cannot satisfy the needs of people at local level. Only the closer organizations to local people can conceive and satisfy these needs. With the introduction of governance, in contrast

with the understanding in 1980s, partnership arrangements between public and private or public and non-profit sector have superseded pure private sector provision in service delivery (at least in theory).

Shortly, states' power is moving up to the international organizations, and arrangements, it is moving down to regional, and local unities and moving out via privatization (Peters and Pierre, 2000: 73- 87). In other words, states have become 'network states' in which they are sharing their sovereignty with other actors (Castells, 2005: 11). Such a transformation from government to governance also brings about accountability question. States' sharing their sovereignty negatively impinges upon the accountability understanding of representative democracy since state sovereignty is being shared by supranational actors- who have no accountability for the citizens of the state- and also 'public control over service provision is reduced' (Mohr, 2004: 240).

2.2. Environmental Globalization and State

In such a hyper-pluralist world as governance approach describes, globalization has also environmental dimension as well its economic dimension. Environmental issues have also become globalized such as depletion of ozone layer, global warming, toxic pollution, acid rains, and desertification....etc. which essentially stemmed from economic globalization (Porter and Brown, 1996). Even though environmental movements have been influential since 1960s at nation states (especially industrialized ones),

reliance on national boundaries, laws, and institutions for purposes of environmental management is likely to be inadequate when so many environmental threats arise from supranational or trans-boundary forms of pollution, resource depletion, and 'ecosimplification' (loss of ecological diversity) (Hempel, 1996: 18).

The first international effort for environmental protection was Stockholm Conference in 1972. This conference ensured the recognition of environmental problems as a collective responsibility for the states. That is to say, this conference was the manifestation of international consciousness in international issues.

During the conference, North and South division was clear. Especially southern countries (developing countries) accused northern states (developed countries) for environmental problems due to the industrialization⁴. Another division was among Eastern (communist) countries and Western countries. As Eastern Germany was not invited to the conference, other Eastern countries protested the conference. Thus, there was a lack of representation of Eastern bloc in the conference. At the end of the conference a Declaration on Human Environment composed of 109 recommendations and a Resolution on Institutional and Financial Arrangements was constituted. However, these decisions did not have any legally binding power for nation states- the so called ‘soft international law’ (Clapp and Dauvergne, 2005: 56). In addition, Article 21 stated that nation states were free to exploit their own resources provided that they did not harm the environment of another state. Broadhead claimed that ‘participating states agreed to cooperate, but they also wanted it to be made absolutely clear that this was not to infringe on any decision making powers they held’ (Broadhead, 2002: 34). Another outcome of the conference was the establishment of United Nations Environmental Program (UNEP); however, it was not as powerful as the other United Nations agencies. It had a role in coordinating institutional mechanism. Besides, the participation of non-governmental organizations was first recognized in this conference. In 1980s, the transformation of global economy from protectionism and interventionism into deregulation and free-market understanding inevitably affected environmental issues. Especially the debt crisis of developing countries paid the attention to the relationship between economic development and environmental issues. In 1987, Brundtland Report (Our Common Future) was published. The term ‘sustainable development’ was first used in this report. The term accentuated poverty as the cause of environmental degradation. Since sustainable development was defined as “development that ‘meets the needs of the present without compromising the ability of future generations to meet their own needs’” (World Commission on

⁴ Environmental problems at global level also bring about international equity, justice, and fairness concerns. Especially, the question whether development and environment can exist together draws attention to the North and South divide. North and South divide, indeed, symbolizes the degree of development for a country. If a country is a developed one, it is in the category of North. If it is less developed or developing country, it is in the category of South. In other words, South countries are economically weaker when compared with North ones.

Environment and Development, 1987 quoted from Clapp and Dauvergne, 2005: 61) such a definition did not defy neo-liberal understanding in which economic growth was assumed to be achieved through global economic integration (ibid.). In fact, neo-liberals started to claim that open and liberalized global market enhances the growth which also contributes to the improvement of environmental conditions (Clapp and Dauvergne, 2005: 6). Put it differently, they claim that liberalization and growth decreases poverty and as a result of increasing life standards people demand more environmental protection and standards. After the introduction of the term, sustainable development has become the main concept for international environmental conferences. To illustrate, sustainable development has been the central theme of Earth Summit in 1992. The term 'sustainable development' unifies economics and environment. On the one hand, it gives support for the economic globalization and economic growth and on the other hand, it advocates that only such an economic view can decrease environmental degradation (Broadhead, 2002: 63).

In 1992, the UN Conference on the Environment and Development (Earth Summit) was held in Rio de Janeiro, Brazil. The main focus of Conference, as we mentioned above, was sustainable development. 'Rio Declaration on Environment and Development', 'Statement on Forest Principles' and 'Agenda 21' were the officially agreed documents in Conference (Caldwell, 1996: 104).

The declaration was a statement of twenty-seven principles to govern the rights and responsibilities of nations toward the environment. The Forest Principles were adopted in default of agreement sufficient for a binding treaty. Agenda 21 was an action plan forty chapters long, to guide the environment from the present into the twenty-first century (in the news media, it was often called the Earth Charter) (Caldwell, 1996: 104- 105).

Rio Declaration on Environment and Development was accepted and signed by the states. These principles stated 'the rights and responsibilities of states regarding the promotion of environment and development. The Forest Principles Document was nonbinding and they aimed to 'promote the sustainable management of tropical, temperate, and boreal forests' (Clapp and Dauvergne, 2005: 65).

Agenda 21 was the action plan for states so as to ensure sustainable development. However, its implementation was left to ‘decision making institutions of society, chiefly governments’ (Caldwell, 1996: 110). Furthermore, in Conference the Framework Convention on Climate Change and the Convention on Biological Diversity was concluded as a hard law instruments (that have a binding power for nation states due to sanctions). Moreover, a special commission- Commission on Sustainable Development- was established. Its main duty was to follow-up the implementation of action plan. Rio Earth Summit was much more global than Stockholm Conference. The first reason was the collapse of Soviet Union and therefore Eastern Block. The second reason was associated with the term of sustainable development. The term mitigated the tension between Southern and Northern States because it unified development and environment. The level of representation in the conferences was at the highest level (such as presidents not prime ministers or ministers). Also, NGO participation was much more than Stockholm Conference. Nevertheless, they did not have any role to shape final documents.

Ten years after Rio Earth Summit, Johannesburg Conference (also referred as Rio+10) was organized. However, this conference was not a turning point as the previous two Global Summits. Like Rio, official agreements achieved such as Johannesburg Declaration on Sustainable Development, and Johannesburg Plan of Implementation. Unlike previous declarations, Johannesburg Declaration on Sustainable Development emphasized the economic inequality as a problem for global security as well as ‘justice’ and ‘human well-being’. Moreover, globalization was presented as a hindrance for achieving sustainable development (Clapp and Dauvergne, 2005: 68). However, Conference’s emphasis on business for achieving sustainable development through public-private partnerships was not in line with this statement (Clapp and Dauvergne, 2005: p. 69). Unlike Agenda 21, Johannesburg Plan of Implementation focused on specific issues such as ‘water, agriculture, energy, health, and biodiversity’ (Clapp and Dauvergne, 2005: 68).

Due to the lack of hegemonic leadership at the international global economy in the period of globalization, cooperation is more probable among states. Especially epistemic communities have a great role in the achievement of collective actions through treaties and other instruments of international law. With their involvement into the international politics, collective environmental problems can be solved more efficiently and comprehensively because epistemic communities are not restrained by ‘institutional rigidities’; in other words, they have an interdisciplinary understanding when coming to grips with environmental problems (Haas, 1992). It is explicit that epistemic communities showed the seriousness of global environmental problems through their technical expertise. To illustrate, during the negotiations and execution of 1987 Montreal Protocol for ozone depletion epistemic community played a major role.

....in 1985.....a “hole” (really a thinning) in the ozone layer was discovered over the Antarctic. In that year, global community concluded the Vienna Convention for the Protection of the Ozone Layer. The 1987 Montreal Protocol on Substances That Deplete the Ozone Layer was adopted within two years and set mandatory targets to reduce the production of CFCs. The Montreal Protocol entered into force in 1989. Amendments to strengthen Montreal were made in London in 1990, Copenhagen in 1992, Montreal in 1997, and Beijing in 1999. The result was significant lowering of CFC production (Clapp and Dauvergne, 2005: 31).

However, they have an influence to some extent. In many cases, collective action could not be achieved due to several reasons. The first reason is that costs and risks of environmental problems disproportionately distributed between states. Therefore, some states may unwillingly participate in collective action (Porter and Brown, 1996: 14). In addition, some states have veto power and there is a need for their involvement for achieving collective action. The degree of veto power for a state mostly hinges on the economic strength of the state (Porter and Brown, 1996: 15), even though there is no economic hegemon in global world economy.

Many of global environmental issues are being disregarded due to the reasons mentioned above. Surveys about environment clearly demonstrate that only ‘costly’ issues such as ‘water contamination, urban pollution, deforestation, and

soil erosion' are on the agenda. That is to say, the business actors and states usually deal with environmental issues for the sake of economic interests (Clark, 2000: 13).

In fact, such a reductionist view in dealing with environmental issues (just the ones having economic value) is on the contrary to the holistic principle of ecology. Holism accentuates that whole is more than its parts since the researcher should also take-the relations between parts- into consideration. Put simply, finding solution for one part in a whole may not be successful.

An example can be more helpful in understanding the principle of holism. Sustainable development paradigm states that water resources are being consumed too much due to under-pricing. The solution for curbing over-consumption of water is increasing water prices. Nevertheless, over-consumption of water is not only the reason for water scarcity. Temperature increases due to global warming is also decreasing water supplies (Porter and Brown, 1996: 12). Industrialization also pollutes water due to the disposal of wastes into water resources. This specific issue clearly indicates that without holistic solutions it is not possible to stifle resource scarcity. Unfortunately, collective action usually becomes possible for economic interests. Even though in Agenda 21 the role of global warming and pollution in decreasing water supplies was stated, in practice mostly economic benefit (privatization) of this problem is dominant.

In short, in environmental issues economic interests is so dominant. Most of the time, international environmental conventions cannot be established due to the lack of economic benefits for states and private sector. Mostly issues having economic returns are on the agenda. Water is one of these issues due to the increasing emphasis on its economic value.

2.2.1. Environmental Policy in European Union

Alongside the globalization of environmental issues, environmental problems have also been regionalized. However, at regional economic interests are also prevalent.

Especially in late 1960s, public awareness for environmental problems proliferated in industrialized countries due to the environmental problems such as air, water, and waste pollution. In the beginning of 1970s, The Report of 'Limits to Growth' by Rome Club was published. The report emphasized the seriousness of resource depletion, economic growth, and increase in population in future. The members of European Community had to take measures against pollution and other environmental problems in order to mitigate the protests of ecological movements (Moussiz, 2004: 337- 338). As a result of increasing pressure for action in environmental problems, some member states (such as Germany and Netherlands) started to impose strict environmental regulations. However, such regulations were criticized since it was claimed that different national regulations brought about differences in costs; therefore, they hindered the free trade within European Community. In fact, states that imposed strict regulation feared that such a regulation would reduce their competitive advantage, whereas states that imposed lax standards feared that such regulations used by 'stringent regulators led to the protection of their domestic markets. Therefore, both lax and stringent regulator states claimed for a Community's involvement in environmental policy (Majone, 1994 quoted in Kelemen, 2004: 26). Besides, 1972 Stockholm Conference, first international conference, had an influence on the emergence of environmental policy in European Community.

In 1972, Paris Summit was organized to determine the priorities for environmental policy in European Community. Head of states and their governments participated in the Summit. European Community Environmental Policy was first officially stated in this Summit. In the final declaration of Summit, it was stated that economic growth was not only the objective. Moreover, decisions concerning environmental principles were taken in the Summit. These were as follows:

- Principle of Prevention at the Source: The best environmental policy is the policy that prevents the pollution effect at the source.
- Environmental should be in harmony with economic and social development.
- Environmental Impact Assessment: Environmental impacts should be taken into account in all technical planning and decision making processes.

- Natural Resource Management: It is necessary to avoid exploitation of natural resources and distortion of ecological balance.
- Scientific and technological standards should be developed so as to protect environment and to eliminate pollution. Researches in this field should be induced.
- Polluter Pays Principle: Those who damage the environment should undertake the costs.
- The acts of a member state should not harm the environment of another state. In order to ensure this, precautions should be taken.
- Community and member states should take the interests of developing states into account in environmental policies.
- Community and member states should take role in international organizations.
- Protection of environment is a problem for all in Community.
- In each pollution category, it is necessary to prefer the activity level (activity at local, national, regional, Community level or international level) which is appropriate for pollution type.
- All member states should determine their own principles of environmental policy as soon as possible and they should be put into effect.
- Community environmental policy aims at the development of national policies for environment. However, such a development should not jeopardize the functioning of common market (Budak, 2000: 116- 117).

In addition, the Heads of State or government called on Community institutions to establish an environmental program of action before 31 July, 1973. In 1973, the first Community Action Plan on the Environment was published. Action Plan specified the basic aims and principles for Community environmental policy making.

Issuing secondary source legislation (regulations and directives⁵) necessitates legal base in Treaties. At that time, Council adopted environmental protection in accordance with Article 100 and Article 235 of Rome Treaty. In Article 100 it was

⁵ “The directives are the most used instruments in the field of environment. They are proposed by the Commission and approved by the Council of Ministers. Directives are binding as to result to be achieved, but leave the method of implementation to individual Member states. They must be transposed to the national legislation. On the contrary, regulations must be directly implemented by Member States. It has been used for instance in regulating environmental management and eco-audit. Recommendations are proposed by the Commission or the Council. It is the weakest form of policy instrument for it is a non-binding decision. It has been used, for instance, to promote paper recycling” (Leveque, F. (1996) *The European Fabric of Environmental Regulation*. In Leveque, F. (ed.) *Environmental Policy in Europe: Industry, Competition and the Policy Process*. USA: Edward Elgar Publishing Limited, pp. 9- 10).

stated that ‘Council shall issue directives for the approximation of the laws, regulations and administrative provisions in the Member States which directly affect the establishment or functioning of the internal market’ (Jeppesen, 2002: 12). This article aimed to issue environmental directives so as to remove barriers stemmed from different national environmental regulations. To illustrate, motor vehicle emissions (70/220/EC), the composition of detergents (73/404/EEC) are some examples. Article 235 was for unspecified issues by Treaty. In such a case, Council should decide unanimously for introducing environmental measures. ‘Environmental Quality Standards regarding surface water and air (76/160/EEC, 78/659/EEC, 79/923/EEC, and 80/779/EEC) and framework provisions in the fields of water pollution and waste (75/442/EEC, 76/464/EEC, and 78/319/EEC)’ are some of the examples based on Article 235 (Jeppesen, 2002: 12).

In 1987 Single European Act came into force. In Single European Act there was a section on ‘environmental policy (section VII articles 130r-t), which, for the first time, provided community environmental policy with an explicit legal basis’ (Kelemen, 2004: 28). Article 100 of Rome Treaty was replaced by Article 100A. In that sense, environmental policy continued to have two sources: Article 100A and Article 130r-t. This was the manifestation of ongoing duality between environmental policy and internal market (Kelemen, 2004: 28). Article 100A introduced ‘cooperation procedure’ which replaced unanimous decision with qualified majority decision in Council and increased Parliament’s power in decision making process since

According to cooperation procedure, Commission prepares the proposal. Parliament gives its opinion regarding the proposal. Council determines the common position by taking the opinion of Parliament into account and then submits this common position to the approval of Parliament. If Parliament rejects, Council has to adopt the proposal by unanimity. If parliament accepts, Council has to adopt the proposal by qualified majority.

Indeed, low-standard states were at odds with the extension for the implementation of this article in most environmental issues. Thus, they supported that many environmental regulations be made pursuant to Article 130s which necessitated

consultation procedure⁶ that Parliament had limited role and decisions were taken unanimously in Council. However, European Court of Justice extended the scope of qualified majority with its decisions (Kelemen, 2004: 30).

In 1992, Maastricht Treaty came into force. Maastricht Treaty introduced co-decision procedure in environmental policy making. According to co-decision process, Parliament gained veto power for an environmental measure that Council of Minister cannot reconcile with Parliament. In that sense, Parliament became more powerful, even though Council of Ministers was still the ultimate decision making authority. In the Amsterdam Treaty (1997), the use of co-decision procedure was extended in environmental policy making; therefore, Parliament's influence increased in many areas of environmental policy making. This was the basic manifestation of the shift from intergovernmentalist approach⁷ to governance approach. Albeit there has been a surge in environmental regulations since two decades, environmental regulations are still restrained by economic issues, especially free trade at European Union. Free trade has superiority over environmental issues.

Since the scope of this study involves one of the serious environmental problems of world- water scarcity, the main purpose of the following section is to understand how such an environmental problem is defined at international and regional level and also to understand which solutions are proposed for such a problem.

⁶ According to consultation function, Council consults European Parliament for a proposal prepared by Commission.

⁷ According to intergovernmental model, ultimate decision making authorities are nation states. There is a limited delegation of authority by nation states to supra-national institutions (Council of European Union, Court of Justice, European Parliament...etc.). Indeed, supra-national authorities usually serves for the fulfilling the objectives of nation states. Decision making is realized by intergovernmental bargaining. However, it does not imply that nation states determine all the details of policy making process. Rather, it can be said that governments play a significant role in determining the direction of policy making (Hooghe, L. & Marks, G. (2000) *Multi-level Governance and European Integration*. Boston: Rowman & Littlefield Publishers, Inc., p. 3.

2.2.2. Water Policy at International and Regional Level

2.2.2.1. Water Scarcity and Water Policy at International Level

Today, the world is witnessing severe resource scarcity problems. One of these problems is the water scarcity problem. Water is an indispensable resource for human survival. In that sense, access to water is a basic human right. However, water supplies are being overused and polluted four times more than 1950s due to agricultural and industrial activities (Porter and Brown, 1996: 11). In addition, global warming accelerates this process.

To begin with, at the international level water scarcity problem was first appeared at Stockholm Environmental Conference in 1972. In the conference, the protection of water like soil, and air for the use of next generations via planning and management was adopted. In that sense, water problem as a specific issue was not highly significant at the international level at that time.

After Stockholm Conference, in 1977, United Nations Water Conference was organized in Mar Del Plata, Argentina. Water was defined there as a common value. As a paramount principle, conference emphasized that all humans had right to access water regardless of their level of development and socio-economic backgrounds⁸. As an action plan, it proposed systematic planning and assessment of water. The organization of the conference only for water issue is an indicator of water problem as being recognized at the international level. United Nations declared the period between 1981- 1990 as International Drinking Water Supply and Sanitation Decade. The target in this ten year period was "to provide every person with access to water of safe quality and adequate quantity, along with basic sanitary facilities"⁹.

After that decade, UNDP organized a conference named as 'Global Consultation on Safe Water and Sanitation for the 1990's', New Delhi in 1990. The principle that was adopted in that conference was "some for all rather than more for some".

⁸ See <http://www.worldwatercouncil.org/index.php?id=708> 15.06.2006.

⁹ See <http://www.worldwatercouncil.org/index.php?id=708> 15.06.2006.

Indeed, this principle was aiming to ensure cooperative action among the nation states so as to protect the human needs such as freshwater and environment. It was also emphasized that access to water was not only a technical issue, but it was also ‘crucial component of social and economic development’¹⁰. Moreover, four guiding principles were adopted in the conference:

(1) Protection of the environment and safeguarding of health through the integrated management of water resources and liquid and solid wastes; (2) institutional reforms promoting an integrated approach and including changes in procedures, attitudes and behavior, and the full participation of women at all levels in sector institutions; (3) community management of services, backed by measures to strengthen local institutions in implementing and sustaining water and sanitation programs; (4) sound financial practices, achieved through better management of existing assets, and widespread use of appropriate technologies (http://www.unesco.org/water/wwap/milestones/index_pr.shtml).

Institutional reforms mentioned in the second principle implied that the service provision role of state was transformed into facilitator role, i.e. contracting out services. Also, it was stated that the provision of services would be undertaken by local public, private, and nongovernmental organizations. That is, this principle buttressed decentralization and the decentralization could be achieved by central government; yet, it was noted that efficiency in distribution of services could be performed by private sector¹¹.

International Conference on Water and Environment in Dublin which was organized in January 1992, constituted a turning point for the definition of water problem. The principles adopted in the conference reflect the international consensus on the definition of water problem and the proposed solutions. This conference was also a preparation for Earth Summit in Rio de Janeiro. The guiding principles in that conference were as follows:

¹⁰ See http://www.unesco.org/water/wwap/milestones/index_pr.shtml 16.06.2006.

¹¹ See http://www.unesco.org/water/wwap/milestones/index_pr.shtml 16.06.2006.

(1) Fresh water is a finite and vulnerable resource, essential to sustain life, development and the environment; (2) Water development and management should be based on a participatory approach, involving users, planners and policy-makers at all levels; (3) Women play a central part in the provision, management and safeguarding of water; (4) Water has an economic value in all its competing uses and should be recognized as an economic good¹².

For the first time, economic value of water was emphasized as a guiding principle in an international conference. Conference advocated that top-down approach for the policy implementation in water sector was insufficient and undesired. Therefore, bottom approach (decentralization, privatization) was adopted in the conference.

At the same year, UN Development and Environment Conference in Rio de Janeiro (Earth Summit) was held. Eighteenth section of Earth Summit action plan (Agenda 21) was related with water. In that part, integrated water resources planning and management issues was adopted. In Agenda 21, integrated water resources management was defined as ‘the perception of water as an integral part of the ecosystem, a natural resource and a social and economic good, whose quantity and quality determine the nature of its utilization’¹³. Moreover, the principle that ‘water users should be charged appropriately’ was accepted¹⁴. In short, the decisions regarding water at Earth Summit was in line with Dublin conference.

In 1997, the first Water World Water Forums was organized in Marrakech by an international nongovernmental organization that is World Water Council. In the declaration prepared by participants, it was emphasized that an effective mechanism for common water management should be established and efficient water usage should be induced. The participants to the forum were FAO (Food and Agriculture Organization), UNESCO, and WMO (World Meteorology

¹² See http://www.unesco.org/water/wwap/milestones/index_pr.shtml 16.06.2006.

¹³ See <http://www.un.org/esa/sustdev/documents/agenda21/english/agenda21chapter18.htm> 16.06.2006.

¹⁴ See <http://www.un.org/esa/sustdev/documents/agenda21/english/agenda21chapter18.htm> 16.06.2006.

Organization), United Nations, African and Asian Development Banks, World Bank, European Commission, multinational water company (Lyonnaise des Eaux), Agra Industries Limited Company, nongovernmental organizations such as International Water Quality Union, International Hydro-power Union, and ministries of governments.

The second water forum was held in 17th – 22nd March 2000 in Hague. In this conference, the solutions for the scarcity of water resources were discussed. Especially privatization of water resources was the main focus of these discussions. Especially with the influence of World Water Council, privatization was supported in general since it was claimed that water was sold under its due price by the public sector¹⁵.

In 2001, International Water Sanitation Conference held in Bonn water was defined as the key to sustainable development. Besides, it was suggested that water management should be performed at the lowest level to the citizens. Private sector, nongovernmental sector should also participate in water management. This is, indeed, the essence of the stakeholder understanding. According to this understanding all stakeholders including public sector, private sector, nongovernmental organizations should participate in water management. However, the role of each actor is different. To illustrate, private sector is supposed to provide public service. Public sector is the regulator of the operations of private sector who is the service provider. Non-governmental organizations direct the citizen's attention to the policy process by providing information or represent the interests' of its members in policy process. Such a stakeholder relationship between public, private, and nongovernmental organizations in a policy field (including policy formation, implementation, and service delivery) is defined as partnership. This is a broader understanding of partnerships. In this study, however, the narrower definition of partnership is adopted. This meaning will be explained further in Chapter III.

¹⁵ <http://www.byegm.gov.tr/yayinlarimiz/NEWSPOT/2000/March/N10.htm> (16.06.2006)

In 2002, Johannesburg Sustainable Development Conference was held. In this conference, the development of partnership mechanisms in water sector (article 7/f) and facilitation of these partnerships, participation of all stakeholders were emphasized. Shortly, at the international level all conferences and forums after 1990s emphasize the economic value of water and private sector participation in water service management. This is the ramification of the understanding of sustainable development. As an environmental issue, water has started to be defined as an economic problem after 1990s. According to these conferences, solution for this problem is privatization of water service management.

2.2.2.2. Water Policy at Regional Level: EU

At regional level, there is also prevalence of neo-liberal economic understanding. To understand this, now water policy at European Union will be analyzed. European Union water policy legislation is composed of three phases (Kaika, 2003). The first phase involves Surface Water Directive (1975) and Drinking Water Directive (1980). Those directives are related to ‘water quality standards’ and ‘protection of surface waters’. The second phase, after 1990s, focused on ‘emission levels for achieving those standards. ‘Urban Wastewater Management Directive, the New Drinking Water Quality Directive, the Nitrates Directive, and the Directive for Integrated Pollution and Prevention Control’ were the directives in this stage (Kaika, 2003: 300). The third stage unites two preceding stages. This phase involves Water Framework Directive. The main objectives of Water Framework Directive are as follows:

- (1) Achieving and/or maintaining “good status”, in terms of ecological quality, for all waters within a set timeframe;
- (2) Water management to be based on river basins;
- (3) A combined approach for control of pollutants incorporating both emission limit values and water quality standards, sometimes known as environmental quality standards;
- (4) Prices and charges for all services related to water use, such as water supply and wastewater collection and treatment to reflect the true economic cost;
- (5) To more closely involve both interested parties and citizens in the process of protecting water;
- (6) To streamline water legislation with the incorporation and repeal of seven old directives relating to water (Barth and Fawell, 2001: 103).

This Directive is a new understanding for water policy since it adopted an integrated approach which ‘linked for the first time physical planning with water resource planning’ and also adopted a combined approach which stipulated that water quality could not be seen outside of emission controls and ground water protection (Kaika, 2003: 300). In addition, Directive also accentuates the economic value of water supplies- pricing of water usage. In parallel with the developments concerning water policy at international level, in European Union the introduction of privatization has also become the main focus of water management.

As stated in Chapter II, environmental and economic concerns were unified under the concept of sustainable development. According to this, economic globalization (liberalization of free trade, privatization...etc.) will promote environmental protection via market mechanism (such as competition, pricing...etc.) and by providing high technology. Hence, international financial aid organizations (IMF and World Bank) and economic institutions (such as World Trade Organization) have a role in promoting privatization in water and sewerage sector. IMF and World Bank play a role in promoting free market principles as a condition for their loans. The member states of World Trade Organization have to liberalize their trade and adopt market principles within their jurisdiction. Especially General Agreement on Trade in Services (GATS) aims to promote liberalization and privatization in all sectors except social security schemes, health, and education. Water sanitation and sewerage are in the list of GATS. As mentioned above, European Union (regional bloc) also contributes to the concept of sustainable development through its environmental regulations for all member states and candidate states¹⁶.

¹⁶ To illustrate, standards of EU Water Framework Directive were implemented in Turkey (2002) through a pilot Project. The main objective of project was to accelerate the cooperation between institutions that are responsible for water management and to develop integrated approach in water management planning. The Project was in the scope of EU MATRA Program whose main objectives were to assist the candidate states and to establish ongoing relations with candidate states. The Pilot area was Büyük Menderes River Basin. During the project, groundwater and surface water sources of Büyük Menderes River and the reasons for pollution were determined. River Basin Management Draft was prepared in accordance with the norms stated in Water Framework Directive.

In addition to these, World Bank has a special role in water and sewerage sector. The water service privatization policy formulated at the international environmental networks (conferences and forums) is transferred by means of World Bank loans, especially to developing countries. World Bank started to play a crucial role in water and sewerage sector, especially after Dublin and Rio Conferences. In 1993 Water Resource Management Policy Paper, World Bank used the concept of 'water resource management' which emphasized that water is an economic good and should be privately owned and managed (Finger and Allouche, 2002: 64). Put another way, The Bank added environmental dimension to its projects. This environmental dimension was integrated to economic dimension. That is, it pursued policies to promote the private sector participation in water and sewerage sector. Bank criticized public sector in 1994 World Bank Development Report in the following way:

First the delivery of infrastructure services usually takes place in a market structure with one dominating characteristic: the absence of competition. Most infrastructure services in developing world are provided by centrally managed monopolistic public enterprises or government departments... The bulk of power...has been provided by public monopoly. As a result the pressure that competition can exert on all parties to perform at maximum efficiency has been lacking. Second those charged with responsibility for delivering infrastructure services are rarely given the managerial and financial autonomy they need to their work properly.....They [managers] are compelled to deliver services below cost- often not being allowed to adjust prices for inflation. Third, the users of infrastructure- both actual and potential are not well positioned to make their demands felt. When prices reflect costs, the strength of consumer demand is a clear signal of what should be supplied (World Bank Development Report 1994: 7- 8).

Furthermore, according to World Bank, under public ownership it was not possible to fulfill environmental and social concerns. Since there was a lack of competition and technology in public sector, increasing environmental standards such as curbing water pollution, promoting quality of water was not possible. Bank also pointed out that poor people did not have any chance to access water due to pollution and scarcity; therefore, there was a need for private sector (World Bank Development Report, 1994: 7- 8). All these issues, indeed, reflect the neo-liberal understanding of environment— that is the sustainable development.

In this chapter different phases of global economy and the role of states in each stage has been explicated. Notably in 1970s and 1980s, states' interventionist role in their domestic markets was defied. The ongoing process of globalization also contributed to the minimal state understanding in the economy. Nevertheless, there was a need for legitimizing the process of weakening of the power of states in market. In 1990s, governance approach has provided the legitimization basis. Governance emphasized states' sharing of authority with private sector and NGOs. The term has become a tool for an emphasis on democracy. It is claimed that governance ensures participation from public, private and NGOs. As well as its accent on participation, institutional dimension of governance has been put forward by post-liberal understanding of democracy. Globalization does not only have economic dimension, it also has environmental aspect. Yet, economic understanding of neo-liberalism has also been incorporated into the environmental problems, especially with the term of sustainable development. One of the main aims of this study is to indicate how this marriage of environment and economics is realized in water sector. To understand this marriage, in the last part of this chapter the main concern has been to understand how water scarcity problem is defined at international and regional level and also which solutions are proposed for this problem. As international forums and conferences have demonstrated, the solution is to privatize water infrastructure services especially through policy transfers of World Bank. In the next chapter, the main focus will be on public-private partnerships that is one of the privatization methods. The implementation of this privatization mechanism will be assessed within the context of Turkey. As a case study, ÇALBİR has been selected.

CHAPTER III

PUBLIC-PRIVATE PARTNERSHIP: THEORY AND PRACTICE

3.1. Public-Private Partnerships

In literature, different types or instruments of privatization are stated. A typology to identify different types of privatization can be used by constituting a scale ranking from 'strong' to 'weak' privatization. The first one is sale of assets in which ownership is transferred to private sector. The transfer of ownership may be achieved via 'restitution, give away or liquidation' (Weizsacker et. al, 2005: 6). Another one is 'build-operate-transfer' in which ownership is temporarily transferred to private firm. The private firm in this type builds an infrastructure such as road, water sewerage network, dam...and the like in return for managing this facility for a period determined by a contract. The last one is the public-private partnerships in which ownership remains in public but responsibilities and duties are shared among participators.

In this chapter, at first, theoretical foundations of public-private partnerships, types of public-private partnerships and their weaknesses will be discussed. Then, the policy process for the introduction of this policy instrument will be analyzed. Lastly, the theoretical foundations of public-private partnership will be assessed in terms of public-private partnership arrangement in ÇALBİR case.

3.2. Theoretical Foundations of Public-Private Partnerships

Public- private partnership arrangements have become widespread since last two decades all over the world. These arrangements today is widely used in technology, energy, education, transportation, health sectors....and the like. At the

local level, they are mainly used for urban development and renewal projects. As Rhodes stated, there is a transformation ‘from a system of local government into a system of local governance involving complex sets of organizations drawn from the public and private sectors’ (1996: 658).

It should be stated that one of the reasons behind their proliferation is fiscal constraints on national budgets. Under the fiscal constraints, there is not adequate resource transfer from central government to local governments. Local governments, so as to build their infrastructure and renew the urban area, have to attract private sector for the required investment. Even though public-private partnerships have a long history in Anglo-American countries, especially in UK and USA, there has been a surge in their number all over the world since last two decades. The main reason behind their increase is that neo-liberal strategy of Anglo-American countries has become globally dominant one after 1990s. In an interdependent global world economy, states are under fiscal constraints for several reasons. First of all, they have to reduce corporate taxes, significant revenue for financing their expenditures (such as welfare spending, resource transfers to local and other government units), so as to attract foreign direct investment. Otherwise, they are subject to disinvestment (Pierson, 1998: 64). Moreover, as Jessop (1994) claimed, states started to intervene to supply-side in this post- Fordist era to promote innovation (through establishing R&D units) and competition (Jessop, 1994: 13- 37). In other words, while state expenditures for welfare and transfers are decreasing in this period; they are increasing for supply side interventions. The impact of neo-liberalism has been much strong on other welfare state regimes (social democratic and conservative welfare states), and developing states. It is claimed by the proponents of neo-liberalism that other welfare state regimes and developing countries lagged behind the neo-liberal countries in the process of globalization; therefore, so as to adapt themselves to global economic order they have to adopt liberalization and privatization policies. In that regard, whereas the standards of the regulation enforced by high regulatory bodies are used as the fastening mechanism for the privatization of state enterprises (Sönmez, 2004: 136), partnerships are used as tools for promoting

private sector participation for the delivery of services. Especially in developing countries, as noted before, international financial institutions such as World Bank and International Finance Corporation give loans with the condition of private sector participation for the delivery of infrastructure service (Rondinelli, 2003: 22).

In related literature, public-private partnerships are also being used as a response to the attacks on privatization and therefore, it is maintained that these arrangements may be a corrective mechanism against privatizations. According to Pongsiri (2001), public-private partnership is an appropriate institutional mechanism for correcting market failures by introducing 'equity, and mutual accountability' (Pongsiri, 2002: 487). Especially, this corrective understanding of public-private partnerships is used by 'Third Way' governments in Germany and Britain to underpin such 'collaborative' arrangements (Linder and Rosenau, 2000: 9- 10). This policy change, aims at reducing the opposition at local level as well as at national level (Mcquaid, 2000: 14). It is claimed that these are different from privatizations in 1980s since risks and responsibilities are diffused to each participator of partnership. In that sense, this is cooperative inter-organizational form in which the differences between public and private become blurred (Linder and Rosenau, 2000: 6). According to its advocates, superiority of private sector ownership rather than state ownership in 1980s or superiority of state ownership rather than private ownership in communist countries led to the imbalance in societies. Such a dichotomy of nationalization and privatization limits the other possibilities that can ensure the balance (Mintzberg, 1996: 237- 238). Therefore, it is asserted that public-private partnerships are alternatives between the continuum of public and private sectors. The 'antagonistic dualism of public versus private provision' was transformed into 'harmonious and synergistic duality of partnership' (Grimshaw et. al., 2002: 476). The failures of private sector such as equity, fairness and failures of public sector such as efficiency, effectiveness can be offset by the cooperation among parties via partnerships, thus, each party can complement the deficiency of the other. Partnerships are collaboration between parties, rather than competition among them, to achieve mutual benefit and this

mutual benefit can be achieved by trust (Mcquaid, 2000: 11). In that sense, it is claimed that the theoretical foundations of principal-agent theory and transaction cost economics for competition is not appropriate for public-private partnerships (Entwistle and Martin, 2005: 237).

According to principal/agent theory, there exists a principal (public organization) and its agents (private organization) in a contracting out relationship. There may be problems between principal and its agents due to the asymmetric information. The principal solicits from the agent to fulfill principal's objectives; but he does not have sufficient information about 'the circumstances and behavior of the agent'. Also, there is a monitoring problem for the principal (Vickers and Yarrow, 1988: 9) since private organization may behave in accordance with its self-interest (such as making profit, and disregarding the quality of the service) instead of the owners' interests (Hart, 1993: 155). To prevent this, owners or shareholders have to monitor managers regularly; however, there is a free-rider problem since monitoring imposes costs on the public organization. Such a cost may be more than the benefit from contracting out of the service.

Transaction cost economics states that under certain circumstances provision of goods and services may be more efficient within the firm. The theory primarily focuses on the minimization of costs in transactions. Despite the fact that the theory deals with the firms' production alternatives with respect to their relative efficiency, it gained significance in public administration to ascertain whether in-house production or contracting out of goods and services is more efficient. If the contract for the public good or service is complex, infrequent, asset specific¹⁷, and made in an uncertain environment then in-house production is more efficient since 'internal organization (hierarchy) often has attractive properties in that it permits the parties to deal with uncertainty/complexity in an adaptive, sequential fashion

¹⁷ An asset is considered to be specific when 'it makes a necessary contribution to the production of the good but lower value in alternative uses.....Contracts that require either party to employ assets(usually capital assets but in some circumstances human capital assets) that have little or no alternative use, that is, are "sunk", raise the potential for opportunism' (Globerman, S. and Vining, A. R. (1996) A Framework for Evaluating the Government Contracting-Out Decision with an Application to Information Technology, *Public Administration Review* Vol. 56, p. 580).

without incurring the same types of opportunism hazards that market contracting would pose' (Williamson, 1975: 25). According to theory, contracting out for some goods and services may reduce efficiency under the circumstance that transaction costs may be higher than the benefits from internal hierarchy (Hodge, 2001: 135).

According to the advocates of public-private partnerships, both of the theories do not take the possibility of collaboration into consideration and instead they point to the purchaser and provider split. In line with the understanding of purchaser/provider split, Osborne and Gaebler claimed that states are better than private sector at 'policy management, regulation, ensuring equity, preventing discrimination or exploitation, ensuring continuity and stability of services, and ensuring social cohesion'. Private sector is better at 'performing economic tasks, innovating, replicating, successful experiments, adapting to rapid change, abandoning unsuccessful or obsolete activities, and performing complex or technical tasks'(Osborne and Gaebler, 1993: 45- 46). In that respect, government should 'steer' rather than 'row'; that is, state should control and regulate the provision of services by private sector or nonprofit sector. Nevertheless, public-private partnerships are more than purchaser/provider split. In a partnership arrangement, especially in water services, local governments are responsible for the investment of the infrastructure, whereas the private operator is responsible for the maintenance and repair of the infrastructure. In that sense, partnership is not a one-side regulation. Both of the parties have responsibilities; that is, there is a co-steering among parties (however, as mentioned before, this steering is not in traditional sense). Partnerships are not zero-sum game but instead they are win-win games, according to its proponents. They necessitate mutual responsibility of each party since in a partnership, unlike contracting-outs, specification of the good /service or performance measures are ambiguous at the outset (Klijn and Teisman, 2000: 85); and partners determine them as a consequence of the bargaining. Put it another way, the rules and specifications for partnership arrangements are determined through negotiations and as a result, the contract states the duties and responsibilities for each partner (Peters, 1998: 18).

Moreover, there is no principal/agent relation in a partnership. Rather, all partners are principals implying that ‘each of the participants is capable of bargaining on its own behalf’ (Peters, 1998: 12). Public-private partnerships are composed of ‘formally autonomous but functionally interdependent organizations’ (Radin, 1998: 149). It is also assumed that there is not an information asymmetry as in principal/agent relations since the relationship between them is based on trust. Trust is ensured through a contract ‘the parameters of which are negotiated among the members from the outset’ (Radin, 1998: 149). Therefore, according to public-private partnership theory, there are not so much monitoring costs due to the existence of trust between parties.

Negotiation among members for the contract also stems from the complex nature of the service. Parties, in theory, negotiate in order to highlight the service and performance indicators. As Daniels and Trebilcock pointed out, infrastructure partnerships are characterized as ‘the bundling of finance, design, construction, operations, maintenance’ (2000: 97). In that sense, partnerships embraces complex services, whereas contracting outs are composed of simpler services such as cleaning, waste collection and moreover in contracting outs state specifies the problem and its solution, and then selects a private organization for the production of the good or service through competitive tendering (Klijn and Teisman, 2000: 85). For some scholars, such a complexity of the service also led governments to find private partners in order to benefit from their expertise and skills (Keating, 1998: 163). It is claimed that public administrators should learn these abilities from their business partners (Linder, 2000: 26).

Game theory and relational contracting are the theories that constitute the theoretical foundations of public-private partnerships. Game theory highlights the cooperation and coordination problem. According to the prisoners-dilemma game¹⁸, in a one-shot game the dominant strategy for the players is to defect;

¹⁸ The prisoner dilemma is as follows: “There are two prisoners suspected of armed robbery. Unless the district attorney can convince them one or both suspects to confess, there is no sufficient evidence to convict them on the robbery charge. The district attorney has, however, enough to convict them of a lesser firearms charge. The robbery charge carries a maximum penalty of ten years in jail, while the firearms charge carries a maximum penalty of two years. To elicit a

therefore, it is not probable to achieve collective action. However, it is claimed that finding any case that corresponds to real world situations is problematic since in the real world, most of the games are not one-shot game. When the game is reiterated, defection is not necessarily the dominant strategy; that is, cooperation is possible because;

One such...strategy is for a player to play the same strategy in the present game as the other player(s) played in the previous game. If both (all) players adopt this strategy, and all begin by cooperating strategy, the cooperative outcome will emerge in every play of the game. An alternative strategy, which achieves the same outcome, is for each player to play the cooperative strategy as long as the other player(s) does, and then punish the other player(s) for defecting by playing the non-cooperative strategy for a serious of plays following any defection before returning to the cooperative strategy (Muellor, 1989: 12).

In line with game theory, relational contracting accepts the possibility of collaboration and trust between parties. It is argued that collaboration and trust eliminates transaction costs between parties since parties trust each other and it also overcomes complexity of the services through negotiations. In other words, its advocates assert:

there is a shift from a system of atomistic, short-term market based contracts, which are designed to maximize the gain of each bounded entity, to the development of medium-to-long, 'relational contracts' where the emphasis is upon permeable organizing practices that are intended to yield mutually beneficial outcomes (Grimshaw et. al., 2002: 482).

Having defined the theoretical basis and general traits of public private partnerships, it is also necessary to identify different forms of public-private partnerships. In this study public-NGO partnerships will be ignored. The term

confession, the district attorney promises the prisoners during separate interviews that if they confess and their companion does not, then the confessor receives a one year sentence, while the non-confessor gets the maximum ten year sentence. If however, both confess, they would each receive reduced sentences of seven years for the robbery. Only when a single prisoner confesses, does the confessor get off with a light sentence. In as much the district attorney cannot convict without the assistance of at least one suspect, one might think that neither will confess, but, in fact both are likely to confess much to their collective dismay" (Sandler, T. (1992) *Collective Action: Theory and Applications*, USA: The University of Michigan Press, p. 20).

private refers for-profit organizations. Hence, the main focus of this study is on the formation of a partnership whose parties are business sector and public sector.

3.2.1. Different Types of Partnerships

There are different types of contracts for establishing a partnership in the infrastructure sector. The type of the contract determines the responsibilities of each partner. These contracts are service contracts, management contracts, lease contracts, and concessions. Nevertheless, every service, management, lease contract or concession may not be a form of public-private partnership but they can be contracting outs. Public-private partnership contracts have other characteristics such as sharing of responsibility and risk, and negotiating for the contract. Unlike the emphasis on competition as in contracting outs, public-private partnerships highlight cooperation and trust between the parties. The features of each contract may vary in different contexts due to distinct economic, institutional, social and, political background peculiar to the contexts.

3.2.1.1. Service Contracts

This type is the least risky for private sector one among the others. It involves the short term contracts that have duration of one or two years (McDonald and Ruiters, 2005: 11). The public authority has the responsibility for operation and maintenance of the network. Only a specific part of the system is contracted out. Therefore, private sector involvement is very limited such as 'reading meters, repairing leaks, and mailing statements for payment' since these contracts are performed for short-lived issues (Water Deregulation Report, 2006: 25). The public authority has the responsibility for operation and maintenance of the network.

3.2.1.2. Management Contracts

In management contract, private sector has more responsibility. Private sector maintains and operates the system. Usually, management contracts do not require private sector investment; therefore, there is no commercial risk (Water Deregulation Report, 2006: 25). The central or local government takes the

financial responsibility for the system. Also, there is no 'direct legal relationship' between citizen and private operator. There is no reimbursement if private operator does not collect fees from the citizens (Water Deregulation Report, 2006: 25). Public authority monitors the private operator. The time duration of management contracts is between two and ten years (McDonald and Ruiters, 2005: 11).

3.2.1.3. Lease Contracts

In lease contract, private operators rent the facilities owned by the public authorities. The ownership belongs to the public authority and public authority is also liable for 'system finance and expansion', whereas private operator is 'responsible for financing working capital and accepts some commercial risk in the day-to-day operation of the system' (Water Deregulation Report, 2006: 25). The operator tries to maximize fee collection so as to pay its rent fee, and make profit. Its time-span is more than ten years (McDonald and Ruiters, 2005: 11).

3.2.1.4. Concessions

Concession is a long term contract covering a period of twenty five to thirty years (McDonald and Ruiters, 2005: 11). In this contract, private contractor do investments in the system. Concessionaire has overall responsibility about the system, 'including operation, maintenance, and management as well as capital investments during the concession period' (McDonald and Ruiters, 2005: 11). Concessionaire takes the payment directly from the citizens and takes the risk that costs will not be more than revenues (Water Deregulation Report, 2006: 25). Partnerships are the organizational form of networks in which public and private actors come together for delivering a service. Besides, as a policy instrument partnership is the mixture of public and private sector tools. In the previous chapter, as already noted, management contract for establishing public- private partnership was selected.

3.2.2. Drawbacks of Public Private Partnerships

The theoretical background of public-private partnerships, indeed, supposes that all parties in public-private partnerships are equals. Yet, in real world this may not

be the case (even if there is cooperation between actors), especially if the resource needs of public organizations are considered. Private sector may exploit its position due to the resource dependency of public sector to private sector. Moreover, as in developing countries, World Bank may also increase the power of private sector against public sector. Thus, although in theory it is stated that public private partnerships are established to prevent market failure, in practice there may still be market failures due to inequality between parties. In the following part, the criticism of partnerships with respect to efficiency, equity, and accountability concerns may be found.

3.2.2.1. Efficiency

It is generally claimed that private sector provision in a partnership enhances efficiency. In the relevant literature, there are two types of efficiency: technical and allocative efficiency. Technical efficiency relies on ‘the total costs to the firms of producing given bundles of outputs’, whereas, allocative efficiency depends on ‘the output levels of firms with given cost structures’ (socially optimum level for the product) (Vickers and Yarrow, 1988: 8). It is claimed that markets do not always ensure allocative efficiency and as a result market failures occur. Market failures are composed of natural monopolies, externalities (such as pollution), and public goods. Such failures can be corrected via government intervention. This is *raison d’etre* for state intervention.

Under natural monopoly, the firm may maximize its profit and this situation may prevent citizens’ benefiting from the good or the service. In economics terminology, there is a risk of maximizing profit above marginal cost¹⁹ since producer’s making profit above marginal cost exceeds marginal benefit of consumers and as a result the pareto-optimum equilibrium disappears. That is, supplier of the good/service may exploit its monopoly position by decreasing output (and therefore increasing prices) and quality. Many infrastructure services

¹⁹ As Cullis and Jones claimed “once an individual equates her marginal benefit of units per unit of time with the lowest achievable marginal cost of producing the good, both internal efficiency and allocative efficiency are obtained” (Cullis, J. G. and Jones, P. R. (1992) *Public Finance and Public Choice: Analytical Perspectives*, New York: McGraw Hill Co., p.4). This situation is the pareto-optimum level that is used to assess the efficiency level.

such as water, electricity, natural gas are natural monopolies since there is one network that the service is provided.

Furthermore, market provision of some goods/services may bring about externalities. When a market transaction has an influence on people who are not a party to the transaction, then this is called as externality. This influence may be negative or positive. To illustrate, pollution by factories is a negative externality. In the case of transportation there is a positive externality. The marginal social benefit of transportation is more than its marginal private benefit; 'even if transportation results in a loss' (decrease in marginal private benefit), it is beneficial due to its reducing the externality of pollution and traffic congestion (Hughes, 1998: 98).

In the case of public goods, market failure also exists. According to Samuelson, pure public goods are the goods that their consumption does not lead to any decrease in the consumption of any other individual, whereas, purely private goods are the goods that can be divided among different individuals (1954: 384). However, Samuelson's non-rival definition is not sufficient to differentiate the goods between the continuum of pure private and public good. Thus, 'non-rivalness of consumption' and non-excludability is introduced. There are four possibilities: (1) Pure individually consumed goods (private goods) in which there is rivalness in consumption and complete exclusion (2) Pure jointly consumed goods (toll goods) in which there is a complete exclusion, i.e. turnpike (3) Pure individually consumed goods (common-pool goods) in which exclusion is impossible but there is a rivalness of consumption, i.e. lakes, seas (4) Pure jointly consumed goods (collective goods) in which exclusion is impossible, i.e. national defense (Savas, 1987: 38- 39). According to welfare economics, public goods are under the public ownership. This is because of the free-rider problem. Since they are indivisible in nature, it is not possible to calculate the benefits for every person and then demand the cost of the good with respect to their benefits. In addition, every one has right to use them; some people may benefit from them without paying the cost. If everyone acted in accordance with this incentive, then there

would be no such a free rider problem; however, there would also be no financing for the public good and nothing would be provided (Cullis and Jones, 1992: 62).

Neo-liberal understanding suggests certain solutions in order to prevent these market failures. Firstly, neo-liberal understanding, especially public choice theory, asserts that welfare economy analysis can only be applied to purely public goods (Buchanan, 1972b: 181). Moreover, Buchanan argues that even for pure public goods there are externalities (like the ones welfare economic stated) since it is not possible to calculate the benefit of each individual from the provision of the public goods and services and then take the cost through taxation (Buchanan, 1972b: 181). For the community is not a unitary body, and the benefits cannot be assessed in terms of collective good, but 'in terms of the preference of consumers' (Musgrave, 1969: 797). According to neo-liberal understanding, water is not a purely public good. In welfare economics, water was considered as merit good- the good 'certainly be underprovided if left solely to market forces' (McDonald and Ruiters, 2006: 14). Beginning from 1980s, water provision was began to be considered as 'private good like any other: responsive to market indicators, flexible in its demand, and rival and excludable in its production' (McDonald and Ruiters, 2006: 14). Secondly, according to neo-liberal understanding, other market failures may be prevented through ensuring competition and regulation. It is claimed that allocative efficiency can be achieved by regulation and competition. To illustrate, 'price cap regulation' was accepted by UK government for all the sectors that are natural monopoly (Jackson and Price, 1994: 13). Some scholars asserted that contracts are incomplete and so as to ensure fairness in the case of conflict between parties of the contract there is a need for independent regulatory body which is, in theory, 'free from control of politicians, the government, operators, or users of the service (Estache, 2001: 101). Another solution, as it is claimed, is to design 'legal and regulatory framework for monitoring the performance of private contractors' (Institute for Public- Private Partnerships, 2000 quoted in Pongsiri, 2002: 490). In addition to these regulation issues, it is also claimed that vertically and horizontally unbundling provides competition. When unbundling is realized, the works in each stage is privatized. In horizontal

unbundling, the monopoly of service or good is separated according to regions. To illustrate, railway services were unbundled vertically in UK by ‘separating track from rolling stones’, whilst, they are unbundled horizontally by establishing regional lines as in Argentina, Mexico, and United States (Estache, 2001: 96). In UK electricity sector monopoly was unbundled vertically (generation and transmission) and horizontally, whereas gas sector was unbundled horizontally (Wright and Thomson, 1994: 37-38).

Nevertheless, such solutions proposed by neo-liberals ignore the probable role of stronger actors in the institutional design of competition and regulation. That is, the rules of competition and regulation may still represent the interests of stronger actors. In the establishment of public-private partnerships when parties are not equal (as often the case, especially during negotiations for the contract), such rules usually serve the interest of the stronger actors. Competition for the contract may be in favor of some private actors rather than for all. External regulation may be designed for the interests of some actors. Besides, even if there is cooperation between parties the control mechanism of public sector may be soft, as mentioned before.

3.2.2.2. Equity and Distribution

Another main argument of public-private partnerships is ensuring equity. Nevertheless, increase in efficiency does not always lead to equity since efficiency argument is based on pareto principle. Pareto optimum is achieved when there is both allocative and internal efficiency. Nevertheless, pareto principle disregards ‘initial distribution of wealth’ (Gupta, 2001: 76). In line with this understanding, the principle does not take the redistributive function of state into account. As Bös (1991) claimed, efficiency dimension of privatization outweighs distributional dimensions such as poverty and unemployment reduction and cross-subsidization (pp. 10- 14). One of the main functions of state enterprises in postwar period was cross-subsidization in public enterprise pricing. Whereas rural users or low-income groups were benefiting from the service by paying uneconomical prices, the remaining citizens were paying the prices above the cost (Hughes, 1998: 114).

Nevertheless, this understanding has come under attack. The basic tenet of welfare state that services should be provided on the basis of need is being eradicated and instead the principle that “those who pay the price of the service, can benefit from the service” is being adopted. Put it differently, the concept of citizen is transformed into customer. However, the concept of customer is narrower than the concept of citizen. In Mintzberg’s words:

I am not a mere customer of my government, thank you....But more important, I am a citizen with rights that go far beyond those of customers or even clients....I have rights as citizens, then I also have obligations as a subject.....we all remain subjects of our governments- when we pay taxes, allow ourselves to be drafted into armies, or respect government regulations for the sake of collective order (Mintzberg, 1996: 239).

3.2.2.3. Blurring of Boundaries

Unlike analytical separation between public and private, there is a blurring between the boundaries of public and private in a public-private partnership. Some scholars claim that ‘state-society distinction is normatively speaking a false dichotomy’ and public-private partnerships are the arrangements that transcend such private/public dichotomy (Pierre, 1998: 3). Hirst (2000) claims that nation states, indeed, do not loose power instead they are ‘fragmented and merged with non-state or non-public bodies’ (Hirst, 2000: 21). However, such a ‘blurring of the boundary between political jurisdiction and market forces’ has particular repercussions (Mohr, 2004: 241). Especially under the impact of New Public Management, public and private organizations are depicted as equals and New Public Management offers ‘business type managerialism in the public sector’ (Hood, 1991: 5). However, it is not possible to find ‘the politics and administrative parts of government, the meaning of law and legislation’ in private sector and also government has a distinctive ‘political and legal environment’, ‘the administrative relations between societal sectors and government’; there is no such a relation between bureaucrats and politicians in private sector. Since they have different organizational structure and environment, public organizations are different from private organizations with regards to the principles of contingency theory (Kickert, 1997: 734: Kickert and Koppenjan, 1997: 38). They all have their peculiar interests, goals, and strategies. In public-private partnerships such divergence

between public and private is ignored and instead the administration of a public organization becomes the management of public organization like its private partner. More than that, the erosion of the boundaries causes severe accountability problems.

3.2.2.4. Accountability and Transparency

Private firms are not subject to the ‘constitutional, statutory, and oversight restrictions as governmental actors’ (Gilmour and Jensen, 1998: 248). There are three kinds of accountability problems: judicial, political, and administrative. Private firms are not judicially accountable in that they are not subject to public law even though they supply a public good/service with their public partner. Private firms are not politically accountable since they are not accountable to the citizens. They are only accountable to their costumers. They are not administratively accountable since they are not directly accountable to the elected officials instead under contract there is an indirect and ambiguous relationship between them (Moe, 1987: 457). Moreover, partnerships often considered as ‘a two-way affair between business and government, rather than also directly including citizens’ interests’ (Hodge, 2004: 45).

All these problems regarding accountability have led neo-liberals to introduce a new understanding of democracy- that is participatory democracy. It is stated that citizens may participate in the decision-making process. Nevertheless, this understanding of democracy disregards the varying powers of actors in decision-making but only it expresses the benefits of such a model. That is, the influence of poor income groups may not be strong in the privatization decision of the service or good. In addition, domestic actors are not only participants to decision making process but also international actors (international financial institutions, NGOs, regional bodies such as EU, multinational corporations) are participants. In such a ‘hyper-pluralist’ (Kettl, 2002) world, it is not possible for low income groups to voice against a privatization decision within the context of neo-liberalism.

Once privatization decision is made, then there is still a democratic deficit. In representative democracy, it is claimed that there is a democratic deficit in that politicians are only accountable to their citizens at the time of elections and during the period between elections they are not accountable to them. An election period may vary from 1 to 5 years, whereas a privatization decision is made at least 5 to 20 years for a lease or management contract, 30 years for a concession. Mohr (2004) claimed that ‘the extended period of some public-private partnership contracts weakens the capacity of electorate and their representatives to influence policy direction; thereby weakening the political linkage’ (Mohr, 2004: 241). In the case of divestiture such accountability totally disappears.

Another aspect of accountability problem is that private firms are only accountable to their customers not their citizens. In other words, this accountability is not political accountability as in the public sector. Furthermore, ‘secrecy and competition’ are assumed to be the characteristics of private sector, whereas ‘openness and accountability’ are supposed to be the elements of public sector. ‘Secrecy and competition’ impedes the public scrutiny and therefore, eliminates transparency and openness (Keating, 1998: 171). Moreover, it is argued that citizens are not interested in technical details of partnerships and this reason is being used as a legitimization tool for the limited participation of citizens to the decisions concerning the service fulfilled by public private partnership (Mohr, 2004: 241). According to Hodge (2004):

Citizens have the right to see project and finance details clear and explicit, including the interest rate under which government has signed, along with a clear specification of the deal endorsed. In the absence of this, the political purchase of huge infrastructure projects will continue to leave citizens open to political and commercial trade-offs. If the price paid for such deals is higher than it need be, citizens inevitably pay (Hodge, 2004: 246).

Another main pitfall concerning accountability is the ambiguity of the responsibility and risks. Public private partnerships share responsibilities and risks; however, this sharing ‘diffuses responsibility and consequently any recourse to accountability’ (Mohr, 2004: 240). In other words, it is not possible to attribute

any responsibility in public-private partnerships (Jessop, 1998: 42; Rhodes, 1996: 662; Stoker, 1998: 23-24).

Having defined and discussed the public-private partnerships and their weaknesses, now we can assess these concerns in ÇALBİR case. In that respect, the features of public-private partnerships can be clarified within the context of Turkish water infrastructure management sector. For the institutional background of the specific context determines the peculiar characteristics of public-private partnerships in that context alongside general characteristics as defined above. Therefore, in the next part at first the institutional changes that occurred in Turkey as a result of 1970 world economic crises will be explained. Then, the impact of these changes on the establishment of public-private partnership in the case of ÇALBİR will be mentioned.

3.3. Public-Private Partnerships in Practice

3.3.1. A General Outlook to Turkey

The crisis of 1970s had more dramatic consequences for developing countries. Turkey, as a developing country, implemented import-substitution economic policy in post-war period. Import-substitution model had an important role in establishment and promotion of national industries and the development of these industries; that is, domestic production was preferred instead of the import of the products from abroad. Between 1962 and 1973, Turkish economy grew 6.6 percent annually thanks to the import-substitution model. Nevertheless, this model faced difficulties in late 1970s (World Bank, 1985: iv). At the national level, the production of intermediate and investment goods necessitated more capital and high developed technology at later stages, even though in the initial phases their production was achieved with small scale and lower technology (Berksoy et. al., 1993: 17). The production increase in the industry resulted in a need for more imports that led to the need for more foreign exchange in return. Also, the mechanisms for- overcoming the fall in profits in industrial products- and-compensating the wage increases was not developed in this period (Berksoy et. al., 1993: 17). At the international level, oil crisis brought economic slow-down. The

initial response of Turkey to the international crisis was to take 'heavy short-term borrowing abroad to maintain high levels of investment and consumption' which resulted in annually 7.7 percent growth rate between 1973 and 1977 (World Bank, 1985: iv). Turkey in this period borrowed from International financial institutions (IMF and World Bank) in order to meet her foreign exchange need. However, this short-term adjustment could not prevent the crisis in Turkish economy.

The prosperity came to an abrupt halt in mid-1977, culminating in a sharp deterioration in external payments and creditworthiness, severe import shortages and disruptions in industrial production, and rising unemployment. GNP growth declined from an annual rate of 4 percent in 1977 to a negative figure in 1979 and domestic inflation accelerated over the same period from 24 percent to 64 percent (World Bank, 1985: iv).

As a response to crisis, in 24th January 1980 'economic stability decisions', which emphasized 'free market economy', were introduced. These decisions targeted at provision of convertibility of Turkish Lira, promotion of exports, liberalization of imports, opening up Turkish economy to international economy, promoting foreign capital through incentives, removal of the intervention of state to the prices of goods, services and interests, and foreign exchange (Karataş and Öniş, 1994: 77). In other words, these decisions were the manifestations of the replacement of import-substitution model by export-promotion model. To support this reform program, state made stand-by agreement with IMF for the period 1980 and 1983, then it was renewed in 1983. With stand-by agreements, IMF's stabilization program was implemented, and this program was complemented by World Bank structural adjustment programs. This was also the period of Military Regime (1980-1983). After the military intervention, Motherland Party (ANAP) came into power in 1983. The leader of ANAP, Turgut Özal became the prime minister. He was influenced by New Right policies. ANAP emphasized privatization as a tool to reduce the intervention of state in the economy. The party's privatization policy underlined the total divestiture of SEEs (State Economic Enterprises). In 1983 and 1984 trade-and-capital account liberalization was introduced by this new government (Öniş, 1991: 165- 166).

In short, neo-liberal policies started to influence Turkey by 1980s. Especially, international financial institutions such as World Bank and IMF had a significant role in the transformation of state. Thus, due to the financial needs of central government World Bank and IMF became the leading actors concerning the public policies in Turkey. Stand-by agreements of IMF and structural adjustment programs of World Bank forced governments to adopt neo-liberal policies such as liberalization, deregulation, and privatization.

Under the resource scarcity of central government (due to her debts to World Bank and IMF) after 1980s, local governments were also dramatically affected since central government decreased resource transfer to local governments. To cure this financial problem, local governments started to contract out their services and more recently they have started to establish public-private partnerships in order to get financial aid for required investments. In these arrangements, again World Bank is playing a role in facilitating the privatization (public-private partnerships). Bank is giving its loans provided that private sector participates in the provision of services at local levels. We have explicated the details of World Bank policies at water sector above. Now we can turn to our case study so as to understand how the international water policies were transferred to Turkey. Therefore, it is necessary to dissect tourism sector in Turkey because ÇALBİR was the first case that this policy had been introduced for two small municipalities. The policy process began with the tourism infrastructure development project which was referred as ATAK.

3.3.1.1. ATAK Project

In 1989, World Bank and Ministry of Tourism initiated a new project named as ATAK Project (Mediterranean-Aegean Tourism Infrastructure and Coastal Management Project)²⁰. A grant was provided from Japanese Government for this

²⁰ Indeed, the relation between Ministry of Tourism and World Bank begun with South Antalya Tourism Development Project. In 1969, a Council of Ministers Decision which described the coastal region between Balıkesir and Antalya as 'tourism development region' was enacted. However, there was not sufficient resource for tourism development projects. Then, World Bank offered loan to Ministry of Tourism for supporting such projects. Ministry of Tourism accepted this offer and negotiations begun. As a result of the negotiations, South Antalya was chosen as a region for World Bank. So as to apply for World Bank loan, feasibility and financial study was required.

project. The grant was under the control of World Bank. The main objectives of the project were to stifle environmental pollution in areas at the south-west coast, and to provide infrastructure for the settlements in this region.

The project involved the appraisal of tourism settlements' infrastructure such as drinking water, sewerage, waste water and its treatment, garbage collection, removal... etc. In that respect, it was not associated with other aspects of infrastructure such as roads, electricity, telephone networks...etc. It only concentrated on water, sewerage, waste water and garbage collection.

The project area was consisted of 25 basins along south-west coast, stretching from the boundaries of Edremit- Altınoluk to the boundary of Alanya. At first, master plans were prepared. Quality analyses of sea water, drinking water were performed and the quantity of the garbage in these settlements was determined. 10 settlements were rated as high priority settlements: Edremit Basin, Çeşme-Alaçatı Basin, Kuşadası-Davutlar Basin, Bodrum Peninsula Basin, Marmaris Basin, Dalyan-Köyceğiz Basin, Fethiye Basin, Kemer Basin, Side/Manavgat Basin, Alanya Basin.

The criteria for assessment of a basin were as follows: population of settlements in summer, sea pollution, its impact on human health, risk of inapplicability of programs and plans, financial eligibility of settlements, institutional structure for operating infrastructure, tourism potential of settlements...and the like. However, master plans were only taking technical issues into consideration and financial concerns were ignored. In other words, suggested solutions only considered

For this purpose, Ministry of Tourism formed a project group which was composed of architects, urban planners, economists, and engineers. Meanwhile, a technical aid contract was signed with UNDP and according to this contract four international consultants were hired. This project group prepared feasibility and financial study. In 1976, the loan contract for South Antalya Tourism Development Project was signed between Turkey and World Bank. After the completion of the infrastructure for South Antalya Region, South Antalya Tourism Infrastructure Union (GATAB) was established in 1989. GATAB was composed of Village Administrations and Provincial Local Administration since there was not any municipality for the operation of completed infrastructure. Moreover, a corporation (ALTAS) was established. 51% shares of the corporation belonged to GATAB, and the remaining part belonged to private tourism investors and enterprises. ALTAS (Infrastructure Operating and Tourism A.S.) fulfilled the services that GATAB was responsible for. That is to say, Union did not directly fulfill its duties.

technical aspects. Since financial concerns were disregarded, the costs of solutions were too high and it was not possible for a single municipality or group municipalities to meet such costs. Moreover, as consultant of Ministry of Tourism stated²¹, an alternative institutional structure for operating infrastructure was not clear at that time. Due to these uncertainties, the project paused.

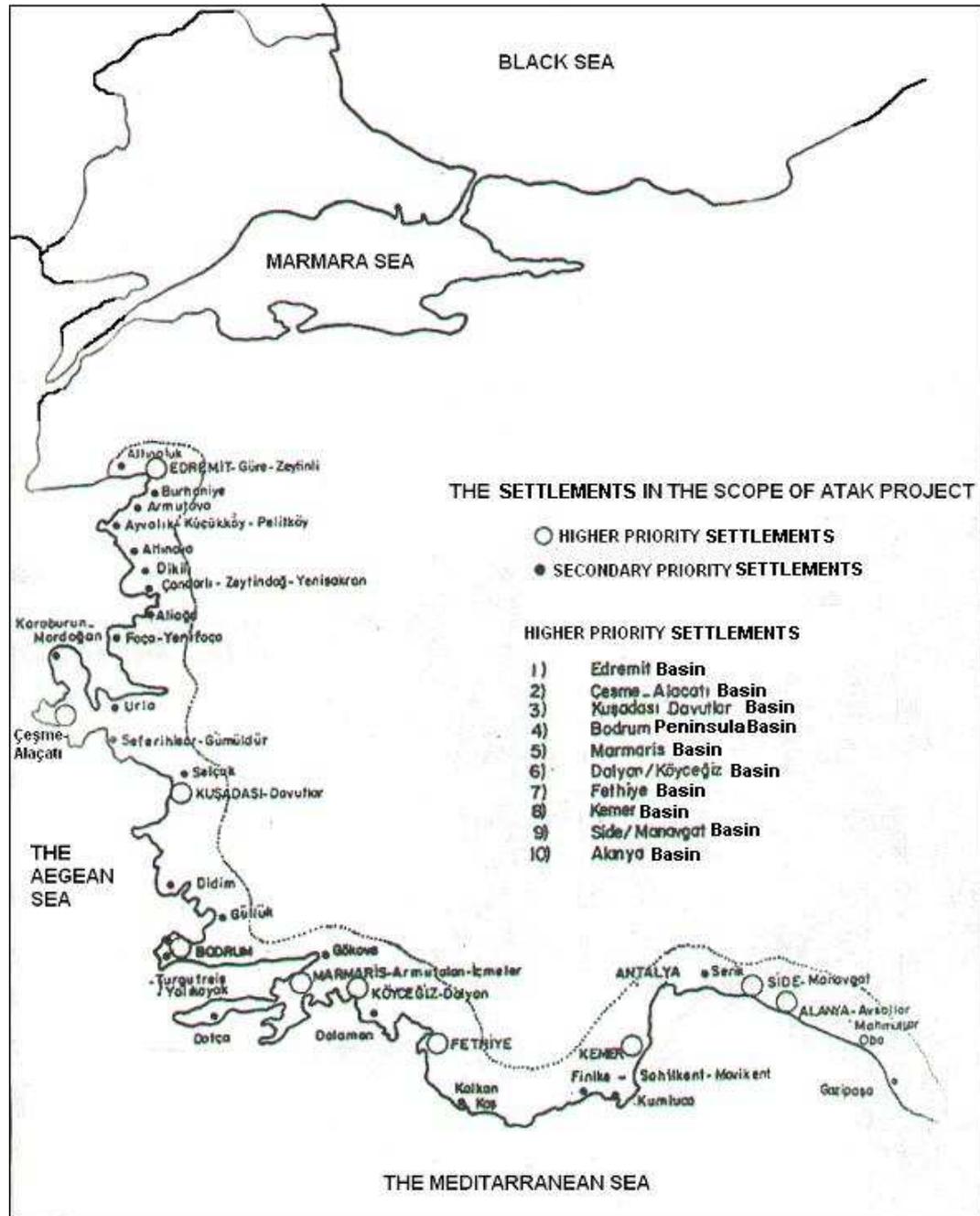


FIGURE 1: Settlements in the Scope of ATAK Project

²¹ Interview with consultant of Ministry of Tourism, Faruk Volkan.

Meanwhile, World Bank changed its country strategy relating to Central government involvement which was stated in its Urban Water and Sanitation Sector Review published on March 26, 1993. In its Country Assistance Strategy on March 11, 1993 World Bank had agreed with government's support for the projects which "improve the environment, promote sustainable use of natural resources, and strengthen local institutions' capacity to achieve these objectives" (World Bank Staff Appraisal Report, 1995: 6). However, World Bank's new strategy was as follows:

to remove the central Government from its present close involvement (through İller Bank and DSI) in the planning and funding of most water supply and sanitation investments, and to promote decentralization of investment responsibilities and service delivery provision to local utilities, which should be financially autonomous and managed free from bureaucratic constraints, thereby encouraging privatization wherever possible (World Bank Staff Appraisal Report, 1995: 6).

World Bank stated that it had two main goals in providing financial assistance to government. The first one was to support the foundation of 'newly-created water authorities' in larger municipalities that will fulfill the services at 'affordable prices'. To achieve this, bank suggested a new institutional arrangement that would ensure private sector participation (such as Antalya case in 1995). The second was to give support to small municipalities which were devoid of necessary resources to build their infrastructures due to the budgetary constraint of central government. World Bank also added that the capacity of municipalities for implementation, and operation was inadequate due to the reasons below:

- (a) Lack of transparency of the role of İller Bank and DSI, and of their performance and financial arrangements;
- (b) Lack of flexibility in the legislation for setting up municipal administrative structures;
- (c) Lack of adequate municipal legislation to promote local resource mobilization;
- (d) Constraints stemming from the present legislation on the sector's ability to set competitive salaries, thus limiting the possibilities to promote development of the managerial and technical capacity of municipal personnel; and

(e) Lack of a legal framework to promote the involvement of the private sector (World Bank Staff Appraisal Report, 1995: 6).

Such a change in World Bank policy in Turkey, indeed, reflected the policy change (introduction of privatization) at international level regarding water infrastructure sector. This was also the manifestation of the transfer of this general policy to the nation states, especially developing ones. As Dolowitz (2000) pointed out;

policy transfer is ‘the process by which knowledge of ideas, institutions, policies and programs in one setting is fed into the policy making arena in the development and change of policies and programs in another setting’ (Dolowitz, 2000: 9).

There are different mechanisms of policy transfer: voluntary, obligated, conditional, coercive. Lesson drawing is the voluntary type of policy transfer in which policy makers adopt a policy of another setting voluntarily. However, a state may also voluntarily adopt a policy as a necessity for international acceptance. In obligated policy transfer, states adopt a policy as a result of their obligations in treaties that they have signed. For instance, European regulations are obligations for member states and every member has to fulfill its obligations. In conditional policy transfers, states are forced to accept policies especially by multi-national corporations, and international aid agencies due to the need for aid, and investment. In coercive policy transfer, a state is forced to adopt a policy by other state or international organization, i.e. the preparation of Japanese Constitution by American government after Second World War II (Dolowitz, 2000: 13- 16). Especially obligated and conditional policy transfers have proliferated as a result of globalization. In fact, voluntary transfer and coercive transfer are ideal types and in that sense a policy transfer may involve both voluntary and coercive characteristics (Dolowitz , 2000: 12).

The policies formulated at another setting are transferred through ‘policy transfer networks’ which are ad hoc arrangements constituted for ‘the specific intention of engineering policy change’. In other words, they are formulated when the ‘transfer

is occurring' (Evans and Davies, 1999: 376). Different levels of government may participate in this network so as to fulfill policy problems (Evans and Davies, 1999: 376). In addition to administrators, politicians, and government experts; policy transfer networks may involve non-state actors such as 'interest groups, non-governmental organizations, think-tanks, consultant firms, law firms and banks' (Stone, 2004: 550).

Following 2- 3 year delay, in 1994, Ministry of Tourism and World Bank re-initiated ATAK project. During this second period of the project, a more detailed study- feasibility study- of the region was asked for. The contract between Consultant Firm Acer and Ministry of Tourism was signed for preparation of this feasibility study. Moreover, World Bank offered that it could finance 55% of the investment via its loan for the specific place and the rest would be provided by the municipalities in that region. Ministry of Tourism started to offer World Bank Loan to municipalities for the construction and completion of their infrastructure. In this case study, the policy transfer network was composed of World Bank, private consultant firm, and the Ministry of Tourism. World Bank and private consultant firm ACER played significant role in defining the agenda and alternative instruments of privatization (privatization through management, service, lease, concession, and build-operate-transfer....and the like); that is, they were the major agents of policy transfer. The role of Ministry of Tourism was 'initiating' and 'facilitating' the negotiations between World Bank and municipalities which will be elaborated below.

The feasibility study by private consultant firm would start if municipalities in a basin accepted that offer. At first, the loan was offered to Municipalities of Kuşadası- Davutlar Municipalities and Marmaris- İcmeler- and Armutalan Municipalities. Negotiations between municipalities, Ministry of Tourism and World Bank began. However, Kuşadası- Davutlar Municipalities decided not to take the loan albeit a feasibility study contract between these municipalities and consultant firm was signed out. Instead of Kuşadası- Davutlar Municipalities, the loan was offered to Çeşme- Alaçatı Municipalities. They accepted to take loan for

the construction of their infrastructure. Then, the feasibility studies of two basins Marmaris- İçmeler- and Armutalan and Çeşme- Alaçatı began and were conducted between 1995- 1997. In feasibility studies, different institutional alternatives for borrowing, managing, and implementing the sanitation and sewerage project were assessed. Feasibility Reports specified the advantages and disadvantages of different institutional arrangements as shown in Table 1 and 2 below.

According to Feasibility Reports, municipalities were the most appropriate institutions for borrowing international loans. However, it was claimed that it was not so easy to distribute management costs and investments between municipalities. Moreover, it was stressed that international financial institutions (such as World Bank) may not give loans since small municipalities were in need of small investments. Therefore, as stated in the report, there was a need for establishing a common institution involving all municipalities. This institution could be a municipality union, association or corporation. Nevertheless, municipality union was preferred since under existing laws municipalities had right to form a union. In other words, it is not possible for municipalities to establish a municipality corporation or association so as to take loans in accordance with Turkish laws. Indeed, consultant firm preferred corporation as an ideal form of organization; however, the legal constraints (especially Municipal Law numbered 1580, and Public Procurement Law numbered 2886) changed this preference to the municipality union (Acer Consultants Limited, 1996). Shortly, municipality union was selected as an organization for both financial and management concerns. Yet, consultant firm stated that the union's responsibility of water service provision should be delegated to Municipality Corporation when necessary legal amendments were fulfilled in the future. Municipality Corporation, according to consultant firm, would ensure the flexibility and effectiveness of commercial law.

TABLE 1: Advantages of Different Organizations With Respect to Financial, Management and Implementation Eligibility. Source: Acer Consultants Limited, 1996.

	Financial Eligibility	Management Eligibility	Implementation Eligibility
Separate Municipalities	-Each municipality will be directly responsible for its debt	-Each of them has direct control for the project implementation.	-Direct relations with local civic companies and enterprises
Leader Municipality	-One loan contract is possible, but Treasury has to sign protocols with each municipality	-It can directly tender all works and services.	-It has more advantage compared with Separate Municipalities due to better coordination.
Union	-It is convenient to Municipal Law of 1580. -Responsibility can be shared between all public and private participators. -It has same authority as the municipalities	-It can directly tender all works and services. -It can found a corporation for the management duty -It can spread responsibility to all public and private participators.	-It can spread responsibility to all public and private participants
Association	-It is not subject to the disadvantages of Unions. -It can spread all responsibility to all public. -It can establish corporation without the need for the approval of Council of Ministries. -Fiscal contribution of central government can be transferred to association.	-It is not subject to the any of the restraints of Municipality or Municipality Union. -It can transfer its implementation duties to a corporation owned by the association.	-It can implement the project by means of its companies.
Corporation	- By means of partnership, it can spread ownership to all public and private participants. -It is not subject to the limitations of Municipality and disadvantages of Municipality Union	-By means of partnership, it can spread ownership to all public and private participants. -It is not subject to the limitations of Municipality and disadvantages of Municipality Union -It has a commercial flexibility.	Not Applicable
Municipality Corporation	Not Applicable	Not Applicable	-It can both do construction and operation under commercial conditions.
Private Contractors	Not Applicable	Not Applicable	- In the constructions which are open to competition in tendering, they are cost effective. -Incentive for realizing the contract -They mitigate the responsibility of manager/ company owner.
Private Operator	Not Applicable	Not Applicable	- In the constructions which are open to competition in tendering, they are cost effective. -Incentive for realizing the contract -They mitigate the responsibility of manager/ company owner.

TABLE 2: Disadvantages of Different Organizations With Respect to Financial, Management and Implementation Eligibility. Source: Acer Consultants Limited, 1996.

	Financial Eligibility	Management Eligibility	Implementation Eligibility
Separate Municipalities	<ul style="list-style-type: none"> -They are too small and fragmented for separate credits -They are subject to the limitations of Municipality. 	<ul style="list-style-type: none"> - Implementation would be so distributed. -Each municipality is subject to limits in procurements, and employment 	<ul style="list-style-type: none"> -Due to the limitations of municipality, it is neither effective in civic works nor in operation.
Leader Municipality	<ul style="list-style-type: none"> -Leader Municipality signs a protocol with other municipalities -Other municipalities will not directly be responsible to the creditor. -It is subject to the limitations of municipalities 	<ul style="list-style-type: none"> -In procurements, and employment, it is subject to the limitations of municipalities. -There is no commercial incentive. -There is no direct responsibility of other municipalities and no authority of Leader Municipality upon the others. 	<ul style="list-style-type: none"> -Due to the limitations of municipality, it does not have effective construction and operation performance.
Union	<ul style="list-style-type: none"> -It is subject to various limitations of municipalities 	<ul style="list-style-type: none"> -In procurements, and employment; it is subject to the limitations of municipalities. -There is no commercial incentive. 	<ul style="list-style-type: none"> - It has same limitations as municipalities have.
Association	<ul style="list-style-type: none"> -It is not related to Law numbered 1580. -It is not an implementation body. - Construction and operation contracts should be signed with municipalities. 	<ul style="list-style-type: none"> -It cannot perform business and service contracts. -It is not an implementation organ. 	<ul style="list-style-type: none"> -It cannot directly implement the works.
Corporation	<ul style="list-style-type: none"> -Its foundation necessitates the approval of Council of Ministers. -It can provide services, but it cannot undertake the responsibility of the service. 	<ul style="list-style-type: none"> -It does not undertake the responsibility of supplying service. -Contract should be performed with Leader Municipality and Municipalities. 	<p style="text-align: center;">Not Applicable</p>
Municipality Corporation	<p style="text-align: center;">Not Applicable</p>	<p style="text-align: center;">Not Applicable</p>	<p style="text-align: center;">Lack of competition</p>
Private Contractors	<p style="text-align: center;">Not Applicable</p>	<p style="text-align: center;">Not Applicable</p>	<ul style="list-style-type: none"> -It necessitates effective control and supervision. -It necessitates sound specification, content, and fair procurements.
Private Operator	<p style="text-align: center;">Not Applicable</p>	<p style="text-align: center;">Not Applicable</p>	<ul style="list-style-type: none"> -It necessitates effective control and supervision. -It necessitates sound specification, content, and fair procurements.

As for project implementation, it contained two aspects: the establishment of required facilities for infrastructure, and the operation of those facilities. Consultant firm assessed two options. The first one was the establishment of facilities by private contractors and the operation of the facilities by private operator. The second alternative was build-operate-transfer arrangement in which both the construction and operation of the infrastructure facilities were done by a private company. However, this option was considered by consultant firm as too expensive. Finally, the first option was chosen.

As a result of the feasibility studies; the establishment of ‘infrastructure service union’ for each basin was decided in order to manage project and also the hiring of private operator for the infrastructure service was determined. In addition, necessary investment for each basin was specified. Municipalities of Marmaris-İçmeler- and Armutalan established a Union named MARİÇ. However, offered loan was not satisfactory for the municipalities (approximately 50 million dollars). Municipalities demanded more loans for the construction of their infrastructure. At last, they rejected World Bank Loan²². As a result of the rejection of loan by Marmaris, İçmeler, and Armutalan Municipalities, only Çeşme and Alaçatı Municipalities decided to continue their participation in the ATAK project.

The policy transfer is not independent from policy making process; on the contrary, it is one of the alternative policy options among the others (Evans and Davies, 1999: 379). However, in the cases of conditional, obligated, and coercive policy transfers, the other alternative policy options or instruments are disregarded. Especially international institutions such as World Bank, IMF, and OECD may control the agenda and ‘even change the priorities of decision agenda’ (Majone, 2006: 247). In that sense, some policy alternatives could be ignored which is called as ‘non-decision making’ (Bachrach and Baratz, 1963).

²²Instead of World Bank Loan, Union of MARIC took loan from French Bank and contracted out the project- involving construction of a dam, waste water network, garbage collection facility- to a consortium of a Turkish Joint Venture and a French Firm.

Before going into details, the meaning of policy instrument should be specified since this case study is related with the introduction of a policy instrument in water infrastructure sector.

Policy instrument is 'a mean for accomplishing a particular objective' (Brujin and Hufen, 1998: 11). In this case study, public-private partnership through management contract is the policy instrument so as to provide water infrastructure service. Public-private partnership policy instrument is one of the components of privatization policy. Privatization policy is a general policy encompassing all sectors varying from water, electricity, cement, telecommunications, steel and involving policy instruments such as sale of State Economic Enterprises, public-private partnerships, built-operate- transfers, contracting outs...and the like. In that regard, water policy network is one of the policy subsystems that are being influenced by such a general privatization policy.

Public-private partnership policy instrument is the basic mechanism of policy transfer in this case. The public sector's operating the infrastructure facilities as a policy instrument was ignored due to the influence of decisions taken at the international environmental conferences and forums on the grounds that; (1) public sector is extravagant (or inefficient) since public sector sells water under its cost. Such an under-pricing leads to the excessive consumption of water which is a very scarce resource. (2) public sector lacks the incentive and technology to increase the quality of water. (3) public sector is incompetent to impede water losses owing to its using low technology. The theoretical and ideological basis of these criticisms is based on Virginia, Austrian, and Chicago Schools, as mentioned in Chapter II.

This ignorance, indeed, stemmed from the conditional characteristics of policy transfer. Nevertheless, it is not easy to clarify whether the transferred policy is voluntary or coercive dimension. For the central government, this policy had coercive characteristics since central government was in need of World Bank loans so as to ensure economic stability, especially after 1994 economic crisis in Turkey. Nevertheless, for local governments, they had an option of not to choose World

Bank loan. It may be argued that if they did not take loans, they could not construct their infrastructure but municipalities may use other kinds of loans as in the case of Marmaris- İçmeler- and Armutlu Municipalities. In that sense, the nature of policy transfer may differ at different levels. In other words, adopted policy at national level might not be implemented at local level. Such a separation may facilitate the understanding of the interaction between national-local, and the possible tensions between these levels in the case of policy transfer. Indeed, with the process of globalization, local units gained more autonomy against nation states and they became production units rather than consumption units as in welfare state period (Şengül, 2000: 53). In order to attract capital for investment they had more options. Especially the breaking of fiscal dependency of local governments to central government had a crucial role in increasing the autonomy of local governments against central government. Especially budgetary retrenchment of state due to its debts has an impact on the erosion of the local governments' dependency to central government²³.

As stated earlier; in ATAK project, the policy transfer network was consisted of bureaucrats of Ministry of Tourism (also the consultant of Ministry of Tourism), World Bank, and consultant firm ACER. Dolowitz (2000) stated that policy makers are dependent on technical expertise and suggestions of consultants or consultant firms for promoting new policy programs (p. 10). As water issue entails technical knowledge, the policy makers indispensably have to rely on experts while formulating the policy. In fact, this situation is in contrast with Wilson's

²³ Çeşme and Alaçatı Municipalities accepted the loan offer since there was no sufficient resource transfer from central government (İller Bank) due to the budgetary constraints (İller Bank). According to the provisions of Municipal Income Law numbered 2464, municipalities and provincial local governments takes shares from collected general budget tax revenues. Municipalities take %5 share, while provincial local governments %1 share of collected general budget tax revenues. However, under the pressure of politicians the quantity of resources transferred to local governments vary. To illustrate, a municipality mayor, who is the member of the party that constitutes Central Government, may obtain more resources than the municipality mayor who is the member of another party. In the period between 1991- 1995 there was a coalition government of SHP-DYP. İller Bank was under the authority of a minister from SHP. According to Çeşme municipality mayor of that period (who is from Motherland Party), İller Bank assisted SHP municipalities; however, Çeşme did not have any chance for such an assistance. Nevertheless, he also added that the appropriation that his municipality demanded for infrastructure was very high for İller Bank since İller Bank had no sufficient resource to fund the infrastructure at that time (Interview with Çeşme municipality mayor Nuri Ertan in 1994- 1999).

fundamental separation of politics and administration (Wilson, 1887). According to rationalist understanding of public policy process, the ‘policy processes proceed in stages(policy formulation, decision, and implementation) in which policy maker is assumed to analyze all alternative policy options and as a result ‘makes a rational decision’ (Klijn, 1997: 15). In other words, there is a goal and means separation. Goals are formulated by the decision makers and administrators implement these goals. On the contrary, administrators and non-governmental officials usually participate in policy making phase (Hill, 1997: 109; Jenkins, 1978: 36). Moreover, policy makers may participate in policy implementation stage (Hill, 1997: 109).

In this case study, bureaucrats (Ministry of Tourism), private consultant firm, World Bank, and local governments (Çeşme and Alaçatı Municipalities) were main actors of policy transfer. As noted before, policy transfer is part of the policy formulation stage. In this context, actors from all levels of government (Sabatier, 1993: 17) participate the policy formation phase together with international actors: World Bank and private consultant firm ACER. This policy transfer network was established to integrate different policy instruments such as service, management contracts, build -operate-transfer, lease contracts- the privatization toolbox. In the Table 3 below, the characteristics of different tools was assessed by ACER in its feasibility report. Even though public sector provision was specified in the table, the main discussion in the feasibility report ignored this alternative since in line with the decisions taken at international and regional level the consultant firm preferred privatization policy instruments through policy transfer network. The management contract was preferred as a result of this assessment since there was low fiscal and commercial risk for private sector. In that sense, feasibility report selected the policy instrument that had lowest financial and fiscal risk. The public provision instrument was entirely ignored.

TABLE 3: Assessment of Policy Instruments

Institutional Alternatives	Public Administration			Private Management				
	Public Organization	Autonomous Enterprise (belong to the municipality)	Service Contract	Management Contract		Lease Contract	Concession Contract	Service Firms having private ownership
				Personnel Provision	Profit Sharing			
Legal Autonomy	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Responsibility for determination of Tariffs	Public Authority : a unique tariff in whole country	Public Authority: a unique tariff for the concerning region	Public Authority	Public Authority	Public Authority	Public Authority (according to the provisions of the contract)	Public Authority (according to the provisions of the contract)	Public Authority (according to the provisions of the contract)
Financing of Fixed Assets	Public Authority	Public Authority.	Public Authority	Public Authority	Public Authority.	Public Authority.	Private (for some part of the system)	Private Company
Ownership of Fixed Assets	Public Authority	Public Authority	Public Authority	Public Authority	Public Authority	Public Authority	Private (till the termination of the contract)	Private Company
Operation and Maintenance of the System	Public Authority	Public Authority	Public Authority (excluding private services)	Private (without commercial risk)	Private (with very little commercial risk)	Private (with all commercial risk)	Private (with all commercial risk)	Private (with all commercial risk)
Financing of the expenses for operation and maintenance	Public Authority	Public Authority	Public Authority	Public Authority	Public Authority	Private Firm	Private Firm	Private Firm

Source: ACER Consultants Limited, 1996.

TABLE 3: Assessment of Policy Instruments (Continued)

Institutional Alternatives	Public Administration			Private Management				
	Public Organization	Autonomous Enterprise (belong to the municipality)	Service Contract	Management Contract		Lease Contract	Concession Contract	Service Firms having private ownership
				Personnel Provision	Profit Sharing			
Revenues of Tariffs paid to whom	Public Authority	Public Authority	Public Authority	Public Authority	Public Authority	Some part of it to leaser, other part of it to Public Authority	Some part of it to concessionaire, the other part of it to Public Authority	100 % Private
Collection of Bills	Public Authority	Public Authority	Public Authority	Changeable	Changeable	Private	Private	Private
Payment to Private Firm	-----	-----	Similar to consultancy service contracts or “cost+profit”	Proportional To Physical Parameters (quantity of water sold, number of connections to the system...) or “cost+profit”	Proportional To Physical Parameters and efficiency or sharing of profit	Paying some part of the tariffs to leaser in accordance with the contract	Paying some part of the tariffs to concessionaire in accordance with the contract	With Tariff
Period of Validity	-----	-----	Less than 5 years	5- 10 years	5- 10 years	10 -20 years	15- 30 years	Infinite
Fiscal Risk for Private Firm	No risk	No risk	Very low	Very low	Low	High	Very High	Very High

Source: ACER Consultants Limited, 1996.

The technical expertise leads policy makers (government) to be reliant upon experts. In this study, the feasibility report of ACER indicated such a situation since loan contract was prepared according to the findings of this study. In other words, technical expertise had remarkable role in setting the agenda. However, the selection of such agenda or policy instruments (privatization methods) in water infrastructure sector did not only stem from technical aspects stated in the feasibility reports but also from the adoption of privatization as a general policy in all sectors under the influence of neo-liberalism. Thus, the selection of a policy instrument does not remain as a technical issue as managerialist approach claimed. Instead, every policy instrument symbolizes an ideological background. For instance, public- private partnership as an instrument symbolizes market understanding. However, managerialist understanding assumes that the selection of policy instrument is performed by using technical and neutral methods such as cost-benefit analysis, and the other performance measurement techniques. Especially with the influence of managerialism, governments are exposed to adopt managerial values as well as managerial techniques (Denhart, 2004: 140). In other words, means have become goals in accordance with the ideological background of managerialism.

Policies are made within subsystems or networks. This network or subsystem understanding, as governance approach emphasizes, is the main repercussion of states' sharing their power with supra-national, regional and sub-national actors, i.e. multinational corporations, international institutions, non-governmental organizations, local and regional governments. In policy analysis, it is claimed that these subsystems or networks may affect each other. As Sabatier stated; 'subsystems are only partially autonomous' and 'decisions and impacts from other policy sectors are principal dynamic elements affecting specific subsystems' (Sabatier, 1993: 23). In the case of ÇALBİR, water infrastructure policy subsystem involved World Bank, Ministry of Tourism, two municipalities, and Turkish General Assembly. In Five Year Development Plan of Turkey (1990-1994) prepared by the State Planning Organization, problems related with infrastructure

and environment were stated²⁴. The policy instrument for these problems was introduced as policy transfer network. This policy transfer network; in return, ignored direct public provision as a policy instrument. Instead, as the foregoing discussion suggests, it adopted privatization policy instruments.

In line with policy transfer network, in 1997 Annual Program of State Planning Organization, it was stated for the first time that “rather than central government, local governments would undertake the responsibility of financing the drinking water and sewerage investments and in this sector build-operate-transfer and related privatization arrangements would be encouraged” (State Planning Organization, 1997: 106). In other words, this was the indicator that public-private partnership policy instrument was adopted by policy makers.

In fact, adoption of privatization in water infrastructure sector was largely affected by the change in socio-economic conditions. In 1994, Turkish economy witnessed instability. To overcome economic instability, government took ‘5th April Decisions’. One of the emphases of these decisions was to accelerate the privatization process. Whereas in 1994 the law numbered 4046²⁵ was enacted (which expanded the scope of privatization through including the privatization of other units such as commercial enterprises owned by municipalities and provincial local government as well as State Economic Enterprises), the legislation enacted a law numbered 3996²⁶ regarding built-operate-transfers in June 1994. The law 3996 involved the fulfillment of services such as electricity, transportation...and the like. However, water and sewerage services were not within the scope of this law. The electricity policy subsystem also affected water infrastructure subsystem. In November 1994, that law was amended and water, sewerage services was added in

²⁴ One of the duties of State Planning Organization is to prepare development plans and annual programs in accordance with the goals determined by the government (Statutory decree 1994/540 for Founding and Duties of State Planning Organization Article 2). In that sense, these plans and programs are the issue definition and policy adoption documents.

²⁵ Law No. 4046 Concerning Arrangements for the Implementation of Privatization and Amending Certain Laws and Decrees with the Force of Law.

²⁶ Law No. 3996 on Realization of Certain Investments and Services in the Build- Operate-Transfer Model.

the scope of built-operate transfers. In short, law of 3996 provided the legal basis for privatization in infrastructure services in Turkey.

The role of judiciary in public policy process should also be mentioned since judicial organs are also part of the policy making process. Birkland argued that 'judicial review gives the courts a potential veto power for every act of government' (2005: 72). In the case of law 3996, Constitutional Court amended the statements of Law 3996 which stated that the contracts like built-operate-transfer were subject to private law in 1995. The decision of Constitutional Court was the manifestation of legal constraint on the implementation of privatization despite the fact that legislation supported such a policy. In addition, in 20th March 1996 Constitutional Court decided that 'investments for water provision, refinery, sewerage, and prevention of environmental pollution'- that are stated in Article 2 of Law 3999- are public services and their fulfillment by a private sector is subject to the regulations for concession contracts. That is, they are subject to administrative law. To surmount these constraints, in 1999, the constitution was amended as it was not possible to accelerate privatizations through laws or decrees. The word privatization was added to the constitution. It was stated that the privatization of SEEs and the privatization of assets and shares of other public legal personalities were determined by law. In addition, the law determines whether the contract between state enterprises (or other public legal personalities) and private parties is subject to public or private law. Arbitration was introduced for the disagreement for contracts among the parties. Moreover, the duty of Council of State for concession contracts was changed from 'examination' to 'give opinion'. Such a change in constitution enabled and provided the legal basis for such privatization instruments such as built-operate-transfer, management contracts, service contracts...etc. Even though such arrangements were adopted by policy-makers in 1997 Annual Program of State Planning Organization, their legally implementation could only become possible with these amendments in constitution. According to Sabatier, a change in socio-economic conditions is a dynamic parameter, whereas constitutional structure is relatively stable parameter (1993: 18). Policy process regarding privatization in Turkey confirms to this

argument. Besides, change in socio-economic condition resulted in constitutional change.

It is not always possible to separate policy formation and implementation phases since policy formation and implementation are interrelated processes and both of them are performed within networks of various actors (Kickert et al., 1997: 8). This point is another critique of rational model for policy process. In the case of ÇALBİR, such an interrelation between policy formation and implementation is clearly visible. To illustrate, policy formation phase for privatization instruments could be completed in 1999 through constitutional amendments, whilst policy implementation phase was launched in 1994 by feasibility studies and loan contract- policy implementation document- was signed in 1998 before 1999 constitution amendments.

Having already discussed the policy transfer and policy adoption, it is necessary to specify the basic problems regarding water supply, wastewater, sewerage, and solid waste in Çeşme Peninsula where Çeşme and Alaçatı Municipalities are located; therefore the content of the project will be clarified. As mentioned before, Çeşme and Alaçatı municipalities remained last candidates for the implementation of ATAK project.

3.3.1.1.1. A General Outlook to Çeşme Peninsula

Çeşme and Alaçatı Municipalities are located on Aegean Coast on Çeşme Peninsula in Turkey. The city centre of Çeşme is about 80 km west of Province of Izmir. Before 1970, Çeşme and Alaçatı were small villages in which main means of livelihood were fishing and agriculture. After that period, they became the main tourism centers due to the development of tourism sector and increase in demands for secondary residences in this peninsula. This led to the increase in population.

TABLE 4: Population and Population Increase of Çeşme and Alaçatı Municipalities

Year	ÇEŞME		ALAÇATI	
	Population	Rate of Increase (%)	Population	Rate of Increase (%)
1960	3,712	-----	3,397	-----
1965	4,068	1.85	3,594	1.13
1970	3,940	-0.64	3,459	-0.76
1975	5,284	6.05	3,466	0.04
1980	6,451	4.07	4,153	3.68
1985	7,849	4.00	4,668	2.37
1990	10,017	5.00	5,679	4.00
1995	13,405	6.00	7,248	5.00

Source: ACER Consultants Limited, 1996.

As the data indicates, there was a significant increase in population in 1970s. This increase and high number of summer population (approximately there were 80.000 temporary residents and tourists in summer period in 1995, whereas permanent residents were 20.000 people in 1995) resulted in a rapidly increasing demand for infrastructure (involving drinking water, sewerage, and solid waste) which was insufficient at that time.

3.3.1.1.1. Waste Water

The developments in tourism sector culminated in increasing demands for infrastructure in the peninsula. To meet the demands of summer population, in 1987 İller Bank²⁷ had developed plans for expansion of the sewerage system. The construction of new system started in 1988; however, the work continued slowly due to the resource constraints of İller Bank. Until 1998, pumping stations (TM2, TM6, TM10, TM17, and TM18) and 1300 m long sea outfall completed. TM2 was built in Çeşme, TM6 in Ilica, TM10 in Germiyan, and TM17 and TM18 in Alaçatı. All TMs' (or pumping stations) civic work was constructed by İller Bank. However, technical and electronic equipment for pumping stations were not purchased and installed. In other words, only the buildings of pumping stations were constructed. Thus, sewerage system lacked the operational elements. More

²⁷ The Bank of Provinces is the institution which is liable for preparing urban plans and projects, constructing water treatment facilities, water supply systems and water treatment systems. It also provides loans for municipalities and other local governments so as to support the local governments' plans and programs related with local public services.

than that, there was no wastewater treatment plant so as to treat and discharge wastewater. Therefore, untreated wastewater, especially in Alaçatı and Şantiye, was being discharged to the sea.

3.3.1.1.1.2. Water Supply

Drinking water was supplied from Ildır springs, and some small wells before Kutlu Aktaş Dam started to operate. However, there occurred 'saline intrusion' in Ildır springs (of sea water) due to the 'over-pumping'. In that respect, water quality was not good due to the 'high salinity', 'excessively high or low concentrations of chlorine with the resulting high odor and bad flavor, and the risk of bacteriological contamination' (World Bank, 1998: 7). Therefore, there was a need for preventing sea water intrusion to the water source in Ildır. In addition, in some wells, which were not very deep, there was a risk of pollution due to the discharge method of sewerage (discharging on İstanbul Hill) (Acer Consultants Limited, 1996: ii). Another problem with water supply was high losses (% 68) of water during its process of production.

Nevertheless, during 1994 and 1997 Kutlu Aktaş Dam was constructed in order to provide water supply to the peninsula. The construction of Dam was funded by Provincial Local Government of İzmir and Ministry of Tourism. Although the dam had started to fill since 1996, there was no water treatment plant to treat dam's water. In addition, water supply network Çeşme and Alaçatı was not connected to Kutlu Aktaş Dam.

3.2.1.1.1.3. Solid Waste

There were two areas for the solid waste disposal: One of the areas is located 2 kms south-east of Çeşme, the other one is 4 kms east of Alaçatı. In 1992, waste disposal at the latter ceased when construction of Alaçatı Dam commenced since its location was so close to the area of Dam (Acer Consultants Limited, 1996: iii). Waste collection and disposal was very difficult for municipalities, especially during summer periods. Besides, the disposal area was not hygienic due to the formation of bad odor and smoke and this situation had become a problem for the

residents of Çeşme and Ovacık. Shortly, in feasibility study for Çeşme and Alaçatı Municipalities (prepared by ACER Consultants Ltd.), the project for infrastructure development was assessed. The main aim of the project was stated as:

....to improve the delivery of the basic urban services of water supply, sewerage, wastewater treatment and solid waste collection and disposal in the Municipalities of Çeşme and Alaçatı by a scheme which is (1) environmentally sustainable, (2) financially affordable, and has (3) the required institutional framework (World Bank, 1998: 11).

To provide environmental sustainability, the solutions proposed by the feasibility study for waste water, water supply and, solid waste were as follows:

TABLE 5: Solutions Offered by Feasibility Study for Waste Water, Water Supply, and Solid Waste

Waste Water	<ul style="list-style-type: none"> a) provide preliminary treatment (6mm screening and grit removal) initially at the new pumping stations, then later at the Alaçatı treatment works b) construct secondary sewers in a phased program commencing with priority areas; c) install mechanical and electrical works into the new pumping stations; d) construct additional area pumping stations and main collectors; and as an immediate improvement, renovate the pumping stations in Santiye and improve the present discharge point of the Santiye system on Istanbul Hill
Water Supply	<ul style="list-style-type: none"> a) provide treatment facilities for the dam water b) provide protection to the Ildır aquifer and to improve the yield from this major source. c) provide impervious curtain wall between the sea and the freshwater aquifer. d) relocate some of the existing wells at Ildır so as to improve their yield. e) improve supply network and leakage control through a number of relatively small but important local adjustments
Solid Waste	<ul style="list-style-type: none"> a) develop a sanitary landfill at a new, flat and easily accessed site, 8 km south of Çeşme and 4 km south-west Alaçatı, to the south of the new Izmir motorway. There are no residential areas within a 1 km radius of the site. b) provide landfill site a fully engineered facility with a range of environmental controls such as 'low permeability liner', 'surface water cut-off trenches', 'passive landfill gas ventilation and dispersion'... etc. c) provide pilot waste separation, recycling and composting plants at the proposed sanitary landfill site and remedial works at the existing Çeşme landfill site.

Source: ACER Consultants Limited, 1996.

The solutions for each infrastructure component (wastewater, water supply, and solid waste) were divided into phases:

1. **Phase Scheme:** It embraces the works to be done until 2005.
2. **Phase Scheme:** It involves the works to be fulfilled until 2020.

According to Feasibility Study, there was a need for investment of 24 million dollars in order to fulfill the infrastructure requirements for Phase 1²⁸. Solid waste component was excluded from this investment. Following the negotiations, it was decided that World Bank would finance 54% of this investment via its loan of 13.1 million dollar. 5.5 million dollar (23% of total investment) would be financed by Ministry of Tourism and 5.4 million dollar would be covered from the municipalities' own resources. After the determination of technical and fiscal aspects of the project, the institutional aspect of the project- establishment of union- was realized.

3.3.1.2. Establishment of ÇALBİR Municipality Union

As mentioned earlier, ATAK project proposed Municipality Union model for borrowing loan and implementation of the project. As Dye (1995) pointed out, implementation involves all activities designed for implementation. These activities embraces the establishment of new organizations- departments, institutions, bureaus....etc. - or undertaking new responsibilities by the existing organizations (Dye, 1995: 12). In this case study municipality union was established for the implementation of policy. In fact, municipality union can be considered as public-public partnership in which two or more public organizations cooperate so as to achieve a goal. Municipality union is a necessity so as to achieve scale of economies, especially in a natural monopoly. Increasing returns to scale exists in a natural monopoly; that is, an increase in production scale leads to a decrease in average costs. To illustrate, in water and sewerage services, there is a need for distribution network. However, the establishment of two networks for each municipality (Çeşme and Alaçatı Municipalities) would escalate the costs. To

²⁸ Total investment for the Project was 120 million dollar.

decrease costs, the establishment of one network is required since a household integrated into this network would cost lesser than previous household that was integrated (decreasing marginal costs) and existence of two networks (in the case of two small municipalities) increase the sunk costs. Another reason is that, as previously mentioned, international financial institutions (such as World Bank) may not give loans for two small municipalities. In that sense, one of the reasons behind the establishment of ÇALBİR was to take loan from World Bank. Furthermore; in the case of ÇALBİR, another reason was to privatize the operation of infrastructure services as will be discussed below. A municipality union is found in accordance with Constitution and Municipality Law of 1580. According to Constitution:

The formation of local administrative bodies into a union with the permission of the Council of Ministers for the purpose of performing specific public services; and the functions, powers, financial and security arrangements of these unions, and their reciprocal ties and relations with the central administration, shall be regulated by law. These administrative bodies shall be allocated financial resources in proportion to their functions” (5th paragraph of 127th Article of Constitution).

As Constitution states, a union shall be established for performing a specific public service, and in that respect their competence is restricted with this specific public service. Municipality unions have public legal personality as municipalities, provincial local governments, functionally decentralized units...etc. (138th Article of Municipality Law numbered 1580).

In addition to these legal arrangements, in 1993 a regulation²⁹ draft for the establishment of Environmental Protection, Construction and Operation of Infrastructure Facilities Union was prepared jointly by Ministry of Interior and Ministry of Tourism. This regulation draft was prepared for ATAK project in

²⁹ According to Article 115 of Constitution, “The Council of Ministers may issue regulations governing the mode of implementation of laws or designating matters ordered by law, provided that they do not conflict with existing laws and are examined by the Council of State. Regulations shall be signed by the President of the Republic and promulgated in the same manner as laws.” In that sense, regulations are issued for one of two reasons: to govern the mode of implementation of laws, and to indicate matters ordered by law.

which the establishment of unions was considered as necessary for the infrastructure services. This regulation draft was used for the establishment of MARIÇ Union and ÇALBİR.

ÇALBİR Municipality Union was established by Çeşme and Alaçatı Municipalities on 30th September 1997³⁰. Its establishment regulation states that the main aim of the union is to provide infrastructure services (such as water supply, wastewater treatment and discharge of wastewater to appropriate areas without polluting the environment, collection and elimination of garbage and solid waste) that municipalities cannot fulfill alone due to technical and fiscal deficiencies (10th Article of Regulation for the Establishment ÇALBİR). Furthermore, municipality union is responsible for domestic and foreign loans that central government mediates. That is, municipality union can be a party of a loan contract and borrow loans from international financial institutions such as World Bank. In fact, one of the reasons behind the establishment of ÇALBİR was to obtain loan from World Bank.

One of the tasks of the Union is “to assist the development of tourism and to find solutions if there is a problem that constrains the development of tourism” and it was also stated that the union may take domestic and foreign loans to fulfill this aim (11th Article of Regulation for the Establishment ÇALBİR). In addition to these, the union has an authority of contracting out the construction of infrastructure services, and management of infrastructure services to corporations as well as construction and management of infrastructure services by the union itself (12th Article of Regulation for the Establishment ÇALBİR).

3.3.1.3. Loan Contract

Network approach encompasses both the policy formation and the implementation. As noted above; World Bank, Ministry of Tourism, private consultant firm ACER, local governments, and central government were the actors in policy formation for

³⁰ The founding of ÇALBİR was approved by Ministry of Interior on September 4, 1997; it was ratified by Turkish Grant National Assembly on September 8, 1997, and it became effective through the publication in the Official Gazette on September 30, 1997.

this case. The role of Ministry of Tourism was very significant in this process. Ministry of Tourism acted as network manager during the policy formation. Network management aims to enhance cooperative activities in a network. Network management may embrace ‘activating networks to tackle particular problems or issues(network activation), establishing ad-hoc organizational arrangements to support interaction (arranging), bringing together solutions, problems and parties (brokerage), promoting favorable conditions for joint action (facilitation) and conflict management (mediation and arbitration)’ (Kickert and Koppenjan, 1997: 47). Ministry of Tourism was the initiator of formation of policy network since it offered the loan to the municipalities. It played a facilitator role during the negotiations between World Bank and municipalities. Moreover, in the policy implementation stage it provided financial assistance for the project which lessened the financial burden on the municipalities. 5.5 million dollar of the project would be financed by Ministry of Tourism, while 5.4 million dollar would be financed by municipalities through World Bank loan. This assistance was another facilitator activity of Ministry of Tourism. Nevertheless, World Bank also acted as network manager in this case study in policy formation and implementation stage. With Ministry of Tourism, they activated the network to solve the infrastructure problem. Thus, in fact, there was a dual body formation regarding the network management.

The concept of network is being used by scholars in the forms of policy formation networks, policy implementation networks, and service delivery networks. There is in fact confusion in the literature about the concept of network (Hudson et. al., 2007: 56). This confusion stems from the common traits of these networks such as ‘resource dependencies’ (such as money, expertise, information, authority) and ‘variety of actors and goals’ (Rhodes, 1997: 31), emphasis on collective action...and the like.

Kickert, Klijn and Koppenjan (1997) claimed that policy networks are ‘more or less stable patterns of social relations between interdependent actors, which take shape around policy problems and/or policy programs’ (p. 6). There is no

sovereign authority in networks. That is, there is no 'hierarchical ordering' and 'single organizational goal' (Kickert, Klijn, and Koppenjan, 1997: 11). All actors are autonomous. They are interdependent from each other due to the resources every actor possesses. Especially financial and legal resources play a significant role in the exchange between interdependent actors. To achieve desired policy, all actors have to collaborate since it is assumed that every actor has interest in collective action. In other words, it is claimed that collaboration or cooperation is a win-win game. However, this is not the case. Klijn (1997) claimed that actors do not have equal power and their power depends on the resource they possess (Klijn, 1997: 33). In that respect, the institutional context of a network is determined by the actors who have 'bargaining power to devise new rules' (North, 1990: 16); that is there is no guarantee that all actors will equally benefit.

As stated before, policy formation and implementation are overlapping processes. The feasibility study was, on the one hand, in the policy formation stage since policy formation stage did not end due to the decision of Constitutional Court. On the other hand, this feasibility study was starting point for the implementation since it clarified the implementation of privatization (public-private partnership policy instrument) in the context of water infrastructure sector. The loan contract signed between ÇALBİR and World Bank in 29 August 1998 was the formal policy implementation document (and project implementation) which constituted the legal basis for the suggestions of feasibility study. The loan contract symbolized the institutional context of the network and in that sense it specified the rules of the network during the implementation phase. There are two types of network management: 'process management' and 'network constitution'. Process management aims to increase 'the interactions between actors in policy games' (Klijn and Koppenjan, 2000: 140). The role of World Bank and Ministry of Tourism in facilitating the policy formation and implementation phases was process management. Network constitution is related to the 'institutional change' (Klijn and Koppenjan, 2000: 141). Since World Bank was the creditor in the project, it played a network restructuring role through the introduction of loan contract. In loan contract, the objectives of the project were defined as:

(a) develop new institutional arrangements for management of water supply and sewerage services in the Çeşme- Alaçatı area; (b) increase efficiency in the delivery of said services through the operation of said services by a private operator; and (c) improve water quality, sewerage service and environmental conditions in said area (Official Gazette, 1998: 43).

Second and third objectives respectively refer to economic and environmental objectives. As noted before, such a combination of economic and environmental goals is the main repercussion of sustainable development that has become popular after 1990s. The first objective, indeed, is the mean to achieve second and third ones. As will be seen below, the first goal emphasizes privatization of water infrastructure service so as to achieve efficiency and quality in water service. In fact, such a proposed solution is, as elaborated in Chapter II, in parallel with the decisions taken in conferences and forums at international and regional level. The content of the project was categorized under three headings: Institutional Development, water supply system, and sewerage works.

TABLE 6: Content of Project

Institutional Development	<p>(1) Establishment of the Borrower's technical and financial management systems, including auditing, and the provision of consultants' services, training and office equipment for the purpose.</p> <p>(2) Assisting the Borrower in the employment and monitoring of the performance of the private operator for improved water and sewerage services through the provision of consultants' services.</p> <p>(3) Strengthening the Borrower in Project supervision activities through the provision of consultants' services.</p> <p>(4) Strengthening the Borrower in environmental matters, including the monitoring and protection of sea water quality, through the provision of consultants' services.</p>
Water Supply System	<p>(1) Carrying out of hydro-geological investigations of the wells in the Ildır area and improvements in district metering and chlorination.</p> <p>(2) Relocation of the wells in the Ildır area and rehabilitation of the pumping stations to improve their operational condition.</p> <p>(3) Construction of a water barrier about 500m long comprised of about 330 injection wells to an average depth of about 40m to protect the aquifer in the Ildır area from sea water intrusion.</p> <p>(4) Supply and installation of equipment for water production, district metering and chlorination.</p> <p>(5) Urgent repairs to and upgrading of the water supply system.</p> <p>(6) Minor service extensions of the water supply system.</p>
Sewerage Works	<p>(1) Development and improvement of the sewerage network, consisting of upgrading and expansion of the sewerage network through the construction of the main sewer pipes from the Çeşme area to Ilıca, and the construction of the sewerage networks, including house discharges, in the areas of Çeşme, Alaçatı and Ilıca.</p> <p>(2) Acquisition and installation of equipment for four selected pumping stations.</p> <p>(3) Construction of a pre-treatment sewerage plant for the combined waste water flow from Çeşme and Alaçatı to discharge into the sea through the existing Alaçatı sea outfall.</p> <p>(4) Urgent repairs to and upgrading of the sewerage system.</p>

The loan contract stated that all works (construction of water and sewerage network) would be contracted out to the private sector (contracting out) and then a private operator would be hired for operating the infrastructure system (public-private partnership) The procedures for contracting outs and establishment of public-private partnership were not subject to public procurement law; instead, they were subject to “Guidelines for Procurement under IBRD Loans and IDA Credits”. In other words, World Bank restructured the network in accordance with its own standards or rules.

This subjection to World Bank Guidelines indicates another feature of networks: autonomy. It is argued that government is not the authority that controls social affairs and its capacity to control is limited due to the ‘complexity of policy processes’, ‘complexity and multitude of organizations’. Rhodes claimed that “governance as self-organizing networks is a challenge to governability because networks become autonomous and resist central guidance” (Rhodes, 1996: 667). He also claimed that ‘although the state does not occupy a sovereign position, it can indirectly and imperfectly steer networks’ (Rhodes, 1997: vi). Put it differently, state’s steering outside the network is imperfect. Hudson et. al. (2007) asserted that ‘service delivery networks’ are not autonomous and self-organizing as assumed, and instead ‘state usually plays a central role in policy delivery, with local authorities or government departments often being the key organizations within policy delivery networks’ (p. 57). They also maintain that state can activate ‘policy networks’ (p. 58). That is, both service delivery networks and policy networks do not have autonomy as supposed.

In the case of policy networks, there is, as Howlett (2000) argued, a need for gaining societal support when there is de-legitimation within the network (p. 19). To maintain such a support, states may use procedural policy instruments³¹ (such as information suppression, propaganda, institutional reforms, research funding...etc.) which ‘are designed indirectly to affect outcome through the

³¹ There are also traditional or substantive policy instruments (such as regulation, loans, taxes, public enterprise...etc.) that ‘directly affected the production and delivery of goods and services’ (Howlett, 2000: 6).

manipulation of policy outcomes' (p. 13). In other words, states may use manipulation mechanisms rather than steering mechanisms in policy networks; hence, policy networks are not autonomous. Besides, as argued before, state actors- Ministry of Tourism- may play a mediator and facilitator role in policy networks. However; in ÇALBİR case the role of central government (except Ministry of Tourism's financing some part of the project) ended after the realization of loan contract. The rules of network changed by means of loan contract. Indeed, informal rules of the network were replaced by formal ones that stated the rights and obligations of each party. World Bank was the lead actor in the determination of the obligations and rights of the parties in the loan contract. Put it another way, it used the network constitution strategy. In addition, after signing of the loan contract, World Bank also played a 'cooperation enforcer' role in the bidding for the private operator. This was a traditional mechanism of command and control but it was not undertaken by the public sector. That is to say, central state was isolated from the policy network and traditional command and control mechanism was started to be used by World Bank. In that sense, the argument of Hudson et. al. (2007) that policy networks are not autonomous is valid to some extent.

As for service delivery network, the argument that state steer service delivery networks is not valid for the case in this study. To validate this argument, steering mechanisms of state in Turkey should be clarified within the context of Turkey. Legislation- Turkish Grand National Assembly (TGNA) can steer networks through enacting new private or public laws. In addition, commissions in TGNA can steer networks. Especially State Economic Enterprise's Commission steer some types of State Economic Enterprises; however, it does not steer local governments' enterprises. Executive branch can steer networks through regulations. Especially independent regulatory bodies regulate the sector that they have authority to regulate. Judiciary bodies steer networks through judicial review of their administrative acts (Council of State) or constitutional review of laws, statutory decrees. (Constitutional Court). Nevertheless, all these steering mechanisms of central administration were not applicable in ÇALBİR case. To

begin with, since public-private partnership arrangement is subject to international law (international arbitration) legislation and executive has no role in steering this network. National legislation and executive is being by-passed by international arbitration. Secondly, there is no independent regulatory body steering this sector³². Thirdly, due to the constitutional amendments in 1999 it became impossible for judiciary to steer such networks. Lastly, pre-establishment phase of public-private partnership was subject to World Bank Guidelines (international standards), not to Public Procurement Law. It is seen that central state did not (and could not) steer this network and therefore, it was not self-organizing and self-referential. Rather, supra-organizing and supra-referentiality³³ are the basic characteristics of this network since it was subject to World Bank Guidelines in the implementation phase, and to World Bank's cooperation enforcing strategy for the establishment public-private partnership³⁴ (supra-organizing character); whilst this network was subject to international arbitration (supra-referential character) in the service delivery network (or public-private partnership).

Another steering mechanism is the one that is performed by local government or public partner. However, after the establishment of public-private partnership the control mechanism performed by local government is much softer than traditional understanding of steering, command-and-control. Since both of the parties are equal according to management contract and share responsibilities, there is no hierarchical command-control mechanism. Nevertheless, during negotiations for the contract Municipality Union could to some extent decrease water tariffs for every year determined in loan contract.

³² One may also argue that "these regulatory bodies regulate their sector in accordance with international standards; therefore, they cannot be considered as central government's steering".

³³ The term 'supra-organizing' refers that the rules of the network were determined mainly by a supra-national authority; whilst the term 'supra-referentiality' refers that the network is controlled by supranational authority or mechanism. Therefore, 'rules' and 'control' are two keys to differentiate 'organizing' and 'referentiality'.

³⁴ The negotiation between the parties for the determination of the conditions for management contract (or public-private partnership) was an exception to supra-organizing character; however, most of the conditions of the contract were pre-determined in loan contract such as compensation fee, the responsibilities and duties of the parties....and the like.

TABLE 7: Comparison of Planned Tariffs and Implemented Tariffs (excluding Value Added Tax: 18%).

Year	Proposed Water Tariff (USD/m ³)			Applied Water Tariff (USD/ m ³)
	Yearly Average	Peak Tariff(July- August)	Off peak, rest of year	
1998	1.00	1.00	1.00	
1999	1.20	1.20	1.20	0.91
2000	1.50	2.31	1.16	1.10
2001	1.60	2.46	1.23	1.07
2002	1.60	2.46	1.23	1.00
2003	1.60	2.46	1.23	1.10
2004	1.60	2.46	1.23	1.22

Source: ÇALBİR, 2004: 6.

After signing of the contract, this steering mechanism was replaced with a loose control mechanism which is based on negotiation, collaboration, and persuasion. Thus, such a control mechanism can be defined as ‘steered-collaboration’ since there is a steering during negotiations but after the establishment of partnership, both of the parties are equal with regard to management contract. Another reason for such a soft control is the blurring of the distinction between public and private since both of them act with respect to managerial principles such as making profit.

According to loan contract, the implementation of the project was consisted of two parts: construction of infrastructure and hiring a private operator (introduction of public-private partnership). The implementation of the project does not imply implementation of policy instrument. Therefore, there is a need for clarifying project and policy. In this case study, policy instrument is public-private partnership arrangement. However, the implementation of the project covers not only the implementation of policy but also the construction of infrastructure network via contracting outs. Policy implementation phase concerned with the establishment of public-private partnership policy instrument which will be elaborated in the next chapter. Having made such a clarification, now we can explicate each component of the implementation of the project.

The first part was concerned with investment responsibility of ÇALBİR and Ministry of Tourism. The construction of infrastructure and provision of equipment was contracted out to private sector. In April 2000, the electrical and

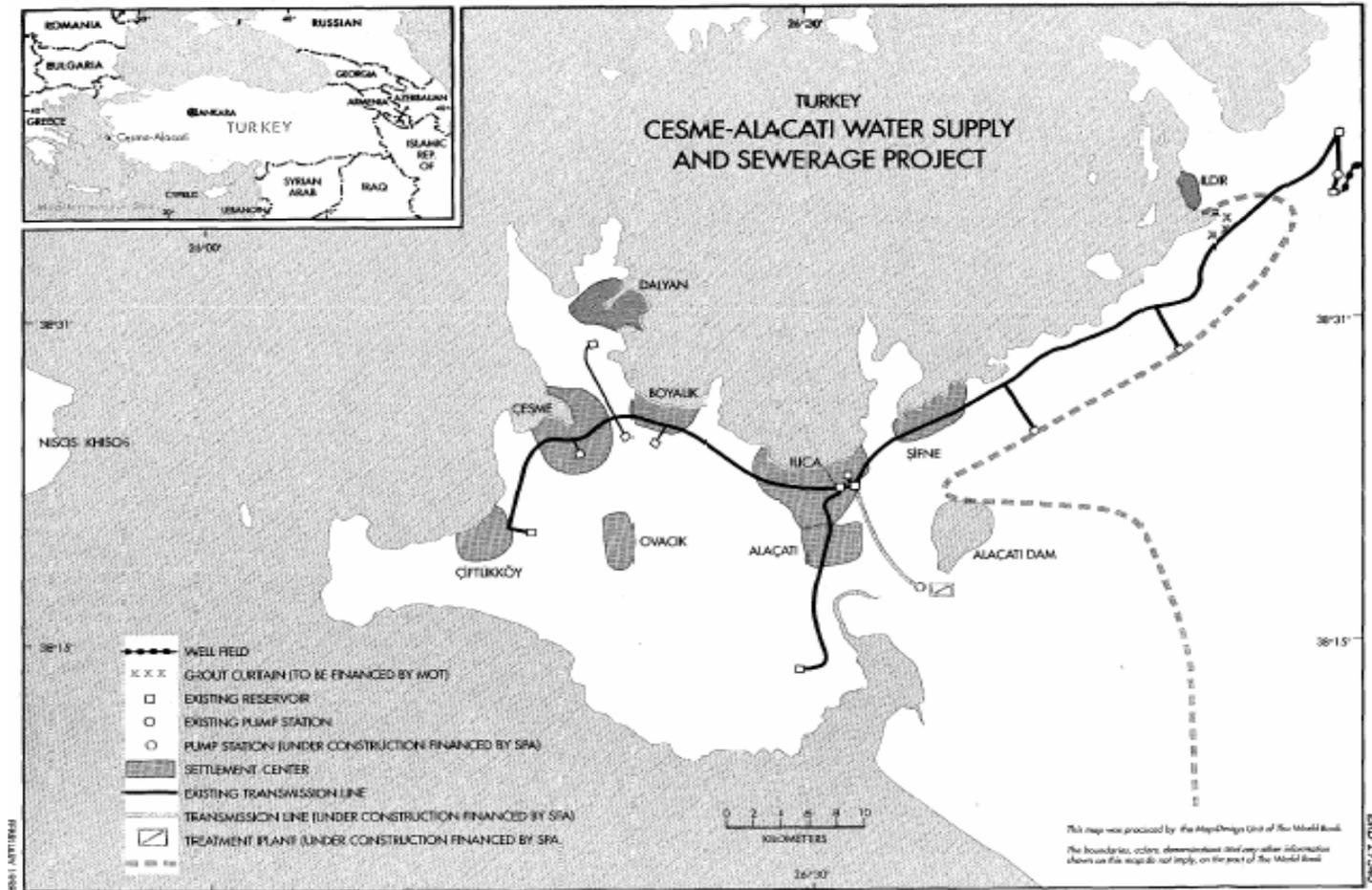


FIGURE 2: Çeşme- Alaçati Water Supply and Sewerage Project. Source: Staff Appraisal Report, 1995.

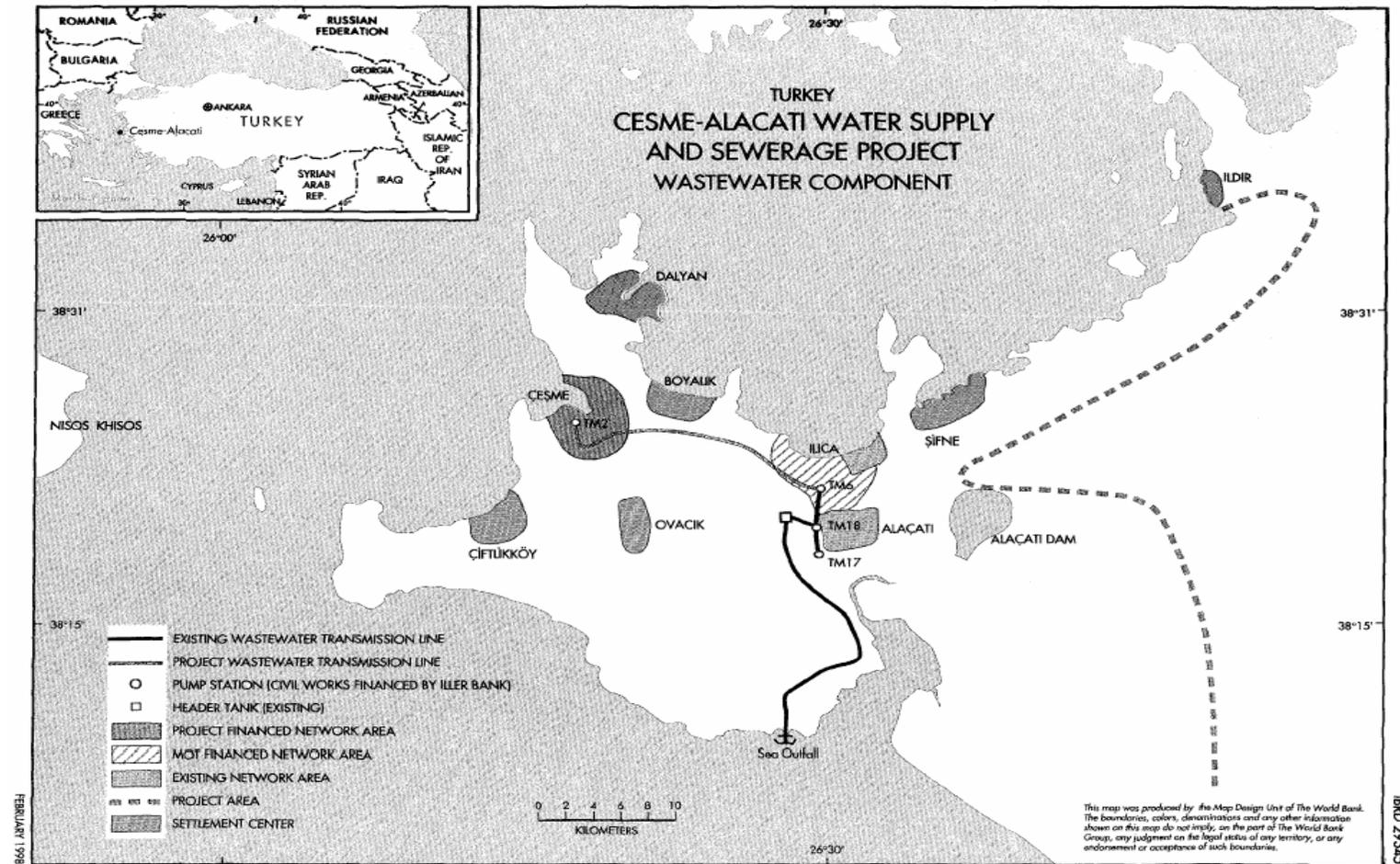


FIGURE 3: Çesme- Alaçati Water Supply and Sewerage Project Waste Water Component. Source: Staff Appraisal Report, 1995.

mechanical equipment was provided for TM17, TM18, and TM16 and as a result, Alaçatı central sewerage system started to run in April 2000. Meanwhile, Ministry of Tourism completed the infrastructure system of Ilica and Alaçatı. The construction of Çeşme Center's infrastructure system was contracted out in July 2000. In December 2002, this infrastructure system started to operate. In addition, grout curtain was constructed and completed by Ministry of Tourism in 2000. In 2003, the construction of Dalyan infrastructure network was put out to tender. In October 2004, Dalyan infrastructure system and TM20 began to operate. In July 2004, the construction of Boyalık infrastructure system and TM4 were put out to tender. Both started to run in June 2005. In fact, the project did not involve the construction of sewerage system in Dalyan and Boyalık. ÇALBİR insisted on the involvement of this area in the project and as a result of negotiations between ÇALBİR and World Bank between April 2002 and April 2003 and the insistence of ÇALBİR, the construction of the area was involved in the project. However, World Bank gave only one year extension for the completion of the Çeşme and Alaçatı Sanitation and Sewerage Project in general. According to loan contract the whole project would be completed in December 2003. One year extension of the whole project was not sufficient for the completion of the sewerage system at Boyalık; therefore, ÇALBİR had to finance the rest of Boyalık sewerage system with its own resources (approximately 450.000\$) (ÇALBİR, 2004: 6).

Second part of the implementation of the project was the establishment of public-private partnership through signing management contract between the parties. The next section will assess public-private partnerships in the case of ÇALBİR with respect to the so called characteristics of public-private partnerships.

4.2. Public-Private Partnership in the Case of ÇALBİR

Loan Contract between World Bank and ÇALBİR, as mentioned previously, was signed on 8th May 1998. The main condition of the Loan was to employ private operator for water and sewerage systems after the construction of water and sewerage infrastructure. Instead of Public Procurement Law, World Bank Guidelines were effective during the policy implementation- establishment of public-private partnership. To illustrate, World Bank asked for international

experience from private operator. This demand, however, was in contrast with the neo-liberal understanding of competition since tendering standards did not allow actors who were not having such an experience to enter tendering process. That is, there was no perfect competition, as neo-classical theory claimed, independent from power relations. The rules of competition were determined by actors (in this context- World Bank) who have power to determine the rules. Therefore, the imbalance of power between partners is usually the case rather than exception.

In October 1998, firms were invited for pre-qualification application. However, there was not sufficient application for the pre-qualification. Ironically, as opposed to World Bank's expectations, the competitive conditions could not be reached. To ensure competition, the period for pre-qualification applications was protracted and the pre-qualification criteria for private operator were relaxed. For instance, 5 years in home and 2 years abroad experience was modified as minimum 5 years in home experience during the last 10 years. Yet, such a change still excluded the Turkish operators since operation of water and sewerage infrastructure was very new for Turkish firms and none of them had 5 year experience in Turkey. Put it differently, even though pre-qualification was amended, it still supported international operators, contrary to the principle of competition. The amendments in pre-qualification document are listed in the table below:

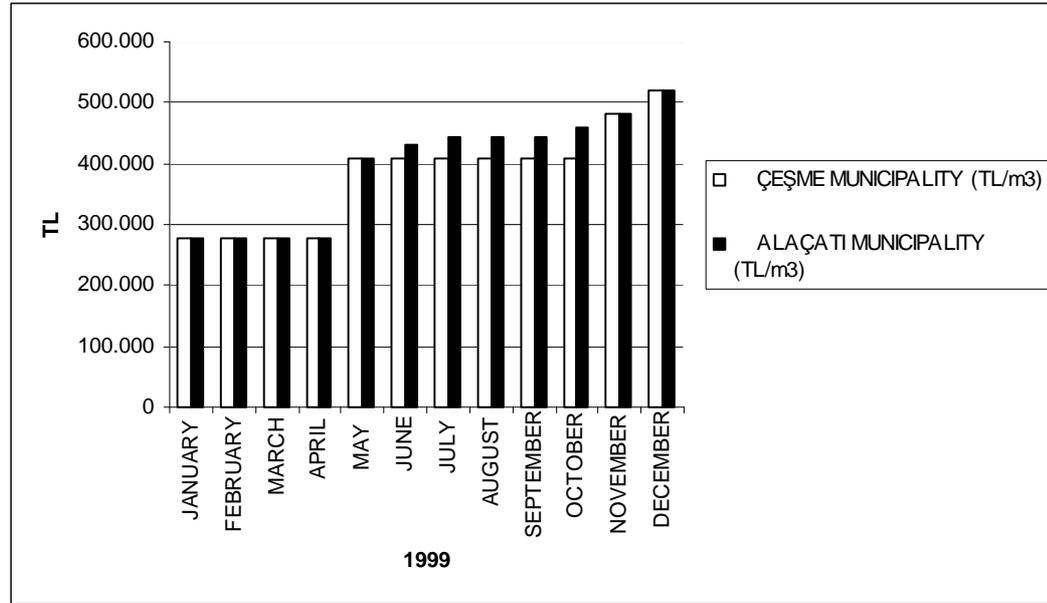
TABLE 8: Criteria for Pre-qualifications and Amendments in Pre-Qualifications

MINIMUM QUALIFICATION CRITERIA	PRE-QUALIFICATION DOCUMENT (Issued in September 1998)	AMENDMENT (Published on December 29, 1998)
Structure of Joint Venture		
Criteria for lead partner	Fulfillment of experience criterion and minimum 40% fulfillment of personnel resources and financial criteria by the lead partner	SAME
Criteria for minor partner(s)	At least 25% fulfillment of personnel and financial criteria by the minor partner(s)	SAME
Public utilities	Not eligible	Replaced by Section 5. Public Sector Companies in the Procurement of Works Major Equipment and Industrial Installations, World Bank, April 1993
Financial Requirements		
Immediate cash capacity	Immediate financing capability of USD 1 million or equivalent	SAME
Annual turn over	A minimum annual turn over of US\$10 million or equivalent in the last three years	SAME
Experience		
Experience criteria	5 years in home country and 2 years abroad in two or more countries with billing and collection experience	During the last 10 years for a minimum 5 years experience in home country
Served population or customer	Served a population of at least 100,000 or minimum 20,000 customers	SAME
Litigation History	Violation of wage or other fair labor practices Any lawsuits or legal actions Disqualification or being barred from bidding Any conviction or investigation Any bankruptcy procedure	SAME

In January 1999, the pre-qualification documents of firms which were interested in operating the infrastructure were received. Four firms out of five received pre-qualification. Meanwhile, in March 1999 elections Çeşme Municipality Mayor (who was from Motherland Party) was defeated. Notably during the elections, privatization of water and sewerage services was used as propaganda issue by the

opposition party (Republican People's Party) candidate (who became the new mayor after the elections). Opposition party's mayor candidate criticized water tariffs as being too high (approximately 1 dolar/m³) and he promised to decrease water tariffs to previous levels.

TABLE 9: Water Tariffs (excluding Value Added Tax) in 1999
1 Dollar = 417.580 TL (average value in 1999)



The rise in water tariffs stemmed from two reasons. Firstly, municipality union had to escalate tariffs in order to pay its loan debt and its interest, and the private operator's fee. Secondly, this was an obligation of the loan contract. Accordingly, the average tariff level would be 1.18\$ in 1999, 1.50\$ in 2000, 1.60\$ in 2001, 1.60\$ in 2002, 1.60\$ in 2003. In spite of the commitments made during election campaign, the new mayor did not cancel the loan contract. ÇALBİR Union Assembly's ex-member, Ömer Akyüz maintained noted during an interview with him that;

Opposition party candidate was not expecting to be the mayor. His party always criticized World Bank and water tariffs at that time. However, after being the mayor his party began to say that such a loan contract decision had been taken before their period; so there was nothing to do³⁵.

³⁵ Interview with ex- Assembly Member of ÇALBİR Ömer Akyüz November 2006.

However, this is not to deny that the ideological inclination of new mayor (ex-mayor and new mayor) was parallel with the ex-mayor. Ex- mayor was from Motherland Party bearing liberal ideology, whereas new mayor was from Republican People’s Party having social democratic ideology. Such an ideological difference played a crucial role in the determination of tariffs during negotiations with prospective private operator to some extent, according to him. Also, new mayor did not want to hire a private operator since, according to him, it was not feasible. We will mention this below.

In December 1999, four firms received pre-qualification among five firms. The examination of pre-qualification documents of the firms was performed by the private firm BBTIE Group. These firms were as follows:

TABLE 10: Firms Submitting Pre-Qualification Document and Firms Receiving Qualification

FIRMS SUBMITTING PRE-QUALIFICATION DOCUMENT	FIRMS RECEIVING QUALIFICATION
Berliner Wasser Betriebe (Germany) – RWE Aqua (Germany) – Alke İnşaat A.Ş.	YES
Gelsenwasser AG (Germany)	YES
Generale Des Eaux (France) – ESSU A.Ş. - Tekser A.Ş.	YES
NV Waterbedrijf Gelderland (Netherlands) -Barmek A.Ş.	YES
Serco-IAL Ltd (United Kingdom) –Park Energy Holding	NO

BBTIE Group prepared the drafts of bidding documents. The bidding documents were finalized and firms were invited for submitting their bids in July 2000 (World Bank, 2005: 12). However, only two firms submitted their bids. These firms were Generale des Eaux(French Firm)+ Tekser İnşaat, and Gelsenwasser (German firm)+ Barmek İnşaat. In fact, only two applications for financial bids did not meet competition rules. In that sense, we can claim that competitive tendering was absent in the case of ÇALBİR. One may argue that the main emphasis of public-private partnerships is not on competition but on cooperation; hence, one may assert that the number of potential operators is insignificant. One may also claim that there is a trust between parties; therefore there is no need for extra applications of potential operators. As mentioned before, one of the theoretical

basis of public-private partnerships- relational contracting- emphasizes the trust between parties rather than number of potential operators in the tendering process. The rest of this section will question these characteristics of public-private partnerships.

During the submission of bids, private firms demanded compensation fee of one million dollar for the early years of the contract. The reason behind demanding compensation fee was high risk perceived by private operators in Çeşme Peninsula since Çeşme and Alaçatı municipalities did not have adequate capacity for an international operator. Only in summer the population increased and this increase was temporary. Furthermore, peak period for selling water was too short. All investments were being arranged according to summer (peak) period³⁶. Nevertheless, this reason is in contrast with the understanding of private sector. Private sector is assumed to be risk-taking sector since this is necessary for making profits. However, there is also the possibility of making loss. Public sector is criticized by neo-liberal ideology (Chicago School, Virginia School, Austrian School, and Managerialism) as inefficient, ineffective (as discussed in chapter II) due to the lack of incentives for competition. However, the compensation fee demanded by private sector is also against efficiency, and effectiveness since it increases costs. It should also be stated that unfortunately this compensation fee was stated in loan contract; therefore, it implied that ÇALBİR had to pay this fee so as to abide by the loan contract. The statements or rules of this loan contract, as stated in previous chapter, was mostly determined by the World Bank.

In this case of public- private partnership, as we mentioned above, pre-qualifications were in favor of international private operators. Alongside this restriction on competition, the compensation fee supports the international private operators. It seems that the tendering process aimed to support international private operators rather than to guarantee competition and to decrease costs in a rational manner.

³⁶ Interview with project expert of ÇALBİR, Ulya Çamur November 2006

The bids offered by two firms were very slight. Generale des Eaux offered an average of 41 cent per one m³ of water and 31 cent per one m³ of waste water for ten years, whereas German firm offered 42 cents per one m³ of water and 38 cents per one m³ of waste water for ten years. French firm offers (for water prices) 77 cents for the first year, then 58 cents for the second year, then 56, 56, 49, 43, 36, 32, 27, and 25 cents for the tenth year. German firm offers 57 cents for the first year, then 53, 53, 50, 41, 40, 39, 37, 35, and 33 for the tenth year. The difference between their offers in total is % 1.13³⁷. World Bank Implementation Completion Report stated that ‘the bids came at roughly double the price level that had been projected in the staff appraisal report’ (World Bank, 2005: 13). Ironically, despite the fact that private firms demanded compensation fee for the early years of the contract, the prices they offered for the early years was still too high.

In December 2000, ÇALBİR Procurement Commission demanded from World Bank for the cancellation of the tendering for private operator because offered bids were not affordable, according to commission. As a response to ÇALBİR’s request, World Bank sent a recommendation to ÇALBİR.

World Bank’s recommendation stated that “the development target of the project is to increase efficiency through hiring a private operator...The hiring of private operator is the tool of development. There has been serious delay in the construction of infrastructure. In the case of further delays or not hiring a private operator, Bank will not support the project since the project cannot reach its development target. To continue the project, we are waiting technical assessment form as soon as possible”³⁸.

In addition to these, World Bank forced ÇALBİR to pay compensation fee to the private operator. In short, ÇALBİR would face the cancellation of loan unless it did not hire a private operator and pay a compensation fee. In fact, at that time ÇALBİR had not made any investment concerned with the project apart from the installation of electrical and mechanical equipment for TM17, TM18, and TM16 in

³⁷ÇALBİR Assembly Decision, Decision No. 2001/01 Decision Date. 08.05.01 Hakan Mat - Financial Consultant of ÇALBİR, p. 3

³⁸ ÇALBİR Assembly Decision, Decision No. 2001/01 Decision Date. 08.05.01 Ulya Çamur Project Expert of ÇALBİR, p. .3

April 2000. Thus, there was a need for investment for the infrastructure project. Ex-assembly member of ÇALBİR, Ömer Akyüz, stated that:

When loan contract was signed in 1998, the municipalities did not have any experience regarding such projects. Therefore, investments could not start since every investment had to be detailed and then each detailed investment had to be endorsed by World Bank. Then in March 1999, new elections were held. New mayor and his party before 1999 local governments' elections criticized water privatization when they were in opposition. They surprisingly came into power but they did not know anything about the project. Therefore, the learning process regarding the project started again³⁹.

Nevertheless, this learning process had a cost. ÇALBİR also had to pay the interest of loan that was not used in this two years period. When ÇALBİR faced the cancellation of loan due its reluctance for hiring private operator, it also faced the payment of interest of some part of the loan. Without constructing the infrastructure system, ÇALBİR would have to pay its debt. In addition, building the infrastructure was urgent due to sea pollution (because of disposal of sewerage) and drinking water pollution. Therefore, ÇALBİR had to accept to hire a private operator albeit hiring a private operator was not affordable.

Joint venture of Generale des Eaux and Tekser İnşaat was opted as a prospective private operator. Then parties embarked on negotiations for the contract. Meanwhile, the economic crisis hit Turkish economy in February 2001. Macroeconomic crisis disrupted negotiations since private operator perceived Turkey as a risky country and demanded high compensation fee. In June 2002, ÇALBİR and private operator reached an agreement on contract and the contract was sent to World Bank for approval. During negotiations, ÇALBİR had to accept compensation fee (1.000.000\$) due to the pressures of World Bank. Private operator demanded compensation fee paid in advance during negotiations. Nevertheless, ÇALBİR Administration Board decided that ÇALBİR would pay 27 cent per m³ billed water that was collected by the private operator until 31 December 2004 (closing date of loan). On 21st February 2003, the contract between ÇALBİR and Alcesu A.Ş. (The name of the joint venture of Generale des

³⁹ Interview with ex- Assembly Member of ÇALBİR Ömer Akyüz November 2006.

Eaux and Tekser İnşaat) was signed. The contract was management contract, as indicated before, in which private operator would manage the infrastructure for a period of ten year. After sixty days of mobilization period in which assets were transferred to the private operator, it started to manage infrastructure system.

In theory public-private partnerships, as stated at the outset, are based on collaboration and trust between parties. In this case study, World Bank acted as a cooperation enforcer in favor of private operator during the pre-establishment process of public-private partnership. ÇALBİR had to cooperate with private operator owing to the insistence of World Bank to hire a private operator. Furthermore, there was not any trust between parties. Even though their relationship was a long-term one, (when two years of negotiation process for the management contract is taken into account) this relation was not predicated on trust. In addition to that, there has to be co-steering (but not in traditional sense of steering for the public partner) in public-private partnerships. In this case study, private sector is responsible for:

- (a) operation and maintenance of water supply and sewerage system, (b) billing and collection of charges for water and waste water services, (c) collecting bills and repairing the water and sewerage network, (d) maintenance of detailed operating accounts and records, (e) monitoring of the water supply and effluent quality (Development Business, 1998: 7).

Municipality Union is liable for determining tariffs and making investments. Each party supervises the responsibilities of the other party. Before establishment of public-private partnership, the investments of the project (which is under ÇALBİR's responsibility) were supervised by consulting firms. Private operator ALCESU have been liable for the monitoring of investments since June 2003.

In ÇALBİR – ALCESU partnership, private operator ALCESU collects bills and puts the money into the ÇALBİR's account. ÇALBİR pays some percentage of money to the operator; the remaining part is allocated for the payment of the loan and its interest, and is used for making investments for the water and sewerage

network. In the pre-establishment phase (the negotiation phase for the contract between parties), there is a steering by the public sector in the traditional sense but it was not stronger enough due to the pressure of World Bank, especially for signing management contract with private operator and for payment of compensation fee to the private operator. Municipality could decrease tariffs to some extent compared with the tariffs stated in loan contract and ensured the payment of compensation fee to be based on the water bills collected per m³ by the private operator. In addition to these, there was a legitimacy problem for hiring private operator since citizens elected a new mayor who was against privatization. One of the main reasons for the new mayor's winning elections were his promises about water prices. In that sense, citizen's interests were ignored by establishing public-private partnership due to the pressure of World Bank. As noted before, long contract period of public-private partnerships- when compared with election period- decreases the control of electorate on decisions concerning public services.

Having assessed the pre-establishment phase of public-private partnership in ÇALBİR case, now the evaluation of the post-establishment phase of partnership will be made. In this part, economic and social concerns will be assessed. Economic indicators are 'losses in water during production', bill collection (in percent of water billed)', and 'operating expenses per unit of water billed'. The project in general could not achieve the standard in water losses. In Staff Appraisal Report⁴⁰, the target in water losses was 50% in 2003. However, the actual percentages for losses were above 50%. In 2003 the water losses in percent of production was 65%, in 2004 it was 57%. That is, during the working of private operator, losses of water in percent of production were still high. According to table below, bill collection by private sector in 2003 and 2004 was satisfactory. Nevertheless, according to ÇALBİR Implementation Completion Report, private operator did not fulfill its duties concerning the collection of billed amounts. Besides, there are serious problems concerning 'the delivery of bills to the correct addresses on due times' (ÇALBİR, 2004: 9). In the period between June 2003 and

⁴⁰ This report was the report that was prepared after feasibility study by World Bank Staff and it was the main document determining economic, environmental, and institutional standards of the Project.

August 2004, ÇALBİR had to collect bills through bailing and hiring a lawyer (ÇALBİR, 2004: 8- 9). Although the operation of public-private partnership as a whole seems well, ÇALBİR has to bear the cost of collecting bills. Nevertheless, there is another dimension of this deficiency. Since ALÇESU has not collected money for bills, ALÇESU is criticized for making profit through interests of bills. These interests of bills are collected through bailing by ÇALBİR. Citizens are subject to bear the cost of hiring lawyer. In other words, ÇALBİR contributes such a mechanism even though it criticizes ALÇESU.

Indeed, this is the manifestation of blurring of boundaries between public and private since both of the parties aim to make more profits. ÇALBİR makes more profit in order to pay its debt and interest and the payment of private operator, whereas ALÇESU makes more profits in spite of not fulfilling its liability. Both of the parties have an interest in such a motivation. However, the rights of citizens are ignored. As well as high tariffs for water and sewerage, citizens also have to bear costs stemming from the failure of delivery of bill to the correct addresses.

Another main argument regarding efficiency is that private sector provision reduces operation costs. Nevertheless, this argument is also not valid for this case study. Operating expenses per unit water billed, as shown in Table 11, is higher than expected in SAR especially after the private operator's beginning to work (in 2003 and 2004). Interestingly, the table below also indicates that operating expenses are lower under public organization's operation during 2000 and 2002; that is, public sector is more cost effective. Furthermore, compensation fee paid to private sector also increases the costs. Shortly, in contrast to the claims that private sector will be efficient this case study indicates that private sector may also not be efficient. Rather, public sector is more cost effective.

TABLE 11: Efficiency Indicators, as projected in the Staff Appraisal Report and Actual Results. Source: World Bank Implementation Completion Report, 2005: 4⁴¹.

Year	1997 Actual	1998	1999	2000	2001	2002	2003	2004
Efficiency Indicator	Losses (in percent of production)							
SAR	68%	67%	63%	59%	56%	53%	50%	NA
Actual	68%	NA	75%	74%	70%	67%	65%	57%
	Bill collection (in percent of water billed)							
SAR	85%	85%	85%	87%	90%	92%	95%	NA
Actual	85%	NA	NA	NA	NA	NA	95%	94%
	Operating expense per unit water billed (In current US\$/m ³)							
SAR	0.52	0.52	0.50	0.45	0.42	0.39	0.40	NA
Actual	0.52	NA	NA	0.75	0.46	0.58	0.98	1.07

In addition to these problems with private sector concerning efficiency, ÇALBİR also criticizes private operator since it does not fulfill its responsibilities of repair and maintenance (ÇALBİR, 2004: 6). Recent interview with ÇALBİR staff in 2006 indicates that repair and maintenance issues mainly stems from different perceptions of the problem by each party⁴². To illustrate, when a water pipe is cracked, private operator claims this is an investment issue, therefore, ÇALBİR is responsible for replacing the cracked pipe. ÇALBİR asserts that pipe is part of the whole water network; thus, replacing cracked pipe with a new one is an action of repairing and maintenance; that is, it is under the responsibility of private sector. Such an uncertainty in responsibilities clearly indicates that public-private arrangement as a whole is not efficient and highly problematic.

Moreover, as previously noted, in water sector in Turkey there is no central steering mechanism regulating the contracts between public and private sectors. In

⁴¹ Note: The actual operating expenses per unit water billed for the period June, 2003 through December 31, 2004 (corresponding to the period of private operations) are the CALBİR administration costs + contractual operator's fees as per the negotiated settlement + raw water costs of approximately US\$ 0.12/m³ for the water purchased from the Izmir Provincial Special Administration in order to operate the Kutlu Aktaş water treatment plant but excluding the compensation fee of US\$ 0.27/m³ of water collected up to a cumulative of US\$ 1.0 million as a measure to mitigate the operator's risk during the early years of the contract (World Bank Implementation Completion Report, 2005: 4)

⁴² Interview with ÇALBİR Staff November 2006.

that sense, regulation aspect of public-private partnership is lacking. In the case of such disputes (maintenance and repairing problem), the parties may apply to international arbitration rather than Turkish courts. In addition, there is uncertainty about the regulation for protecting the rights of citizens. It is assumed that public sector will protect the rights of citizens; however, public sector party is incapable of this due to its payment of debt and its interest. In fact, this situation has replaced public sector values with managerialist understanding. The only exception to this transformation is that Municipality Union reduced tariffs to some extent (however prices are still too high), as mentioned before, during negotiations for the contract. However, after the establishment of public- private partnership Municipality Union is acting with regard to managerial principles. In other words, the establishment of public private partnership has led to the transformation of public sector into a private one- managerial one. This is, indeed, the blurring of boundaries in favor of the principles of private sector. Traditional steering mechanism, even though it existed in pre-establishment phase of public-private partnership, disappeared and instead partner negotiation and persuasion mechanism emerged. However, such negotiation and persuasion mechanisms do not serve to the interests of citizens, as noted before. Rather, it serves to the interests of municipality union and private operator acting with respect to the managerial principles.

As well as efficiency concerns, as noted before, there are also accountability problems in public-private partnerships. Firstly, public-private arrangement in this case is not subject to public law. In that sense, administrative courts (in this case Council of State) are not authorized to monitor the activities of public-private partnerships in Turkey. In addition to this deficiency, the activities of public-private partnership do not subject to Turkish private law. Rather, in the case of discord between parties public-private partnership arrangement is subject to international arbitration. Put it differently, there is no judicial accountability for this arrangement at the national level. Another main problem is related with political accountability. Since the management contract was signed for a term of ten years, the election of mayors for a term of five years cannot change the

privatization decision. In fact, one of the main objectives of the project was to stifle the political influence of municipalities in the case public-private partnership. To achieve this aim, the municipality union having a public legal personality autonomous from individual municipalities was established. However, such an aim led to the weakening of political accountability in which citizens evaluate the success of elected officials at least in times of elections. Especially after 1999 Local Governments' Elections, as mentioned before, there occurred a legitimacy crisis for the introduction of public-private partnership because the candidate who was against privatization won the elections.

The erosion of political accountability, indeed as explained before, symbolizes the paradigm shift in the public sector. According to public choice theory, there is no such political accountability since politicians are self-interested, they sell water cheaper or free in order to win the elections. It is also asserted that under-pricing of water distorts the balance between income and expenditure. Besides, the collected revenue from water is not spent for the expenses of water service but instead it is spent for other expenditure, as public choice scholars claim. Since politicians are criticized for the reasons above, public choice theory disregards political accountability. The main solution for such a state failure, according to public choice theory, is to privatize the service. This solution is intensified by managerialist principles. To illustrate, under private management, accountability for consumers is valid. Private management is founded on the view that "every service has a price"; therefore, only those who have ability to pay can control the service provider in terms of quality, efficiency, effectiveness of the service.

As for equity issue, public-private partnership in the case of ÇALBİR does not take equity concerns into account. Even though water and sewerage tariffs have been reduced to some extent, prices are still too expensive. One may argue that Çeşme and Alaçatı Municipalities are tourism cities; therefore, citizens can afford high water tariffs. Nevertheless, inhabitants of this region only earn money in the summer seasons. In winter, they spend their money that they have earned in peak tourism season. Besides, Çeşme and Alaçatı being tourism centers does not mean

that every resident of Çeşme and Alaçatı earn high incomes. If the fact that substantial proportion of Turkey's population is composed of low-income families is taken into account, then it can be understood that such claims of affordability are unrealistic.

In summary, at first the theoretical foundations of public-private partnerships were discussed. Then the transfer of these privatization instruments through World Bank was focused. In Turkish context, World Bank gives loan to local governments provided that they privatize the operation of water and sewerage system. In Turkey, this privatization policy transfer was realized for small municipalities via ATAK project. The policy transfer network composed of consultant firm ACER, World Bank, and Ministry of Tourism ensured the adoption of this policy at national level. Even though public-private partnership policy instrument was adopted by central government, it could not be implemented in some municipalities (Marmaris, Kuşadası Municipalities) since they thought that they could find loan from other banks in order to construct their infrastructure. In that sense, the policy transfer literature should also take the fragmented nature of local and national level due to erosion of fiscal dependency of local governments to central government as a result of globalization and specific characteristics of states such as debt burden. In that sense, the transferred policy may be obligatory for central government although it may be voluntary at local level. Our ÇALBİR case illustrates such a situation. Çeşme and Alaçatı Municipalities accepted the loan for the construction of their infrastructure and, prevention of environmental pollution. As previously emphasized, the main condition of the loan was to privatize the operation of water and sewerage infrastructure. Çeşme and Alaçatı Sanitation and Sewerage Project, on the one hand, aimed to construct the infrastructure facilities; on the other hand, it targeted at hiring a private operator for the management of water infrastructure system. Put it differently, implementation of policy instrument is only a part of the project implementation as well as the construction of infrastructure. It is not easy to separate policy formation and implementation. Indeed, mostly policy formation and implementation are interrelated processes. Policy formation phase for privatization instruments could be completed in 1999

through constitutional amendments, whilst policy implementation phase was launched in 1994 by feasibility studies and loan contract- policy implementation document- was signed in 1998 before 1999 constitution amendments. With the constitutional amendments, the word privatization was added to the constitution. It was stated that the privatization of SEEs and the privatization of assets and shares of other public legal personalities was determined by law. In addition, the law determines whether the contract between state enterprises (or other public legal personalities) and private parties is subject to public or private law. Arbitration was introduced for the disagreement for contracts among the parties. Moreover, the duty of Council of State for concession contracts was changed from 'examination' to 'give opinion'. Such a change in constitution enabled the legal basis for such privatization instruments such as built-operate-transfer, management contracts, service contracts...etc.

After the signing of loan contract the rules of the implementation network were chiefly ascertained by World Bank. The loan contract stated that all the works (construction of water and sewerage network) would be contracted out to the private sector (contracting out), and then a private operator would be hired for operating the infrastructure system (public-private partnership) The procedures for contracting outs and establishment of public-private partnership were not subject to public procurement law; instead, they were subject to "Guidelines for Procurement under IBRD Loans and IDA Credits". In other words, there is no central government's steering mechanism for water service delivery network in Çeşme and Alaçatı Municipality. After the establishment of public-private partnership, there is still no central steering mechanism. All the steering mechanisms of central administration (legislative, executive, judiciary steering) did not exist in ÇALBİR case. To begin with, since public-private partnership arrangement is subject to international law (international arbitration) legislation and executive has no role in steering this network. National legislation and executive is being by-passed by international arbitration. Secondly, there is no independent regulatory body steering this sector. Thirdly, due to the constitutional amendments in 1999 it has become impossible for judiciary to steer such networks.

In addition, there is only collaboration mechanism (loose control) between private sector and Municipality Union rather than traditional command- and- control mechanism.

In contrast with the theoretical assumptions about success of public-private partnerships, this study indicates that this is not always exact case in practice all the time. The drawbacks of public-private partnerships such as equity, blurring of boundaries, efficiency, transparency, accountability exist in the case of ÇALBİR-ALÇESU partnership. To begin with, public- private partnership is not efficient since there is a compensation fee which increases costs. In addition, operating expenses per unit bill of water billed is higher than expected. Operating expenses were lower under public organization's operation during 2000 and 2002 before private operator's starting to operate. Therefore, it seems that public sector is more cost effective when compared with private operator. Also, uncertainty in responsibilities such as maintenance and investment clearly indicates that public-private arrangement as a whole is not efficient. Secondly, as mentioned before, there is no central steering mechanism for this service delivery network or partnership. Instead this service delivery is completely subject to international arbitration. In addition, there is uncertainty about the regulation for protecting the rights of citizens. It is assumed that public sector (local government) will protect the rights of citizens; however, public sector party is incapable of this due to its payment of debt and the interest of the debt. In fact, this situation has replaced public sector values with managerialist ones. In addition, there is not a political accountability in traditional sense. Alongside the fact that there is no central steering mechanism, there is also no mechanism for protecting the citizens' rights. Due to the blurring of boundaries between private and public sector, it is not possible to determine who is responsible for high tariffs. Another manifestation of blurring of boundaries is the lack of equity and cross-subsidization concerns. All these deficiencies clearly indicate that public-private partnership is not a better tool within the context of ÇALBİR. Therefore, water service should be provided by public sector which acts with regard to public values. That is not to deny that public sector should be reformed to be cost effective and should use high

technology. Even though public-private partnership arrangement in this case study have been criticized in many aspects, the success of project in terms of the prevention of water losses (68% to 50%) should be taken into account but as emphasized before policy and project are not similar concepts. That is, the success of project in terms of water losses stems from the municipalities' acquisition of necessary resource for such an improvement in water infrastructure system. Thus, before making an evaluation, the real cause of the success should be clarified. The main argument of this study is that public-private partnership policy tools should be assessed case by case since so called characteristics of public-private partnerships such as collaboration, trust, efficiency, equity may not exist as in case of ÇALBİR.

CHAPTER V

CONCLUSION

In this study, public private partnership policy tool, which is recently on the agenda, has been assessed within the context of ÇALBİR case in Turkey. To understand the ideological background behind public-private partnerships at first the transformation of state after 1980s should be examined. State's interventionist role in market was challenged in late 1970s. Especially the emphasis of Virginia School, Chicago School, and Austrian School on inefficient and undemocratic character of the state provided the intellectual basis for this challenge. The minimal state became the slogan of this period. Managerialism suggested private sector understanding for the public sector so as to prevent so called inefficiency of public sector. Nevertheless, neo-liberal strategy was not dominant strategy all over the world at that period. By the beginning of 1990s, neo-liberalism became the dominant strategy all over the world. In addition to this theoretical background, in order to ensure legitimacy for increasing globalization, the concept of governance has been introduced in almost all branches of social sciences in 1990s. Despite the fact that the concept has multi meanings in different disciplines, its emphasis on participation, multi actors, multi institutional mechanisms seems to aim to provide legitimacy for the present economic understanding.

Economic understanding of neo-liberalism has also been incorporated into the environmental problems, especially with the term of sustainable development. This term supposes that the solutions for environmental problems can be solved by market mechanisms, especially privatization. At both international and regional level such an understanding prevails. One of the main aims of this study has been to indicate how this marriage of environment and economics is realized in water sector. Especially at the international conferences after 1990s, public-private

partnerships (a new form of privatization) are claimed to be solution for water service management. Public sector is accused of being extravagant; that is, it sells water under its price. In addition, it is also asserted that politicians sell water cheaper in order to take more votes during the elections. At the regional level-European Union, such an understanding is also dominant. In addition, international organizations such as IMF, World Bank, WTO support the privatization policies nearly all sectors. World Bank, however, has special role in the transfer of privatization policies to water sector at nation states. World Bank gives loan to local governments provided that they privatize the operation of water and sewerage system. In Turkey, this privatization policy transfer was realized for small municipalities via ATAK project in water infrastructure management sector. Public-private partnership policy instrument was the main focus of policy transfer in this case study, the policy instrument of public sector's operation of the infrastructure facilities was ignored (due to the influence of decisions taken at the international environmental conferences and forums).

To transfer public-private partnership policy instrument to water sector in Turkey, policy transfer network was established. The policy transfer network composed of consultant firm ACER, World Bank, and Ministry of Tourism ensured the adoption of this policy at national level. One of the findings of this study is that;

- a) Policy transfer should take the fragmented nature of local and national level into account:

Even though public-private partnership policy instrument was adopted by central government, it could not be implemented in some municipalities (Marmaris, Kuşadası Municipalities) since they thought that they could find loan from other Bank in order to construct their infrastructure. To illustrate, Marmaris- Armutalan – and İçmeler Municipalities obtained loan from a French Bank, and this loan was not a conditional loan⁴³ as in ÇALBİR case.

⁴³ In ÇALBİR case, this condition was hiring a private operator for managing water system.

In that sense, the policy transfer literature should also take into consideration the fragmented nature of local and national level since local units gained more autonomy against nation states and they became production units rather than consumption units as in welfare state period (Şengül, 2000: 53). The transferred policy may be obligatory for central government although it may be voluntary at local level. Our ÇALBİR case illustrates such a situation. Çeşme and Alaçatı Municipalities accepted the loan for the construction of their infrastructure and, prevention of environmental pollution.

- b) This study indicated that the selection of policy instrument in the case of ÇALBİR was not neutral or rational as the proponents of managerialism assert but it was ideological:

The main condition of loan contract (public private partnership or privatization) was determined by private consultant firm through its feasibility report. Even though public sector provision was specified in feasibility report of ACER, the main discussion in the feasibility report ignored this alternative since in line with the decisions taken at international and regional level the consultant firm preferred privatization policy instruments through policy transfer network. The management contract was preferred as a result of this assessment since there was low fiscal and commercial risk for private sector. In that sense, feasibility report selected the policy instrument that had lowest financial and fiscal risk. The public provision instrument was entirely ignored. In addition, such a selection is the on the contrary to the philosophy of managerialist understanding which assumes that the selection of policy instrument is performed by neutral methods such as cost-benefit analysis, and performance measurement techniques. That is, this selection is the manifestation of ideological preference rather than rational preference. Therefore, feasibility report provided the so called technical ground for the establishment of public-private partnership. In parallel to the feasibility report, the main condition of the loan was, as mentioned above, to privatize the operation of water and sewerage infrastructure. Çeşme and Alaçatı Sanitation and Sewerage Project, on the one hand, aimed to construct the infrastructure facilities; on the other hand, it

targeted at hiring the operation of infrastructure system to the private operator. Put it differently, implementation of policy instrument is only a part of the project implementation as well as the construction of infrastructure.

It is not easy to separate policy formation and implementation. Indeed, policy formation and implementation are interrelated processes. Policy formation phase for privatization instruments could be completed in 1999 through constitutional amendments, whilst policy implementation phase was launched in 1994 by feasibility studies and loan contract (policy implementation document) signed in 1998 before 1999 constitution amendments. With the constitutional amendments, the word privatization was added to the constitution. It was stated that the privatization of SEEs and the privatization of assets and shares of other public legal personalities was determined by law. In addition, the law determines whether the contract between state enterprises (or other public legal personalities) and private parties is subject to public or private law. Arbitration was introduced for the disagreement for contracts among the parties. Moreover, the duty of Council of State for concession contracts was changed from 'examination' to 'give opinion'. Such a change in constitution enabled the legal basis for such privatization instruments such as built-operate-transfer, management contracts, service contracts...and the like.

- c) The case study indicated that there occurred a legitimacy problem for the establishment of public-private partnerships when citizens in the elections elected a mayor who was against privatization:

In addition to these, there was a legitimacy problem for hiring private operator since citizens elected a new mayor who was against privatization. One of the main reasons for the new mayor's winning elections were his promises about water prices. In that sense, citizen's interests were ignored by establishing public-private partnership due to the pressure of World Bank. As noted before, long contract period of public-private partnerships- when compared with election period- decreases the control of electorate on decisions concerning public services.

- d) In contrast with the emphasis on self-referentiality and self-organizing of networks by the existing literature, this study indicates that supra-referentiality and supra-organizing were the characteristics of the network in ÇALBİR case:

After the signing of loan contract the rules of the implementation network were chiefly ascertained by the World Bank. The loan contract stated that all the works (construction of water and sewerage network) would be contracted out to the private sector (contracting out) and then a private operator would be hired for operating the infrastructure system (public-private partnership) The procedures for contracting outs and establishment of public-private partnership were not exposed to public procurement law; instead, they were subject to “Guidelines for Procurement under IBRD Loans and IDA Credits”. All the steering mechanisms of central administration (legislative, executive, judiciary steering) were not applicable in ÇALBİR case. To begin with, since public-private partnership arrangement is subject to international law (international arbitration), legislation and executive has no role in steering this network. National legislation and executive is being by-passed by international arbitration. Secondly, there is no independent regulatory body steering this sector. Thirdly, due to the constitutional amendments in 1999 it has become impossible for judiciary to steer such networks. It is seen that central state did not (and could not) steer this network and therefore, it was not self-organizing and self-referential. Rather, supra-organizing and supra-referentiality are the basic characteristics of this network since it was subject to World Bank Guidelines in the implementation phase, and to World Bank’s cooperation enforcing strategy for the establishment of public-private partnership (supra-organizing character); whilst this network was subject to international arbitration (supra-referential character) in the service delivery network (or public-private partnership).

- e) The steering performed by local government (ÇALBİR Municipality Union) is not traditional command and control mechanism but instead it is managerial collaboration and persuasion mechanism:

Another steering mechanism is the one that is performed by local government or public partner. However, after the establishment of public-private partnership the control mechanism performed by local government is much looser than traditional understanding of steering, command-and-control. Since both of the parties are equal according to management contract and share responsibilities, there is no hierarchical command-control mechanism. Nevertheless, during negotiations for management contract Municipality Union could to some extent decrease water tariffs for every year determined in loan contract (however tariffs were still too high). Also, it ensured the payment of compensation fee to be based on the water bills collected per m³ of water by the private operator. But these steering arrangements were not stronger enough due to the pressure of World Bank, especially for signing the management contract with private operator and for payment of compensation fee to the private operator. Thus, such a control mechanism can be defined as 'steered-collaboration' since there is a steering during negotiations but after the establishment of partnership, both of the parties are equal with regard to management contract. Another reason for such a loose control is the blurring of the distinction between public and private since both of them act with respect to managerial principles such as making profit. Especially in the case of collecting bills, ALÇESU is not fulfilling its duty of sending the bills to correct addresses on due time but instead earn money from the interests of delayed payments through bailing that is provided by ÇALBİR. Indeed, this is the manifestation of blurring of boundaries between public and private since both of the parties aim to make more profits. The steering mechanism was transferred into partner negotiation and persuasion mechanism after the establishment of public-private partnership. Therefore, parties have started to develop collaboration mechanisms after the signing of the contract but this was at the expense of the citizens and the transforming of public sector into private one.

- f) Public-private partnership is not efficient enough due to compensation fee paid in early years, high operating expenses, and blurring of boundaries between public and private sector:

In this case study, many of the drawbacks of public-private partnerships are also evident. To begin with, public-private partnership is not efficient enough since there is a compensation fee which increases costs. In addition, operating expenses per unit bill of water billed is higher than expected. Operating expenses were lower under public organization's management during 2000 and 2002 before private operator's starting to manage. Therefore, it seems that public sector is more cost effective when compared with private operator. Also, uncertainty in responsibilities such as maintenance and investment clearly indicates that public-private arrangement as a whole is not efficient.

- g) After the establishment of public-private partnership, the public organization's (ÇALBİR Municipality Union) working in accordance with managerial principles has brought about the elimination of public values such as equity, accountability, cross-subsidization...and the like:

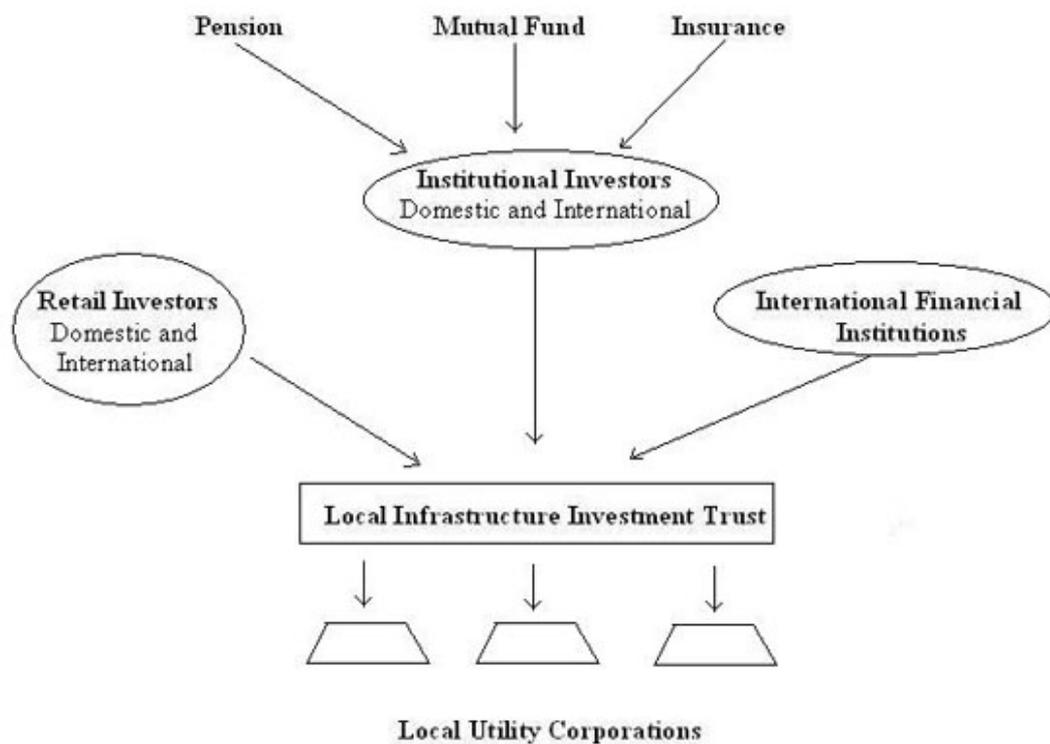
As mentioned before, there is no central steering mechanism for this service delivery network or partnership. Instead this service delivery is subject to international arbitration. In addition, there is uncertainty about the regulation for protecting the rights of citizens. It is assumed that public sector (local government) will protect the rights of citizens; however, public sector party is incapable of this due to its payment of debt and the interest of this debt. In fact, this situation has replaced public sector values with managerialist ones. In addition, there is not a political accountability in traditional sense. Alongside the fact that there is no central steering mechanism, there is also no mechanism for protecting the citizens' rights. Due to the blurring of boundaries between private and public sector, it is not possible to determine who is responsible for high tariffs. Another manifestation of blurring of boundaries is the lack of equity and cross-subsidization concerns. All these deficiencies clearly indicate that public-private

partnership is not a better tool within the context of ÇALBİR. Therefore, it seems much more viable for public service to be provided by a public organization working with regard to public values. That is not to deny that public sector should be reformed to be cost effective. However, everyone should access water since water is a basic human right. This can be ensured by a public organization that takes public interest into consideration. By public organization's ensuring equity, and cross-subsidization, every citizen can more easily access to water.

The public-private experiences of Çeşme- Alaçatı Municipalities and Antalya Municipality are the striking examples for the failure of public- private partnerships in Turkey. However, recent developments seem to accelerate the introduction of public-private partnerships in infrastructure sector in Turkey. To begin with, new Municipality Law of 5393 has become effective in 2005. According to the Law, the municipalities are authorized to hire operators for the provision of infrastructure such as natural gas, water, and waste water in accordance with private law. In addition, assemblies of municipalities are authorized to decide concession contracts, built-operate, built- operate- transfer and privatizations of municipality companies and enterprises. Before the effectiveness of this law, Council of Ministers was the authority to decide the privatization of municipal corporations. Such a change, indeed, will probably deepen the breaking off the ties between the centre and local. However, this will strengthen the autonomy and self-referentiality of service delivery networks like this case; that is, the authority of central government to decide privatization is delegated to local governments.

Recent World Bank Working Paper of *Mobilizing Private Finance for Local Infrastructure in Europe and Central Asia: An Alternative Public-Private Partnership Framework (2005)* prepared by Michel Noel and W. Jan Brzeski still supports public private partnerships and makes suggestions for improving public-private partnerships. However, this improvement is in favor of private sector interests.

According to the authors, Local Infrastructure Investment Trusts (LIIT) should be established by ‘a private sponsor together with a core group of investors, which would include international financial institutions’ (Noel and Brzeski, 2005: 18). These trusts will be established to buy the stakes of private operator when the private operator solicits to exit. After buying these bonds, LIITs will ‘sell their shares and issue bonds to domestic and foreign institutional investors such as pension funds’ (Noel and Brzeski, 2005: 18). Therefore, exit option for private operators will be ensured. This will also serve to develop domestic private pension funds in that country (Noel and Brzeski, 2005: 20).



Source: Noel and Brzeski, 2005: 21.

FIGURE 4: LIIT Structure

In addition to compensation fee and high tariffs, the risk taking characteristics of private sector totally disappears with this model. In addition, such a proposed improvement deals with private sector’s problem, not the people. The feasibility study for the implementation of LIIT has started in Romania in 2007. As a

country in the same region (Europe and Central Asia Region), in Turkey the establishment of such a model is not on the agenda yet. Further research may be conducted on Romania so as to understand the proposed model since in future such LIITs may become widespread.

The main argument of this study is that public-private partnership policy tools should be assessed case by case since so called characteristics of public-private partnerships such as collaboration, trust, efficiency, equity may not exist as in case of ÇALBİR. The most important thing is that water is not a commercial product; it is the most significant need for the survival of human-beings.

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