42419

For Official Use Only

IEG CASCR Review
Independent Evaluation Group

1. CAS Data	
Country: Turkey	
CAS Year: FY2004	**CAS Period:** FY2004 – FY2006
CASCR Review Period: FY2004 – FY2007	**Date of this review:** January 2008

2. Executive Summary

i. This review examines the implementation of the FY04-06 CAS and evaluates the FY07 CASCR.

ii. The CAS sought to support activities that sustained and deepened Turkey's 2001 reform program and helped the country prepare for its prospective negotiations for EU accession. Under the CAS, Bank assistance was provided to further four objectives: (I) Sound Macroeconomics and Governance; (II) Equitable Human and Social Development; (III) Attractive Business Climate and Knowledge; and (IV) Strong Environmental Management and Disaster Prevention. These objectives were aligned with those of the government's program. The CAS proposed a high case in which continued Government commitment to reform would be supported with a Bank program of US$4.5 billion. If the policy triggers were not met, the CAS proposed a low case of US$1.3 billion. Turkey was in the high case throughout the period.

iii. The CASCR does not rate the outcome of the assistance, but this review rates it as *satisfactory,* with several aspects rated highly satisfactory.

- Under objective I, Turkey achieved high rates of growth with lowered inflation. This achievement reflected in large part the reforms of 2001 (the design of which the Bank had made important contributions), but it also reflected the Government's willingness to work in partnership with the Fund and the Bank to deepen the institutional basis for the reforms in areas such as banking regulation and public expenditure management. This review rates the outcomes of the Bank's support under this objective as *satisfactory*.
- Under objective II, rapid growth appears to have led to significant poverty reduction from 27 percent with incomes of less than US$2 a day in 2002 to 20.5 percent in 2005. In addition, there was important progress in social indicators. Gender balance also improved over the period. In particular, the program of conditional cash transfers supported by the Bank which is stated to have reached 2.6 million extremely poor children in particular appears to have made a significant contribution to these outcomes.[1] Bank interventions have also served to increase the focus of the key line ministries on outcomes rather than inputs. This review rates the outcomes under this objective as *highly satisfactory.*
- Under objective III, the most significant outcomes relating to increased FDI and exports were substantially over-achieved. The attribution of these to the Bank's programs is somewhat more tenuous than under I and II above but there is evidence that the presence of the Bank and its continued willingness to provide assistance through the Development Policy Loans and Export lending provided reassurance to both domestic and foreign investors. This review rates the outcomes under this objective as *highly satisfactory*.
- Under objective IV, while there was forward progress on both environmental management and disaster prevention, the pace was slower than the Bank had projected in the CAS. The Bank found it difficult to structure appropriate interventions faced with an apparent lack of commitment and interest on the part of the Turkish authorities. This review rates the outcomes under this objective as *moderately unsatisfactory.*

[1] Note that the program has not yet been the subject of independent evaluation.

CASCR Reviewed by:	Peer Reviewed by:	Group Manager
Basil Kavalsky **Consultant, IEGCR**	**Jorge Garcia-Garcia** **Consultant, IEGCR**	**Jaime Jaramillo-Vallejo** **Acting Manager, IEGCR**

iv. In a large middle-income country, except in times of financial crisis, the Bank's leverage is its capacity to deliver the knowledge services and frameworks for managing programs that the Government wants. In a country like Turkey the mapping of Bank programs to the outcomes in the areas supported by the Bank is unlikely to be direct or the major determinant of the results. But starting in 1999 the Bank has provided very effective support to reformist Turkish governments, making a valuable contribution to what may well prove to be one of the economic success stories of the first decade of the 21st century.

3. CASCR Summary

Overview of CAS Relevance:

1. The FY04 CAS was prepared in a situation where the economic and political context was far from certain. Preliminary discussions on opening negotiations for EU accession were ongoing. The economy was rebounding from the sharp decline in 2001 as a consequence of the financial crisis. A new Government was in office whose commitment to the reforms and to maintaining macroeconomic stability was still not clear. The CAS took the view that there were only two possible scenarios – either Turkey would continue on the reform path and take advantage of the opportunities which the 2001 package of policy measures and the adjustment program supported by the Fund and the Bank had provided, or it would not. In the latter case the prospect was for sliding back into the mix of volatility, high inflation and sluggish investment that had characterized much of the 1990s.

2. In the circumstances the key role for the Bank remained working with the Fund in support of macroeconomic stability. IEG's Country Assistance Evaluation for Turkey noted that prior to the crisis the Bank had played an important role by providing the analytic underpinnings and loan support for major structural reforms in agricultural subsidies, pensions, management of state enterprises and banks, etc. that had made significant contributions to the effectiveness of the reform program. The CAS took the view that the Bank's role was now shifting to support a second generation of reforms focused on building the institutions needed for underpinning and ensuring the sustainability of the new macroeconomic and fiscal framework. Sound Macroeconomics and Governance thus emerged as the first objective in the CAS program.

3. While extreme poverty was not an issue in Turkey (less than 2 percent had incomes under a dollar a day), there was still a large group of vulnerable poor, and many health and education indicators lagged other comparable middle-income countries particularly those related to gender. In view of this, the CAS formulated as its second objective that of Equitable Human and Social Development.

4. A large part of the poverty issue in Turkey relates to employment and this in turn relates to the functioning of the labor market and to levels of private investment. Turkey has a sophisticated large-scale domestic industrial sector but it lags in access to foreign investment with the know-how and up-to-date technology it provides and in the links between the large-scale sector and domestic SMEs, which are needed as the engine of employment growth. For these reasons the CAS presented an Attractive Business Climate and Knowledge as its third objective.

5. Finally, Turkey is a disaster 'hot spot'. Earthquakes in the late 1990s had resulted in enormous damage and revealed the inadequacy of the country's capacity to manage the various services intended to provide disaster relief. More generally, there were growing problems of environmental degradation and little evidence of a determined resolve on the part of the Government to tackle them. Thus, 'Strong Environmental Management and Disaster Prevention' became the fourth pillar of the CAS.

6. Against this background, the CAS is judged to have been relevant to the needs of Turkey in 2003 and was endorsed by the Turkish government and civil society as being fully responsive to those needs.

Overview of CAS Implementation:

7. The program outlined in the CAS was mainly designed to support the first three objectives. On the first and third objectives, the Bank planned to use its proposed development policy loans to support continued prudent fiscal management and the policy shifts needed to improve the business climate. In the second objective, the Bank planned to move away from its traditional education and health lending which had proved of limited success, and focus on supporting a program of Conditional Cash Transfers to increase the number of girls attending secondary schools and of mothers attending health clinics. Substantial Bank analytic work was planned in all these areas. There were no significant gaps in the program as designed, which was fully supportive of these first three objectives. The program was however relatively thin on the fourth objective – as argued below, too thin to have the projected impact on outcomes in a context where the Government was not fully engaged.

8. The high case of the CAS proposed a lending program of 16 loans, for a total of US$4.5 billion. US$2.2 billion of this amount was for program lending. In the event, lending was considerably higher at US$6 billion with 22 loans. Aside from changes in project names and descriptions the most significant shifts were the dropping of a proposed loan for the knowledge economy, the inclusion of an avian flu project, and a substantial expansion in the scale of proposed projects in the energy sector. The knowledge economy project was dropped because of private sector interest in financing some of the areas proposed for Bank support.

9. Of the 21 non-lending activities planned for the period at the time of the CAS, most were carried out with the main drop-out being Banking Sector Assessment planned for FY04. This decision is open to question given the importance of the banking sector and the slow pace of privatization of the state banks. The program covered all the core diagnostic reports of the Bank and in addition a Knowledge Economy Assessment, a Labor Markets Study, a note on the Gas sector and a rural sector study. Given the increased importance of the energy sector in the Bank's program there is a question whether the Bank had a sufficient analytic basis for these activities.

10. Of the 9 loans that closed during the period, IEG rated the outcome of 5 as satisfactory, two as moderately satisfactory and two as unsatisfactory. The latter two were loans for health and education. It should be noted that all these loans commenced their implementation prior to the CAS period and most of them during a difficult phase of relations with Turkey in the period prior to 1999 when there was questionable ownership by the Government. This said, however, the Bank's portfolio of investment loans in Turkey is not on par with that of other well-performing middle-income countries. Only three loans for example were judged by IEG to have substantial institutional development impact.

11. The new generation of Bank-supported programs however, appears to have taken the lessons of past failures to heart. In the social sectors in particular new operations have been planned through an extensive consultative process led off by collaborative sector work. The preparatory activities appear to have had a significant impact in re-focusing the approach of the line ministries towards outcomes. In addition, the preliminary ratings for the ongoing projects appear to be much sounder, with only one project currently at risk.

12. IEG-IFC has carried out a separate review of the CASCR insofar as it relates to the programs supported by IFC during the CAS period. This review is attached.

Overview of Achievement by Objective:

Objective I - Sound Macroeconomics and Governance

13. The continuation of sound fiscal policies in a generally favorable economic environment has resulted in a combination of high growth and low inflation over a five year period, almost unrivalled in post-war Turkish economic experience. The key has been the maintenance of a primary surplus of the public sector of about 6.5 percent of GDP. This has allowed a reduction of the public debt burden and given confidence to both domestic and foreign private investors of the Government's commitment to economic growth and stability. As the CASCR indicates, the one major concern in the fiscal area remains the social security deficit. The Government's positive intention to develop a fiscally sustainable approach was set back by recent decisions of the constitutional court. The deficit of the social security system at 4.5 percent of GDP, given the need to generate an overall primary surplus, leaves little fiscal space for important social and developmental expenditures.

14. The Bank's benchmarks went beyond the broad fiscal and growth outcomes, and also defined a set of institutional measures in areas such as tax reform, public expenditure management, pension reform, civil service reform, etc. which were intended to secure the sustainability of the macroeconomic outcomes. Such a broad-ranging program of critical institutional reforms almost by definition will only be *partially achieved*. Civil service reform is a particularly difficult area and the CAS benchmark of the adoption and initiation of a national strategy for reform was probably an unrealistic target given the CAS time-frame. The Government is working on a draft civil servants law, but it is not clear whether this would meet the benchmark even when implemented. In most other areas however, the benchmarks are broadly on track.

15. Working in close collaboration with the IMF the Bank's Development Policy Loans have been central to support for this objective. The Government has limited borrowing capacity given the still high levels of debt to GDP. That they have chosen to use part of that borrowing capacity to access Bank loans reflects the value the Government attaches to the knowledge services provided by the Bank and the discipline of its lending structures. The DPLs have been welcomed by the Turkish core ministries as providing much needed fiscal flexibility.

Objective II – Equitable Human and Social Development

16. Poverty reduction was one of the core outcomes in this area. The CAS proposed that extreme poverty should not increase from the 1.8 percent of population level and vulnerability should be reduced from 15 percent in 2001 to 12 percent in 2006. Because of changes in the poverty definition in the interim, it is difficult to link new data with these benchmarks. The CASCR therefore takes a very conservative position of arguing that this was only partially achieved. Extreme poverty fell to less than 0.2 percent however, and given growth rates of over 5 percent per annum on average, it is highly likely that the vulnerable population also declined. The new revised data suggest that in 2002 the vulnerable group was in fact as large as 27 percent of the population and that this had declined to 20.5 percent in 2005.

17. The outcomes in health and education are impressive in relative terms, with significant advances in gross enrollment rates for secondary education, infant and child mortality, and improvements in gender balance. Again the CASCR takes a very conservative view of these achievements, arguing that despite fairly rapid improvement over the period, Turkey still ranks low on a number of indicators relative to other middle income country comparators. The criterion is however, progress in relation to the baseline, and by these standards the projected outcomes have been *fully achieved*.

18. The benchmarks in this area also raise some tricky questions of interpretation. The first benchmark was the maintenance of shares of government expenditure in education, health and social protection in GDP. The Bank's role was to urge the government not to reduce social expenditures in the face of fiscal stringency after the 2001 crisis. These benchmarks of course say nothing about the quality and impact of those expenditures. How do we interpret the fact that social protection

expenditures instead of being maintained at 7 percent ballooned to 9.7 percent of GNP. The CASCR rightly argues that in future, social expenditures should be disaggregated with a view to developing some indicators of quality.

19. A second benchmark, the implementation of the conditional cash transfer program, according to ISRs and anecdotal evidence, appears on track to becoming one of the success stories of Bank supported interventions in Turkey. It appears to have led to improved nutrition and school attendance of 2.6 million extremely poor children, with positive spill-over benefits in health and education, improved frequency of treatment for diarrhea, improved vaccination compliance and registration of marriages and births, and empowerment of women who receive the CCT payments for their children. It will be important going forward to evaluate more systematically the impact the program is having on levels of poverty and on social outcomes in Turkey.

20. The remaining benchmarks largely represent the outcomes of Bank-supported projects to provide renovated or new facilities in education and health in Turkey. These have not been easy areas for Bank work. IEG rated both the health and education projects which closed during the CAS period as unsatisfactory. In recognition of these problems, between 2004 and 2006 in the education and health sectors the Bank took a different approach, using a sector report to build consensus around a strategy focused on outcomes. This appears to have had an impact especially in education. In health, however, it is still an uphill battle as the CASCR argues. Although the ratings of *partial achievement* of these benchmarks are appropriate they reflect approaches adopted well before the CAS period and the newer programs promise better achievements in the future.

Objective III – Attractive Business Climate and Knowledge

21. The most important elements in the improvement of Turkey's business climate have been the package of reforms introduced in 2001 and the continuation of these by the successor Government, the political stability afforded by a majority government after a decade of unstable coalitions, and the agreement to start the negotiation process with the European Union. These have contributed to unprecedented overall growth, growth of exports and in 2005 and 2006 the highest inflows of FDI in Turkish history. In this situation the Bank and IFC have worked firstly to help the authorities insure that there was no backsliding on the significant progress achieved particularly in the financial sector and to support a series of steps which were small individually but taken together helped keep the forward momentum of change in Turkey.

22. The CAS defined the key outcomes in this area as an increase in FDI to US$1.5 billion in 2005, export growth above that of GDP and improvements in the stability of financial markets. All these outcomes are rated by the CASCR as fully achieved. FDI inflows were US$8.6 billion in 2005 and US$19.2 billion in 2006. The export growth targets were also easily achieved and financial markets have become more stable, although in this area there remains some degree of residual uncertainty with progress towards the privatization of state banks not taking place at the pace that the Bank had envisaged in the CAS.

23. Most of the Bank's benchmarks have been *achieved*. The export credit lines of the Bank are judged by the Turkish private sector to have filled a gap in the overall structure and have helped to build the supporting institutional framework. Support through the Development Policy Loans for the legal and institutional framework for FDI has also been effective. The Bank and Fund's insistence on the independence of the banking regulatory function has been important in assuring progress towards a stable banking system, but the CASCR is surely over-stating the case when it argues that the other institutional changes in the banking system and particularly the completion of privatization of the state banks has been partially achieved. Movement is in the right direction but at a glacial pace. The FY04 CAS appears to have over-estimated the degree of consensus at the political level in Turkey on banking privatization.

24. In the course of implementing the FY04 CAS the Bank put increasing emphasis in its program on an area that was relatively lightly touched on in the CAS, i.e. the need to increase employment in

general and formal sector employment in particular. The Bank undertook studies of the Knowledge Economy and of the Turkish labor market in 2004 and 2005. This became a more prominent feature of the dialogue and the decision was taken to orient later Development Policy Loans to the steps needed to increase the efficiency of the Turkish labor market.

Objective IV: Strong Environmental Management and Disaster Prevention

25. In the area of environmental management the FY04 CAS had hoped to engage the Turkish authorities in a broader dialogue on investment priorities and move beyond specific interventions at the regional level supported by Bank lending. The intention was to build on the NEAP prepared prior to the CAS period and provide a link between this and the EU dialogue on environmental standards. In practice there does not seem to have been much take-up in this area. The Bank did not undertake major analytic work during the period, and overall the Bank's instruments do not seem to be very strategic in relation to this objective.

26. This said, the Turkish authorities were engaged in the task of preparing the ground for meeting specific EU directives so that some progress was made against this outcome though with more limited input by the Bank than had been intended. Indeed the Turkish authorities indicated at one point that they were not interested in having the Bank's involvement in this area, but were advised by the EU that in other cases the Bank had played a helpful role in this regard. The CASCR rates the Bank's benchmark of environmental sector priorities updated in the EU context as partially achieved. This is a generous interpretation, given that it is the absence of prioritization by the authorities that has in large part limited the Bank's effective contribution in this area.

27. There has been progress in developing the institutional infrastructure for effective disaster management which was an important outcome and benchmark of the CAS program. While the pace has been slower than projected in the CAS in two key respects – giving the newly created coordinating agency the authority required and mandating disaster insurance – there is still enough progress over the CAS period to validate the rating of *partially achieved*.

Achievement of CAS Objectives

The CASCR does not rate the outcomes of the CAS objectives using the six point IEG/OPCS scale. Instead it rated all outcomes under objectives I and III as achieved, two of three outcomes under objective II as largely achieved and one partially achieved, and both outcomes under objective IV as partially achieved.

IEG ratings are given below.

Objectives	IEG Rating	Explanation / Comments
Objective I: Sound Macroeconomics and Governance	Satisfactory	While the achievements on the macro side, supported jointly by the Fund and Bank, are notable, significant risk factors remain in the large current account deficit (8 percent of GDP) and inflation remains at well above the target. The progress on civil service reform has been slow. There haas been progress on governance as evidenced by the BEEPS and WBI indicators.
Objective II: Equitable Human and Social Development	Highly Satisfactory	In general achievements are on track and at a reasonable pace. While Turkey lags a number of other middle-income comparators the continuation of current trends should close the gaps in the near future.

Objective III: Attractive Business Climate and Knowledge	Highly Satisfactory	FDI inflows are a multiple of Turkey's previous best achievements.
Objective IV: Strong Environmental Management and Disaster Prevention	Moderately Unsatisfactory	While progress is in the right direction, it is still too slow in putting in place the coordinating arrangements and institutions needed for effective management of natural disasters and the environment.

Comments on Bank Performance:

28. The Bank has had a long and close relationship with Turkey. The Bank provided strong support for the reforms of Turgut Ozal, which involved domestic market and trade liberalization in the early 1980s. By 1990 however Turkey's reform effort had run out of steam and the subsequent decade was characterized by large fiscal deficits, annual inflation generally above 50 percent and volatile growth, which however averaged above 5 percent per annum until 1998. In this environment the Bank scaled back its support for Turkey to very low levels. With the financial crises of 1999 and 2001, the Turkish authorities turned to the Fund and Bank for support in the long overdue fiscal restructuring. The Bank played a key role in advising on reductions in agricultural and pension subsidies and many other important areas of structural change. After a sharp economic downturn in 2001 and early 2002, the Turkish economy rebounded and with the election of a new majority government at the end of 2002, the stage was set for a new phase in Turkey's relationship with the Bank.

29. The FY04 CAS (presented to the Board in October 2003), provides an excellent analysis of the role which the Bank needed to play in Turkey. It identifies the need to move to the second generation institutional reforms to consolidate the policy gains achieved in the aftermath of the crises, and also required if Turkey was to make headway with its intention to enter into membership negotiations with the European Union. The Bank was well placed to work closely with the Turkish authorities on addressing the key constraints. The CAS delineated the program described above and in practice both the lending program and the analytic work conformed closely to the original CAS program. There were a number of reasons why this proved possible. On the Turkish side, there was an unusual degree of political stability with fortunately no serious natural disasters to punctuate the period; and on the Bank side the Development Policy Loans, the core of the Bank program, had the flexibility to respond to changing realities and push on the doors that seemed likely to open.

30. A particularly important achievement of both the Fund and the Bank over the period has been the avoidance of serious slippage on the macro-front – the dogs that did not bark. Obviously the central factors were that key ministers were committed to this objective and it was understood that the EU was unlikely to welcome a prospective member with the kind of indicators that characterized Turkey in the 1990s. Nevertheless it was by no means a given in 2003 that Turkey would avoid the political pressures to increase spending in order to stimulate growth and employment in the short-term and appease special interest groups, and the steadying presence of the Fund and the Bank in this situation should not be under-estimated. Officials in the core ministries were able to use the Bank's Development Policy Loans as instruments to keep change moving in the right directions.

31. The Bank was also able to keep a focus on key areas such as regional income inequalities, the need for decentralization of service management to cities and local governments, and the need to deal with the system for disaster management. The Bank was less successful, in getting the Turkish government to focus on broader environmental issues, despite the importance of this in the EU accession negotiations. The Bank also needs to be more careful about how it frames the benchmarks in the context of the CAS. Far-reaching objectives such as the completion of privatization of state banks, the reform of the pension system, and civil service reform are almost by definition not achievable within the time-frame of a single CAS and benchmarks need to be defined with greater precision within these objectives to reflect measurable progress in the medium-term.

4. Overall IEG Assessment

Outcome:	*Satisfactory*
Bank Performance:	*Satisfactory*

32. Turkey's growth performance over this period has been extraordinary – certainly before 2001 few would have predicted a sustained period of macro-restraint, low inflation, steady progress on structural reforms and generally positive achievements on the institutional side. The continued commitment to fiscal restraint and the maintenance of the primary surplus has been key, along with the continued support for privatization, the independence of banking regulation and improving governance indicators. Of course there were areas of disappointment especially with regard to pension reforms. But arguably the key was to avoid doing the wrong things and by and large this has been achieved. Rapid world growth, ample international liquidity, and declining financial returns in the major world markets, have done the rest.

33. The Bank program as designed was relevant to Turkey's needs and put the emphasis on building the institutions needed to sustain the important progress made on the policy side. The adaptations needed over time were few, more emphasis on local government and environment to support the EU negotiations. The Bank made an effective start on the first of these, but found limited take-up by the Turkish government of the second.

34. Apart from these marginal shifts in the overall balance of the program, the Bank made some important shifts within the program as designed, in particular in the social sectors, moving away from its traditional approach which IEG evaluations suggested had limited impact to building consensus through collaborative sector work and designing lending follow-up through an intensive collaborative process.

35. The Bank had a close dialogue with both the core and line ministries over the period and maintained its influence on policy design through its knowledge work and lending. Continuing the pattern of the late-90s the Bank's knowledge work was very seriously reviewed by the Turkish authorities and as a consequence has had an important impact on policy formulation. From a longer-term perspective however, there is still reluctance by the authorities to permit critical Bank reports to be widely discussed with civil society and there was agreement for example, that a controversial gender report which was started before the CAS period, would be left as an informal document and not made publicly available.

5. Assessment of CAS Completion Report

36. The Turkey CASCR is a careful review of the outcomes and benchmarks incorporated in the CAS. The text essentially elaborates the four page summary of key outcomes and the 14 page CAS matrix. What the document lacks, and this seems to reflect the CASCR template, is a thoughtful discussion of the strategy at the outset and how and why it evolved during the period. In some country cases this lacuna is attributable to the CAS itself, but the Turkey 2004 CAS is an excellent basis for a strategic review. It makes the important point for example that with the broad policy measures taken by the Turkish Government on the macro-side following the financial crises of 1999 and 2001, the Bank now needed to support a range of second-generation policies to build Turkish institutions. Progress in these areas is more difficult to assess and likely to reflect political opportunities in particular areas rather than an orderly progression. A key role for the Bank was to help keep the macro-program on track – i.e. to avoid slipping back to the model of volatility and high inflation which had characterized the 1990s. At the time of the CAS there was still uncertainty about the opening of the door for negotiations on EU accession. The decision of the EU to commence negotiations with Turkey in October 2005 was another key shift in the environment which was in turn reflected in the Bank's strategic approach.

37. The lack of a strategic discussion relates both to the Bank's objectives and its role in Turkey. There is no discussion in the CASCR of the important evolution of the Bank's financing in Turkey from counter-cyclical lending from 1999-2004 to pro-cyclical lending subsequently, when there was a significant shift in market sentiment with substantial FDI inflows. The magnitude of this shift was not foreseen in the FY04

CAS, but it appears to have led to little change in the Bank's approach. While the IEG review found that there was good reason for maintaining for example, the high share of Development Program Lending in the Bank program, this should certainly have been discussed in the CASCR.

38. The CASCR has a number of simple assertions of progress without any explanation or attempt to provide at least qualitative indicators. The general guidelines on partnership need to be reviewed – consultation is always close or frequent without clear evidence and with no discussion of what the costs or benefits of this were.

6. Findings and Lessons

39. The Turkish experience underlines the continuing relevance of the Bank in middle income countries through its knowledge services, whether provided through lending or AAA.

40. It also makes a good case for the value that Development Policy Lending can have in the MIC context. DPLs enable the Bank to maintain a useful flexibility in shifting to areas of support where there is realistic prospect of progress. In the case of Turkey for example traditional adjustment loans would almost certainly have been held up on the issue of privatization of the remaining state banks – an area where the Turks are moving, but at a very slow pace. By contrast the Bank was able to get progress in the area of decentralization where there had been relatively little focus at the time of the CAS.

41. The experience in the social sectors has important lessons both for Turkey and other countries. The use of collaborative sector work as an instrument to bring about consensus on key approaches, and the extension of this collaboration to the phase of project development, is important in building ownership and achieving a turn-around in areas where past activities have not been successful.

42. The Turkey CASCR is thin on the strategy side, and takes too much country knowledge on the part of the reader for granted. There is a need to examine the internal review guidelines as well as the procedures for processing the document to ensure that there is sufficient opportunity for discussion, revision and internal dissemination.

Annexes

Attachment

Annex Table 1: Turkey Planned vs. Actual Lending FY04-07

Fiscal Year	Project ID	Planned Amount (US$M)	Status	Actual Amount (US$M)
2004	PFPSAL 3	900	Actual	1000
	Export Finance II	300	Actual	303
	Health Sector Transformation	200	(APL #1)	61
	Renewable Energy	202	Actual	202
	Micro Watershed	37	Named: Anatolia Watershed Rehab	20
	FY04 Subtotal	***1639***		***1585***
2005	PPSAL	500	Moved to FY06; renamed as PPDPL 1	
	Municipal Reform and Services	200	Actual	275
	Railway Restructuring	200	Actual	185
	Seismic Risk Mitigation	400	Actual	400
	Secondary Education	200	Actual	104
	Knowledge Econ and Tech. Development	100	Dropped	
			Additional Projects	
			Export Finance 3	305
			Privatization Social Support 2	465
			ECSEE APL #2	66
	FY05 Subtotal	***1600***		***1800***
2006	PPSAL II	400	Moved to FY07 and renamed to PPDPL 2	
	PFSAL I	400	Moved to FY07 and renamed to PEGDPL 1	
	SME Finance	100	Actual	180
	Energy	100	Electricity Generation Rehab and Reconstruction	336
	Rural Development	250	Dropped	
			Additional Projects	
			PPDPL 1	500
			ECSEE APL #3	150
			Avian Flu	34
			Gas Sector Development	325
	FY06 Subtotal	***1250***		***1526***
2007	PPDPL 2	400	Still in the pipeline	
	PEGDPL 1	400	CEDPL (in the pipeline for FY07)	500
	Electricity Distribution Rehab	300	Actual	269
	Infrastructure	250	Istanbul Municipal Infras Project	322
	Employment and Social Dev	250	dropped	
			Additional Projects	
			SME Finance	67
	FY07 Subtotal	**1600**		**1158**
	GRAND TOTAL FY04-07	**6089**		**6070**

Source: CAS 2003, CASPR 2005 BW.

Annex Table 2: Turkey Planned vs. Actual AAA FY03-06

Product	Completion FY	Status
CAS	FY04	FY04
Labor Market Study	FY04	FY06
Social Cost of Adjustment	FY04	Dropped
Impact of Agriculture Sector Reforms	FY04	FY04
Banking Sector Report	FY04	Dropped
Knowledge Economy Assessment	FY04	FY04
Investment Climate Dialogue	FY04	Dropped
Gas Sector Note	FY04	FY05
Caspian Oil and Gas Dialogue	FY04	FY04
NGO Outreach	FY04	FY04
CEM	FY05	FY05
Poverty Assessment	FY05	FY06
Rural Sector Study	FY05	FY05
Education Assessment	FY05	FY05
Environment/Forestry	FY05	FY05
CASPR	FY05	FY06
CPAR	FY06	FY05
NGO Outreach	FY06	Dropped
Public Expenditure Review	FY06	FY07
CEM	FY06	FY06
Investment Climate Assessment	FY06	FY07
Regional Poverty Update	FY06	FY06
Rural Finance Study	FY06	FY06
Tertiary Education Review	FY06	FY07
CAS **	FY07	FY08
Financial Sector Assessment	FY07	FY07
Private Sector Development	FY07	FY08
Environmental/Industrial Pollution	FY07	FY08
Irrigation Sector Review	FY07	FY07
CEM Follow-up	FY07	FY07
Fiduciary Assessment	FY07	FY07

Source: CAS 2003, CASPR 2005, BW, Projects Portal, Imagebank.

* Waiting for Region's confirmation on the PEIR.
** Same as the Country Partnership Strategy to be submitted in FY08.

Annex Table 3: IEG Project Ratings for Turkey, Exit FY04-06

Exit FY		Net Commitments	IEG Outcome	IEG Sustainability	IEG ID Impact
2004	PRIV OF IRRIGATION	23	SATISFACTORY	LIKELY	SUBSTANTIAL
	BASIC ED	345	UNSATISFACTORY	LIKELY	NEGLIGIBLE
	EMGY FLOOD RECOVERY	240	SATISFACTORY	LIKELY	MODEST
	EFIL	259	SATISFACTORY	LIKELY	MODEST
	ERL	1135	SATISFACTORY	LIKELY	SUBSTANTIAL
2005	CESME WS & SEWER	12	MODERATELY SATISFACTORY	LIKELY	MODEST
	HEALTH 2	148	UNSATISFACTORY	UNLIKELY	MODEST
2006	INDUSTRIAL TECH	225	MODERATELY SATISFACTORY	#	#
	PRIV SOC SUPPRT	430	SATISFACTORY	HIGHLY LIKELY	SUBSTANTIAL

	Total Evaluated ($M)	Total Evaluated (No)	Outcome % Sat (No)	Inst Dev Impact % Subst (No)	Sustainability % Likely (No)
Turkey	2818	9	78	38	88
ECA	11132	168	85	61	90
World Bank	67144	773	81	56	82

Source: WB BW 4a6 and 4a5 as of 5/15/07.

Annex Table 4: Turkey Portfolio Status Indicators by Year, 2004-2007

Country	Fiscal Year	2004	2005	2006	2007
Turkey	# Proj	14	19	22	19
	Net Comm Amt	4278	5930	6022	4448
	# Proj At Risk	3	1	1	1
	% At Risk	21	5	5	5
	Comm At Risk	935	300	60	104
	% Commit at Risk	22	5	1	2
Algeria	# Proj	11	9	7	3
	Net Comm Amt	474	337	84	45
	# Proj At Risk	3	2	0	1
	% At Risk	27	22	0	33
	Comm At Risk	49	112	0	9
	% Commit at Risk	10	33	0	19
Brazil	# Proj	48	49	48	49
	Net Comm Amt	4075	4948	4429	4615
	# Proj At Risk	9	9	3	5
	% At Risk	19	18	6	10
	Comm At Risk	686	627	63	704
	% Commit at Risk	17	13	1	15
Colombia	# Proj	16	18	17	16
	Net Comm Amt	1147	1351	1323	1493
	# Proj At Risk	0	2	0	0
	% At Risk	0	11	0	0
	Comm At Risk	0	48	0	0
	% Commit at Risk	0	4	0	0
Romania	# Proj	18	19	19	20
	Net Comm Amt	1242	1396	1458	1743
	# Proj At Risk	2	0	1	3
	% At Risk	11	0	5	15
	Comm At Risk	120	0	80	455
	% Commit at Risk	10	0	5	26
Thailand	# Proj	3	1	1	1
	Net Comm Amt	247	84	84	84
	# Proj At Risk	0	0	0	0
	% At Risk	0	0	0	0
	Comm At Risk	0	0	0	0
	% Commit at Risk	0	0	0	0
ECA	# Proj	285	276	294	280
	Net Comm Amt	14383	15675	16295	14636
	# Proj At Risk	50	24	28	25
	% At Risk	18	9	10	9
	Comm At Risk	2508	1413	1178	1265
	% Commit at Risk	17	9	7	9
Bank Wide	# Proj	1346	1332	1345	1326
	Net Comm Amt	92554	93212	92889	93689
	# Proj At Risk	228	224	188	224
	% At Risk	17	17	14	17
	Comm At Risk	14742	12553	10850	14588
	% Commit at Risk	16	13	12	16

Source: BW 3a4 as of 5/15/07.

Annex Table 5: Turkey: IBRD Net Disbursements and Charges (in US$), FY04-07

FY	Gross Disb	Repay	Net Disbursement	Interest	Fees	Net Transfer
2004	855,382,262.69	499,332,717.85	356,049,544.84	196,506,756.19	9,764,085.68	149,778,702.97
2005	1,030,122,974.80	670,258,478.48	359,864,496.32	203,015,584.23	10,752,385.35	146,096,526.74
2006	1,056,526,217.51	860,933,501.15	195,592,716.36	274,484,065.90	15,499,717.11	-94,391,066.65
2007	1,271,765,388.30	724,923,795.73	546,841,592.57	353,142,200.03	10,502,997.84	183,196,394.70
Total	**4,213,796,843.30**	**2,755,448,493.21**	**1,458,348,350.09**	**1,027,148,606.35**	**46,519,185.98**	**384,680,557.76**

Source: Client Connection as of 5/15/07

Annex Table 6: Turkey OECD DAC ODA 2000-2006 (in US$ million)

Donor	2000	2001	2002	2003	2004	2005	2006	Grand Total
Australia	0	0			0			0
Austria	11	13	14	18	20	22		97
Belgium	0	-4	-5	-4	3	6		-4
Canada	5	0	1	-3	-2	-2		-1
Czech Republic		0	0	0		0		0
Denmark	-2	0	0	0	1	1		0
Finland	0	1	1	1	1	0		4
France	8	3	9	8	11	115		153
Germany	-21	66	-71	-11	-46	-34		-117
Greece	2	0	2	4	6	4		19
Hungary				0	0			0
Ireland				0				0
Italy	-2	-1	-4	-7	-7	-5		-26
Japan	144	-65	-16	1	-26	-62		-23
Korea	-1	-1	-1	0	-1	-1		-3
Luxembourg	0	0		0	0			0
Netherlands	1	2	0	5	2	4		15
New Zealand	0		0	0				0
Norway	2	3	4	7	2	1		19
Poland	0		0	0	0	0		0
Portugal						0		0
Slovak Republic				0	0			0
Spain	4	9	14	41	50	12		131
Sweden	3	1	2	2	2	3		11
Switzerland	6	3	4	2	2	0		17
United Kingdom	1	0	-1	-2	-4	-1		-7
United States	-62	-60	145	-43	-30	-14		-64
Non-DAC Bilateral Donors,Total	37	55	150	-1	-6	2	6	243
Other Bilateral Donors	0	1	1	1	0	0		3
Total Bilateral Donors	*136*	*26*	*249*	*19*	*-23*	*54*	*6*	*467*
Arab Agencies	1	-3	5	-1	0			2
Arab Countries	37	55	150	-1	-6	2	6	243
DAC Countries, Total	100	-29	99	20	-17	52		224
DAC EU Members, Total	4	89	-39	55	38	129		277
EC	187	143	151	140	303	392		1315
G7, Total	73	-56	63	-57	-104	-4		-85
GEF	0	0	2	1	0	2		5
Global Fund (GFATM)						0		0
IDA	-6	-6	-6	-6	-6	-6		-35
MONTREAL PROTOCOL	1	1	1	4	2	11		20
Multilateral, Total	190	143	161	146	308	410	2	1361
UNDP	1	1	1	1	0	1		4
UNFPA	1	1	1	1	1	1		5
UNHCR	4	4	5	4	6	7		30
UNICEF	1	1	1	1	1	2	2	9
UNTA	1	1	1	1	1	1		5
All Donors, Total	327	169	410	165	286	464	8	1828
Grand Total	1058	539	1255	493	791	1517	23	5676

Source: OECD DAC 2a as of 5/15/07

Annex Table 7: Economic and Social Indicators for Turkey, 2000-2005

	2000	2001	2002	2003	2004	2005	Turkey	Algeria	Brazil	Colombia	Romania	Thailand	Upper Middle Income	ECA
GDP growth (annual %)	7	-8	8	6	9	7	5	4	3	3	5	5	4	5
GNI per capita, Atlas method (current US$)	2980	2420	2510	2800	3780	4750	3207	2003	3107	1995	2435	2212	4234	2724
GNI per capita, PPP (current international $)	6520	5970	6460	6870	7670	8390	6980	5832	7430	6225	7317	7222	9251	7445
GDP per capita growth (annual %)	6	-9	6	4	8	6	4	3	1	2	6	4	3	5
Agriculture, value added (% of GDP)	15	13	13	13	13	12	13	10	9	13	13	10	6	9
Exports of goods and services (% of GDP)	24	34	29	27	29	27	28	40	15	21	34	68	36	40
Imports of goods and services (% of GDP)	32	31	31	31	35	34	32	24	13	21	42	62	33	40
Industry, value added (% of GDP)	25	26	24	22	22	24	24	56	37	32	36	43	32	31
Services, etc., value added (% of GDP)	59	61	63	65	65	65	63	34	54	55	51	47	62	60
Current account balance (% of GDP)	-5	2	-1	-3	-5	-6	-3	...	-1	-1	-6	4	...	...
Total debt service (% of exports of goods, services and income)	36	41	47	39	36	39	40	...	66	36	18	18	20	21
External debt (% of GNI)	58	79	72	61	54	47	62	35	42	42	36	45	43	50
Gross domestic savings (% of GDP)	17	19	20	20	20	18	19	46	23	16	14	31	24	23
IBRD loans and IDA credits (PPG DOD, current US$) (millions)	3734	4802	5456	5297	6230	5901	5237	1184	8236	2822	2153	1956	39755	29444
Gross national expenditure (% of GDP)	108	98	102	103	106	107	104	84	98	100	108	95	...	...
Cash surplus/deficit (% of GDP)	-8	-16	..	..	..	..	-12	5	...	-3	-2	2	...	0
Inflation, consumer prices (annual %)	55	54	45	25	9	8	33	2	8	7	23	2	...	...
Immunization, DPT (% of children ages 12-23 months)	85	88	78	68	85	90	82	88	97	84	98	97	90	93
Improved sanitation facilities (% of population with access)	..	..	..	..	88	..	88	92	75	86	...	99	84	85
Improved water source (% of population with access)	..	..	..	..	96	..	96	85	90	93	57	99	94	92
Life expectancy at birth, total (years)	70	71	71	71	71	71	71	71	70	72	71	70	69	69
Mortality rate, infant (per 1,000 live births)	38	..	..	..	..	26	32	36	33	19	17	19	24	29
Population growth (annual %)	2	2	2	2	1	1	1	1	1	2	-1	1	1	0
Population, total (millions)	67	69	70	71	71	72	70	32	180	44	22	63	591	472
School enrollment, preprimary (% gross)	6	6	7	7	8	..	7	4	62	38	73	90	57	48
School enrollment, primary (% gross)	96	98	99	95	93	..	96	110	146	111	102	97	105	101
School enrollment, secondary (% gross)	..	78	82	85	79	..	81	79	106	72	84	79	85	90
Urban population (% of total)	65	65	66	66	67	67	66	62	83	72	54	32	71	64

Source: WB DDP as of 5/15/07

Annex Table 8: Turkey: Millennium Development Goals

	1990	1995	2000	2005
Goal 1: Eradicate extreme poverty and hunger				
Income share held by lowest 20%	..	6	6	5
Malnutrition prevalence, weight for age (% of children under 5)	..	10	8	4
Poverty gap at $1 a day (PPP) (%)	..	1	1	1
Poverty headcount ratio at $1 a day (PPP) (% of population)	..	2	2	3
Poverty headcount ratio at national poverty line (% of population)	..	28	27	..
Prevalence of undernourishment (% of population)	3	3	..	3
Goal 2: Achieve universal primary education				
Literacy rate, youth total (% of people ages 15-24)	93	..	..	96
Persistence to grade 5, total (% of cohort)	98	..	..	95
Primary completion rate, total (% of relevant age group)	90	..	..	88
School enrollment, primary (% net)	89	..	92	89
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliament (%)	1	2	4	4
Ratio of girls to boys in primary and secondary education (%)	79	..	83	84
Ratio of young literate females to males (% ages 15-24)	91	..	..	95
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	15	17	19	20
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	78	65	86	91
Mortality rate, infant (per 1,000 live births)	67	52	38	26
Mortality rate, under-5 (per 1,000)	82	63	44	29
Goal 5: Improve maternal health				
Births attended by skilled health staff (% of total)	..	76	81	83
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	70	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Contraceptive prevalence (% of women ages 15-49)	63	..	64	71
Incidence of tuberculosis (per 100,000 people)	49	40	31	29
Prevalence of HIV, female (% ages 15-24)	..	..	..	..
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	..
Tuberculosis cases detected under DOTS (%)	..	..	..	3
Goal 7: Ensure environmental sustainability				
CO2 emissions (metric tons per capita)	3	3	3	3
Forest area (% of land area)	13	..	13	13
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	6	6	6	6
Improved sanitation facilities (% of population with access)	85	..	..	88
Improved water source (% of population with access)	85	..	..	96
Nationally protected areas (% of total land area)	..	..	..	2.6
Goal 8: Develop a global partnership for development				
Aid per capita (current US$)	21	5	5	6
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	30	24	19	20
Fixed line and mobile phone subscribers (per 1,000 people)	123	220	512	868
Internet users (per 1,000 people)	0	1	37	222
Personal computers (per 1,000 people)	5	15	37	52
Total debt service (% of exports of goods, services and income)	29	28	36	39
Unemployment, youth female (% of female labor force ages 15-24)	15	13	12	19
Unemployment, youth male (% of male labor force ages 15-24)	17	17	14	19
Unemployment, youth total (% of total labor force ages 15-24)	16	16	13	19
Other				
Fertility rate, total (births per woman)	3	3	3	2
GNI per capita, Atlas method (current US$)	2270	2750	2980	4750
GNI, Atlas method (current US$) (billions)	127	170	201	342
Gross capital formation (% of GDP)	24	26	25	25
Life expectancy at birth, total (years)	66	68	70	71
Literacy rate, adult total (% of people ages 15 and above)	78	..	..	87
Population, total (millions)	56	62	67	72
Trade (% of GDP)	31	44	56	61

Source: World Development Indicators database, April 2007

1. CAS Data	
Country: Turkey	
CAS Year: 2003	**CAS Period:** FY04-FY06
CASCR Review Period: FY04-FY07[1]	**Date of This Review:** 18 September, 2007
IEG-IFC CASCR Reviewer: Dan Crabtree/Izlem Yenice	

2. Quality of the CASCR

The information provided in the CASCR is generally accurate and is reasonably comprehensive in coverage, although somewhat glosses over objectives that IFC has not achieved and should be updated to include FY07 activities.

- The CASCR usefully outlines IFC's activities between FY04-06 in support of Turkey's efforts to create an attractive business climate and to promote equitable human and social development, and commendably includes IFC activities in the CAS performance matrix.
- While reporting progress against most CAS objectives, the CASCR does not explain why some objectives were not achieved (e.g. assistance to help bank privatization; trade finance) and is generally weaker in its coverage of advisory services activities (e.g. advisory services operations are not listed in an annex in the same way that investment operations are).
- Finally, the information on IFC's performance should be updated to incorporate FY07 activities (since the CAS Progress report of November 2005 extended the CAS period to include FY07).

The CASCR identifies a number of the elements in 3-7 below as the basis for a sound self-evaluation, although could be improved by incorporating:

- The evaluated development results of IFC-supported projects in Turkey, both in the years since the CAS was initiated and the years prior to the CAS (investment & advisory services).
- Year on year commitments and portfolio data, broken down by sector, by company tier and by frontier vs. non-frontier classification, for the years prior to the current CAS (FY00-03).
- A full list of advisory services operations, by year and activity status.
- Clear explanations of why certain objectives were not achieved (e.g. provision of IFC technical assistance to assist with the privatization of state owned banks).
- The success or otherwise of efforts to cooperate with the World Bank, either directly (collaboration) or indirectly (coordination)[2].
- An assessment of the risks of a downturn in private capital flows to Turkey and emerging markets more generally, and IFC's likely response (the CASCR implies that Turkey's business climate will simply carry on improving, and does not consider the possibility that this trend might not be sustained – which is a possibility given the country's persistently high debt levels, and historically volatile exchange rate and inflation performance).
- Clear objectives and benchmarks for assessing IFC's performance in the next CAS period.

[1] Extended to cover FY07 through the CAS Progress Report of November 2005.

[2] The 2003 CAS implies more of the latter, referring to a private sector strategy "based on the complementary roles and instruments of the members of the World Bank Group".

3. IFC Objectives over CASCR Review Period

CAS pillars and IFC objectives[3]:

Equitable human and social development (Pillar II)

- Pension funds: Possible support to the development of the pension fund industry.
- Health & Education: Investments in private health care, private health insurance mechanisms, and higher education.

Attractive business climate and knowledge (Pillar III)

- Financial markets: Assist in the sale of the banks that had been taken over by the Saving Deposit Insurance Fund (SDIF), and in the sale of their NPLs; work with mid-sized banks to strengthen their balance sheets; expand the range of financial intermediaries and services (e.g. insurance sector, mortgage finance, contractual savings institutions and private equity).
- Infrastructure: Support privatization/liberalization of ports, telecommunications and energy infrastructure; consider BTC pipeline financing (with EBRD).
- Corporate sector/SMEs: Enhance corporate governance; strengthen SMEs (e.g. with specific advisory services, training and credit lines); provide trade finance facilities; support investments by Turkish companies in E.Europe and Central Asia (i.e. south-south investment).

Strong environmental management and disaster prevention (Pillar IV)

- Lending to support disaster preparedness and minimize losses from natural disasters.

IFC's corporate-wide strategic priorities during the review period were to focus on high impact sectors such as financial markets, infrastructure, and health and education sectors, as well as south-south investments, investments in frontier markets (including frontier regions of middle income countries such as Turkey), and extending IFC's reach to SMEs. ECA Regional Briefings meanwhile called for WBG support for outwards FDI (especially in Turkey) (2004) and to "bring the full range of Bank Group products" to clients (2004)/further integrate WBG services (2005).[4]

4. Relevance of IFC Objectives

The above objectives were a reasonable reflection of country conditions (particularly the need to improve the business climate, which in 2003 was significantly riskier than that of EU accession and MIC peers and had seriously constrained FDI into the country during the 1990s and early 2000s[5]), as well as IFC's corporate and regional strategies (supporting IFC's strategic sectors of financial markets, infrastructure and the health/education). However, the objectives might have been strengthened by including a goal of extending support to second tier companies to complement IFC's success with larger companies in Turkey, and increasing the use of equity instruments.[6]

---

[3] Unchanged in the CAS Progress Report of November 2005.

[4] The 2006 Regional Briefing, delivered in November 2006 and thus falling outside the original CAS period, lays out a vision for the World Bank Group in ECA in FY09. This vision includes the prospect of the "locus of financial assistance" moving from IBRD to IFC as IBRD becomes "more knowledge focused" and IFC continues to grow. The briefing also notes that creating WBG synergies is a "must".

[5] See *Turkey - Country Impact Review*, p 1-7, IEG-IFC, October 2005.

[6] See *Turkey - Country Impact Review*, IEG-IFC, October 2005.

5. IFC Activities During Period under Review

IFC Financial Products

Fivefold increase in IFC investment volumes in Turkey from FY03 to FY07

On an annualized basis, IFC increased the value of its investments almost fivefold in Turkey between FY03 and FY07 period. Comparing the FY00-03 and FY04-07 periods, IFC tripled the value of its commitments in the financial sector, while also substantially increasing the value of its commitments in the telecommunications, general manufacturing and services, and social sectors. Volume growth was fed by IFC finding larger projects in which to invest, with average project size more than doubling, from $19.1 million to $46.1 million (with the number of projects increasing from 30 to 38). One investment particularly stands out in terms of its size: a $275 million equity investment in a bank in 2007.

Year	**FY03**	**FY04**	**FY05**	**FY06**	**FY07**
Value ($m)	112.6	163.5	459.9	302.7	551.3
No. of projects	4	7	11	8	8

IFC commitments in Turkey by sector

	FY00-03			**FY04-07**		
Sector	$m	n	Share	$m	n	Share
Financial markets	197.3	6	34%	605.2	10	41%
Telecoms	0	0	0%	248.5	3	17%
Infrastructure	0	0	0%	22.0	2	1%
Health and education	29.5	3	5%	79.5	4	5%
General Manufacturing & Services	295.2	18	52%	430.2	16	29%
Oil, gas and mining	0	0	0%	25.0	1	2%
Agribusiness	40.0	2	7%	35.0	1	2%
Funds	10.0	1	2%	32.0	1	2%
TOTAL	572	30		1477.4	38	

This substantial increase in average project size between FY03 and FY07, together with a small increase in the number of projects, meant that IFC's committed portfolio increased by $537 million, or 67 percent. The number of active projects, however, decreased from 75 to 59 as more projects closed than began (See Annex 1 for a breakdown of IFC's portfolio by sector). Turkey started and ended the review period in the top five of IFC's largest countries of operations.

Year	**FY03**	**FY04**	**FY05**	**FY06**	**FY07**
Balance ($m)	805.1	885.4	981.2	1,197.4	1,341.9
No. of projects	75	68	71	66	59

outcome ratings. This is consistent with the significantly above average performance that projects in

Turkey have achieved in the past, relative to the ECA peer group and rest of IFC averages (as reported in IEG-IFC's 2005 Turkey Country Impact Review).

	Evaluation Year	Number of projects	% with high rating (sat. or excellent)
Development outcome	1996-2003	29	69%
	2004-2006	6	83%
Investment outcome	1996-2003	29	86%
	2004-2006	6	83%

Relatively low project risk intensity implies IFC's development performance will be sustained in the next few years, if Turkey's business climate continues to improve

In order to assess future success rates, IEG profiles the high risk intensity of projects that are not yet operationally mature (and thus not ready for ex-post evaluation). A project's high risk intensity is a good predictor of its likely development performance.[7]

As the table below shows, a profiling of the high risk intensity in IFC's projects in Turkey reveals that the level of high risk intensity in projects that will reach operational maturity in the 2007-10 period is similar to the level of high risk intensity in projects that matured in the 2000-2005 period, and still some way lower than for the rest of IFC.

	Evaluation Year	Number of projects	Average number of risks per project at approval (out of 7)**
Turkey	2001-2005	23	2.3
	2007-10 *	12	2.4
Rest of IFC	2001-05	320	3.3
	2007-10*	278	2.7

Note: * Projects will be eligible for IEG evaluation in the 2007-10 period; ** Excluding country risk

Accordingly, we can reasonably expect the above average performance of IFC projects in Turkey to be sustained in the coming years – so long as business climate conditions in the country (a key driver of IFC project development performance[8]) continue to improve. According to the Institutional Investor's assessment, Turkey's country credit risk rating improved from 32 (just above high risk by IFC's classification) to 50 out of 100 (clearly non-high risk by IFC's classification) between 2003 and 2007. Increased project size over the period also implies sustained good performance, since larger projects tend to perform better than smaller projects.[9]

IFC Advisory Services

Advisory services projects were mainly focused on the business environment

While not addressed explicitly in the CASCR, IFC managed 11 advisory services projects, at a cost of just over $0.5 million, during the FY04-07 period. Most of these projects involved efforts to improve the

[7] See *Independent Evaluation of IFC's Development Results 2007: Lessons and Implications from 10 Years of Experience*, Independent Evaluation Group-IFC, August 2007.
[8] See *Independent Evaluation of IFC's Development Results 2007: Lessons and Implications from 10 Years of Experience*, p15-17, Independent Evaluation Group-IFC, August 2007.
[9] See *Independent Evaluation of IFC's Development Results 2007: Lessons and Implications from 10 Years of Experience*, p6, Independent Evaluation Group-IFC, August 2007.

business environment, such as advice to the government of Turkey on competition policy and the establishment of an Investment Advisory panel (see Annex 1 for a list of IFC's advisory services projects in the FY04-07 period). To date, only one of these projects has been evaluated by IEG. This project was rated "successful". Advisory services self-evaluation data, e.g. on FIAS operations, is not provided in the CASCR.[10]

Other IFC activities

As mentioned in the CASCR, IFC and EBRD each provided A and B loans of $125 million to the BTC regional pipeline project ($76 million in Turkey), which involves the development, financing, construction and operation of a crude oil pipeline system that will carry crude oil from the Azeri Chirag Gunashli (ACG) fields near Baku in Azerbaijan, through Georgia, to a new export terminal developed at Ceyhan on the Mediterranean coast of Turkey.

6. IFC Contribution to CAS objectives

IFC has been successful in advancing many of the goals outlined in the CAS

1. Equitable human and social development (Pillar II)

- Health & Education: IFC made investments in private health care, private health insurance mechanisms, and in higher education (as well as in secondary education).

2. Attractive business climate and knowledge (Pillar III):

- Financial markets: IFC increased its financial sector activities threefold between 2003 and 2007. In so doing, IFC supported a number of banks, leasing operations (with benefits to SMEs) and worked with a mid-sized bank to strengthen its balance sheet.
- Infrastructure: IFC made the planned for investments in telecommunications, ports and energy infrastructure, as well as in the regional BTC pipeline project.
- Corporate sector/SMEs: IFC has continued to support Turkish companies engaging in south-south investment, embarking on eight such projects worth a combined IFC investment total of $260 million (IEG analysis), while supporting SMEs through leasing and local bank investments.

3. Strong environmental management and disaster prevention (Pillar IV):

- IFC strengthened and expanded the operations of a domestic reinsurance company that would facilitate the provision of additional earthquake coverage through local insurers.

IFC has also increased its investments in less developed (frontier) regions within Turkey

- While not reported in the CASCR, between FY04-07, IFC invested in four projects in less developed (frontier) regions of Turkey (in the general manufacturing and utilities sectors), worth a total $129 million. This compares to only one project in frontier regions in the FY00-03 period (in general manufacturing), with a value of $10 million.[11]

[10] The 2003 CAS called for FIAS to follow up on its work with the Government on improving the environment for increased foreign direct investment on issues such as streamlining administrative procedures, establishment of the investment promotion agency, FDI spillover/linkages, and competition policy.
[11] Based on IFC's frontier region classification.

IFC did, however, underachieve against some objectives

- Pension funds (Pillar 1): IFC was unable to invest in pension funds during the period, due to a combination of continued state ownership and a weak regulatory framework.
- Non-bank financial intermediaries and services (Pillar 2, financial markets): IFC partially met its objective to expand the range of non-bank financial intermediaries and services. IFC made one investment in a reinsurance company and a further one in a private equity fund (the first in the country), however it did not directly support mortgage finance and contractual savings institutions (although it did support mortgage lending activities indirectly through its investments in banks). Slow policy reform and limited market sophistication have constrained IFC's efforts to diversify its financial markets portfolio in the past, although some sub-sectors such as housing finance are now emerging (a new mortgage law was passed in 2007).
- Financial sector privatization (Pillar 2, financial markets): IFC did not assist in the sale of the banks that had been taken over by SDIF, and in the sale of their NPLs, as it had planned in the CAS. A full explanation is not provided in the CASCR, although these activities did go ahead without IFC, implying that there was sufficient provision of other sources of finance.
- Trade finance (Pillar 2, corporate sector/SMEs): IFC's anticipated provision of trade finance to Turkish companies did not materialize. A full explanation is not provided in the CASCR.
- Corporate governance (Pillar 2, corporate sector/SMEs): Apart from one substantial equity investment (of $275m) in a bank, IFC has struggled to expand its equity portfolio in Turkey (otherwise taking just three small equity stakes). Given an absence of technical assistance in this area, IFC has had less than optimal opportunity to help improve the corporate governance of Turkish firms. Even when IFC has held an equity stake, evaluation has shown that addressing corporate governance issues has proven problematic – with, as the recent IEG-IFC Turkey Country Impact Review highlighted, family ownership proving a key obstacle to the exercise of minority shareholder rights and offering up equity participation to new investors.

7. Lessons and Challenges from Experience

Evaluation of IFC projects in the FY04-07 period reveals the following lessons (from XPSRs – not referred to in the CASCR):

- The crucial role that macroeconomic conditions play in influencing product demand, and the need for sales projections by IFC to better take such conditions into account (especially for cyclical products such as household appliances and food, but also in the social sectors).
- The positive role that a strong sponsor can play, particularly during a country crisis (e.g. by injecting fresh equity into the company).
- IFC work quality has been a key factor in project success, as it has for IFC projects globally (all projects that achieved high development ratings featured high IFC work quality) although follow-up on environmental and social compliance could be improved in some cases.

Key strategic challenges going forward include (not referred to in the CASCR):

- Managing IFC's increased exposure, and helping clients cope, in the event of a downturn – particularly as IFC increases its support for second tier companies (according to IEG analysis, up from 48 percent of new projects between FY00-03 to 71 percent of new projects between FY04-07; IEG analysis shows that IFC has achieved weaker results during downturns with second tier companies than with larger companies, in Turkey and elsewhere).
- Further increasing non-bank financial intermediation.

- Finding new ways to improve corporate governance (e.g. through advisory services and by conditioning its investments – especially equity investments – on specific steps to improve governance, opening up more of the company to the public or insisting on a strategic partner). While control of corruption has improved (Turkey moved up in the Corruption Perceptions Index from 77th out of 145 countries in 2004 to 60th out of 163 rankings in 2006), the country's ranking for "protecting investors" (a Doing Business indicator) has remained low (5.3 out of 10 in 2005 and 2006).[12]

[12] Investor Protection Index measures the average transparency of transactions, liability for self-dealing, and shareholders' ability to sue officers and directors for misconduct.

Annex 1 – Additional data on IFC activities

IFC portfolio in Turkey, by sector

Sector	End FY03			End FY07		
	Balance($m)	# of projects in the sector	share of sector	Balance($m)	# of projects in the sector	share of sector
Financial markets	178.8	15	22%	621	11	46%
Infrastructure	27.9	2	3%	24	3	2%
Telecoms	7.4	2	1%	120	2	9%
Health and education	18.5	2	2%	71	5	5%
General Manufacturing & Services	516.1	49	64%	424	33	32%
Oil, gas & mining	4.2	1	1%	0	0	0%
Agribusiness	42.4	3	5%	39	3	3%
Funds	10.0	1	1%	42	2	3%

IFC Advisory Services operations in Turkey, FY04-07

Project ID	Project Name	Status	Business Line - Subarea	End FY	Status	Original Funding
546764	LK: Modern Karton Waste Paper Collection Linkages Program	Active	Value Addition to Firms - Linkages;	FY08	Active	$ 100,000
552668	Turkey Dispatch	Active	Infrastructure - Infrastructure;	FY07	Active	$ 110,000
534605	EOF Turkey Market Assessment	Active	Cleaner Technologies	FY06	Closed	$ 111,603
538815	Competition Policy and FDI Symposium	Closed	BEE Policy and Legislation	FY04	Closed	$ 11,200
538799	Assistance to compose a sustainable Investment Advisory Council	Closed	BEE Diagnostic	FY04	Closed	$ 40,000

538466	Competitiveness, Attraction of FDI, and the Role of Competition Policy	Closed	BEE Policy and Legislation	FY05	Closed	$ 132,000
538455	Assistance to the Government of Turkey to Compose a sustainable Investment Advisory Council	Closed	BEE Diagnostic	FY05	Closed	$ 40,000
?	*Cultural and historic tourism-2005 IFC annual report*	*[data not available]*	*[data not available]*	*[data not available]*	*[data not available]*	*[data not available]*
549128	*BTC Ceyhan Adana*	*[data not available]*	*[data not available]*	*[data not available]*	*[data not available]*	*[data not available]*
547414	*BTC Posof Village-Ardahan District, NorthEastern Turkey*	*[data not available]*	*[data not available]*	*[data not available]*	*[data not available]*	*[data not available]*
523307	*Commercial Financing for Sustainable Energy in Turkey*	*[data not available]*	*[data not available]*	*[data not available]*	*[data not available]*	*[data not available]*

$ [544,803]