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THE WORLD BANK GROUP

COUNTRY PARTNERSHIP STRATEGY

FOR

THE REPUBLIC OF TURKEY

FOR THE PERIOD 2012 - 2015

CURRENCY EQUIVALENTS

Currency unit: as of February 8, 2012
US$1 = Turkish Lira (TL) 1.74

FISCAL YEAR

January 1 – December 31

ACRONYMS AND ABBREVIATIONS

AAA	Analytic and Advisory Activities
AKP	Justice and Development Party
ALMP	Active Labor Market Programs
APL	Adaptable Policy Lending
CAD	Current Account Deficit
CBRT	Central Bank of the Republic of Turkey
CEM	Country Economic Memorandum
CPS	Country Partnership Strategy
CSO	Civil Society Organization
CTF	Clean Technology Fund
DPL	Development Policy Loan
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECE	Early Childhood Education
EIA	Environmental Impact Assessment
ESES	Environmental Sustainability and Energy Security
ESW	Economic and Sector Work
EU	European Union
EUR	Euro
FDI	Foreign Direct Investment
FCO	United Kingdom Foreign and Commonwealth Office
GDP	Gross Domestic Product
HDI	Human Development Index
HTP	Health Transformation Program
IBRD	International Bank for Reconstruction and Development
ICAs	Investment Climate Assessments
IDF	Institutional Development Fund
IFC	International Finance Corporation
IFIs	International Financial Institutions
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession Assistance
ISKUR	Turkish Employment Agency
ISMEP	Istanbul Seismic Risk Mitigation and Emergency Preparedness Project
JPPR	Joint Portfolio Performance Review
KENTGES	National Integrated Urban Development Strategy
MDG	Millennium Development Goals
MIC	Middle Income Country
MIGA	Multilateral Investment Guarantee Agency
M&E	Monitoring and Evaluation
MOF	Ministry of Finance
MOH	Ministry of Health
MTP	(Turkey's) Medium-Term Program
MW	Megawatts
NGOs	Non-Governmental Organizations
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PFM	Public Financial Management
R&D	Research & Development
SMEs	Small and Medium Enterprises
SOE	State-Owned Enterprise
SSI	Social Security Institution
SSTF	South-South Experience Exchange Trust Fund
SWAp	Sector-Wide Approaches
TA	Technical Assistance
TCA	Turkish Court of Accounts
TEIAS	Turkish Electricity Transmission Corporation
TL	Turkish Lira
TOG	Turkish Community Volunteers Fund
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
WBG	World Bank Group
YOIKK	Turkish Coordination Council for the Improvement of the Investment Environment

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TABLE OF CONTENTS

COUNTRY PARTNERSHIP STRATEGY 2012-2015
FOR THE REPUBLIC OF TURKEY

EXECUTIVE SUMMARY ..... **iii**

I. COUNTRY CONTEXT **1**

Country Background and Political & Social Context 1

II. ECONOMIC CONTEXT **3**

III. VISION AND DEVELOPMENT CHALLENGES **7**

The Challenge of Enhancing Competitiveness and Employment 7

The Challenge of Improving Equity and Public Services 10

The Challenge of Deepening Sustainable Development 14

IV. TURKEY-WORLD BANK GROUP PARTNERSHIP **17**

Previous Country Partnership Strategy 17

Lessons from the FY08-11 Country Partnership Strategy Completion Report 18

Stakeholder Consultations and Client Country Survey 19

V. RESULTS AREAS **21**

Strategic Objectives of Country Partnership Strategy FY12-15 21

A Cross-Cutting Partnership Dimension: Sharing Turkey's Experience – Results, Knowledge and Capacity 28

VI. IMPLEMENTATION **31**

Implementation of the FY12-15 Partnership Strategy 31

VII.RISKS **33**

CPS-ANNEXES

Annex 1: Country Partnership Strategy FY12-15 Results Monitoring Framework 34

Annex 2: Macroeconomic Developments and Sustainability Analysis 40

Annex 3: Country Partnership Strategy FY08-11 Completion Report 49

CPS STANDARD ANNEX TABLES

Annex A2: Country At-A-Glance 75

Annex B2: Selected Indicators of Bank Portfolio Performance and Management 78

Annex B3 IBRD Indicative Financing Program, FY12-15 79

Annex B3: IFC Investment Operations Program 80

Annex B4 IBRD Indicative Non-Lending Program, FY12-15 81

Annex B5: Social Indicators 82

Annex B6: Key Economic Indicators 83
Annex B7: Key Exposure Indicators 85
Annex B8: IBRD Operations Portfolio 86
Annex B8: IFC Committed and Disbursed Outstanding Investment Portfolio 87

TABLES:

Table 1: Selected Macroeconomic Indicators (2005-2011) 4
Table 2: Medium-Term Macroeconomic Projections and Targets 6
Table 3: Projected IBRD Financing Program FY12-15 28

FIGURES:

Figure A: Turkey CPS FY12-15: Strategic Objectives and CPS Outcome Areas iv
Figure 1: Composition of Capital Inflows 4
Figure 2: Diversification of Turkey's Export Markets over 1997-2010 8
Figure 3: Turkey CPS FY12-15: Strategic Objectives and CPS Outcome Areas 21

BOXES:

Box 1: Implementing Governance to Underpin Economic Growth 13
Box 2: Sharing Turkey's Experience—Two Success Stories 29

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EXECUTIVE SUMMARY

i. **Turkey's rapid growth and development over the last decade is one of the success stories of the global economy.** Today, Turkey is an upper middle income country with a population of 75 million and a gross domestic product of US$735 billion, making it the 16th largest economy in the world. It is the Government's stated intention that Turkey becomes one of the world's 10 largest economies by 2023, the 100th anniversary of the founding of the Turkish Republic. Turkey is an EU accession candidate country, a member of the Organization for Economic Cooperation and Development (OECD) and the G20, and an increasingly important donor of bilateral Official Development Assistance (ODA). Turkey is one of the largest middle income partners of the World Bank Group (WBG).

ii. **Turkey faces significant economic risks going forward, including spillover from the European debt crisis.** With low domestic savings, Turkey's economic growth relies on capital inflows to finance investments and growth. The country's large current account deficit and the composition of its financing remain critical concerns. A weak outlook for global activity and more severe international funding strains have the potential to spill over to Turkey. Turkey's dependence on external financing has left the country prone to boom-bust cycles, and the key challenge going forward is to deliver a soft landing, from the high growth rates in 2010 and 2011.

iii. **Other countries, notably in the Middle East and North Africa, are looking to Turkey, with its gains in income and social outcomes in recent years, as an interesting development model to emulate.** Per capita income almost tripled in less than a decade and now exceeds US$10,000. The Government's 2023 'vision' aims for per capita income to reach US$25,000. Poverty decreased from 28.1 percent in 2003 to 17.1 percent in 2008, increasing by 1 percentage point to 18.1 percent in 2009 as a result of the global crisis. It is expected to have fallen since then as labor markets, the main channel through which the crisis affected households, recovered quickly, with seasonally adjusted unemployment at 9.1 percent and the employment rate at 45.4 percent in October 2011, improving on pre-crisis levels. Economic growth and social policies are behind these achievements. The results of the nation-wide Health Transformation Program launched in 2003, for example, include remarkable gains in the health status of the Turkish people, particularly among women. At the same time, regional, gender, and other disparities persist, and inequality remains a challenge.

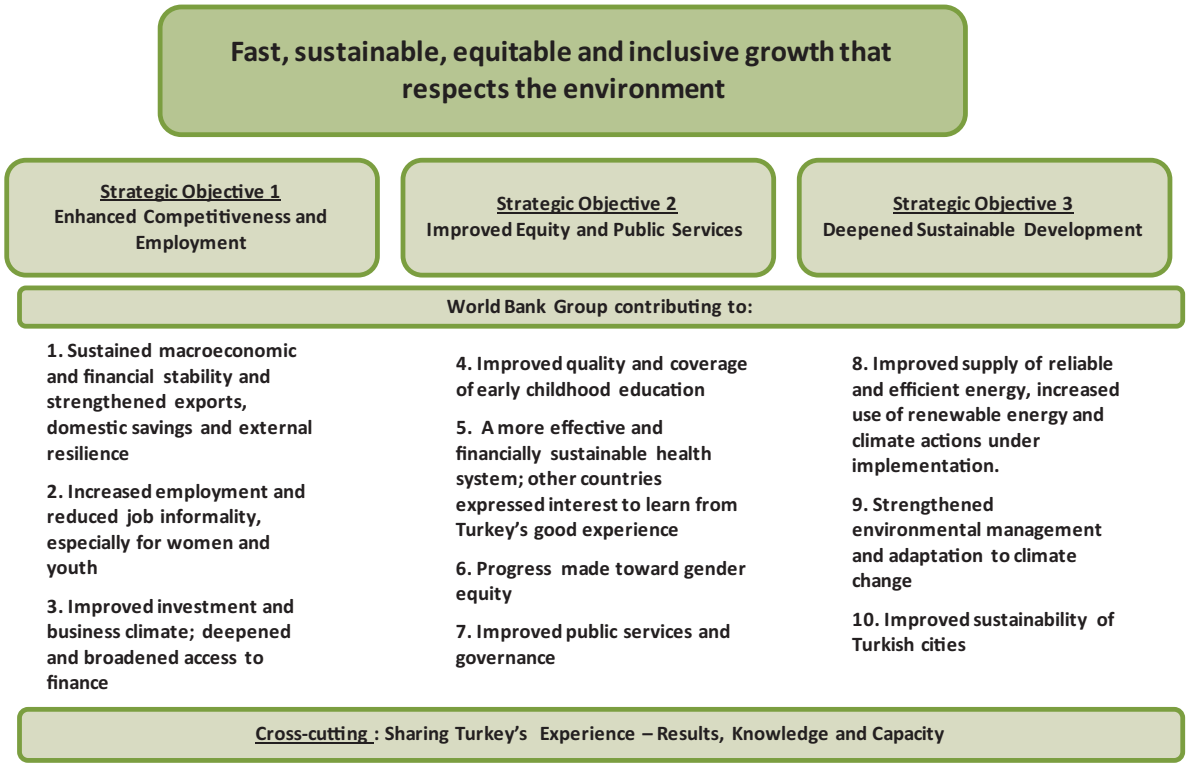
iv. **This Country Partnership Strategy (CPS) aims to contribute to Turkey's goal of fast, sustainable and inclusive growth that respects the environment.** Its design reflects priorities established in Turkey's own development frameworks, notably the Ninth Development Plan 2007- 2013[1] and the 2012-2014 Medium-Term Program (MTP), and is intended to be flexible to adapt to changes. The main criterion for WBG support in Turkey is its 'strategic value-added', through a combination of financing, analysis and advice, implementation support to help address development challenges, and the sharing of global experience to provide benchmarks and help inform the development and implementation of policies and programs.

v. **The CPS has three main strategic objectives and pillars: enhanced competitiveness and employment; improved equity and public services; and, deepened sustainable development.** In pursuit of these objectives, the Turkish government, private sector, civil society and the WBG plan to work together toward ten key outcomes during the four-year CPS period, as set out in Figure A.

1 The Tenth Development Plan starting 2014 is under preparation.

vi. ***Strategic Objective 1: 'Enhanced Competitiveness and Employment'.*** Planned CPS activities include: (i) support for the adoption and implementation of the National Employment Strategy currently under preparation with Development Policy Loan (DPL) financing and analytical and advisory activities (AAA). The aim is to enhance productive employment, particularly the activation of low-skilled youth and women into formal employment and the expansion of employment activation programs, focused on skills upgrading; (ii) support for investment and business environment reforms and the completion of the review of the national competition policy framework; and, (iii) provision of medium and long-term funding to Small and Medium Enterprises (SMEs) and exporters.

Figure A: Turkey CPS FY12-15: Strategic Objectives and CPS Outcome Areas



vii. ***Strategic Objective 2: 'Improved Equity and Public Services'.*** Planned CPS activities include: (i) increasing financing for early childhood education (ECE); (ii) strengthening the Ministry of Health's stewardship functions (not its role as service provider); (iii) the development and implementation of the private sector gender equity certification program; and, (iv) analytic and advisory work on state-owned-enterprises (SOE) governance.

viii. ***Strategic Objective 3: 'Deepened Sustainable Development'.*** Planned CPS activities include: (i) policy advice and financing to address energy, environmental and climate change challenges in a more integrated manner; (ii) support for the completion of a water basin management strategy; and (iii) analysis, advice, and investment financing, by IBRD and IFC, for the Sustainable Cities Program, which is grounded in Turkey's Integrated Urban Development Strategy and Action Plan 2010-2023.

ix. ***'Sharing Turkey's Experience – Results, Knowledge and Capacity' is a dimension of the CPS that cuts across all three objectives.*** Turkey and the World Bank are exploring avenues to collaborate in sharing Turkey's successful economic and social reforms. Two areas of particular focus include: health sector policy, reform, and performance; and disaster prevention and mitigation. The WBG intends to use its global network to work with Turkey in sharing these experiences and successes with a wider international audience.

x. **While Turkey will remain a large-scale borrower during this CPS period, the role of analytical and advisory activities will grow in relative terms.** Knowledge services and technical assistance add value through the provision of analysis, global experience, and hands-on implementation support. Reflecting the Government's ongoing demand for analytical and advisory services, the share of AAA spending in IBRD's total work program budget for Turkey steadily increased over the last four years. Responding to the Government's request for continued high levels of IBRD financing, the CPS FY12-15 envisages an IBRD financing program in the order of up to US$4.45 billion. IFC's own-account investment program in Turkey is expected to remain in the range of US$425-500 million a year or, US$1.7-2.0 billion for the CPS period.

xi. **What we can learn from the past partnership with Turkey.** The WBG is most effective when it combines the skills of its three arms: IBRD, IFC and MIGA. Opportunities for mutually complementary work are high in areas such as supporting SMEs, exporters, and energy efficiency investments, which will continue to feature prominently in the new CPS. Lessons from the FY08-11 CPS include:

- The systematic development and maintenance of a policy dialogue in support of long-term strategic goals, combining knowledge and lending operations, are vital to support reforms.
- The new engagement on environment and climate change, which started during the previous CPS, illustrates the importance of identifying strategic entry points for policy dialogue and seizing opportunities to strengthen engagement as country priorities evolve.
- An increased focus on monitoring and evaluation (M&E) during the last CPS period, welcomed by the Turkish authorities, resulted in a deepening of the Turkey-WBG partnership.
- In a number of fields Turkey's policies and reforms, some of which were conducted in partnership with the WBG, have gained international recognition. This provides an opportunity for Turkey and the WBG to work together in sharing knowledge and experience with countries in the region and further afield.

xii. **The outcomes of this CPS are subject to significant external economic risks.** Increasing global uncertainty and deteriorating prospects for economic growth and stability in Europe and other developed economies create downside risks to global demand for Turkish exports, to output growth and correspondingly fiscal performance, and to the availability of international private capital flows to finance Turkish investments. The key to mitigating the most severe risks of further global economic disruption lies in sound economic management – and in particular measures to contain and reduce the current account deficit. Over the medium term, increased productivity, the expansion and diversification of exports, higher domestic savings, and greater energy efficiency and diversification of energy sources are the keys to reducing Turkey's reliance on external finance. Turkey faces political and economic risks to the effective implementation of complex and challenging reforms – which can however be mitigated through systematic policy dialogue, participatory project preparation and implementation and evidence-based analytic work. Turkey also faces significant risk of natural disaster as the recent, tragic earthquakes in the Van region have shown.

I. COUNTRY CONTEXT

Country Background and Political & Social Context

1. **Turkey's rapid growth and development over the last decade is one of the success stories of the global economy.** Today, Turkey is an upper middle income country with a population of 75 million and a gross domestic product of US$735 billion, making it the 16th largest economy in the world. Per capita income almost tripled in less than a decade and now exceeds US$10,000. Standard & Poor's upgraded Turkey's local currency credit rating to investment grade in September 2011.[2] Turkey has already met the Millennium Development Goals (MDGs) for maternal and infant mortality as well as universal primary education, and is well on the way towards meeting its other MDGs by 2015. Turkey is an EU accession candidate country, a member of the Organization for Economic Cooperation and Development (OECD) and the G20, and an increasingly important donor of bilateral Official Development Assistance (ODA).[3] Turkey is one of the largest middle income partners of the WBG.

2. **Economic growth has been aided by a long period of political stability.** In June 2011, the Justice and Development Party (AKP) won a mandate for a third-term of single-party government, with 327 seats in Turkey's 550 seat unicameral Parliament. Constitutional reform is high on the agenda. The Turkish people approved an earlier package of constitutional reforms by referendum in September 2010. Parliament started work on a new constitution in October 2011 and expects to complete a draft by the end of 2012[4]. Approval of constitutional changes or a new constitution will require a two-third parliamentary majority (367 votes or more), or a 60 percent majority (330 votes or more) and adoption in a public referendum.

3. **Turkey's regional and global role is growing.** Turkey has set out to strengthen relations with countries in the region, broadening its engagement with the Middle East and increasing its presence in Africa, the Balkans, the Caucasus, and Central Asia. Recent political developments in the Middle East and North Africa have focused regional and worldwide attention on Turkey's political and economic system, inspiring other countries. Prime Minister Erdoğan acknowledged this interest in his June 2011 election victory speech, which outlined Turkey's willingness to extend and deepen ties across the region.

4. **Turkey made gains in social outcomes - supported by a decade of economic growth.** Poverty decreased from 28.1 percent in 2003 to 17.1 percent in 2008 (using the national poverty line), but remained unchanged in rural areas. Extreme poverty has virtually disappeared. Inequality has declined but still remains a challenge. The crisis affected households mainly through the labor market. It led to a one percentage point increase in the poverty rate in 2009 according to official estimates. Although more recent figures are not yet available, poverty is likely to have come down after the crisis, as labor markets recovered quickly, with the seasonally adjusted unemployment rate falling to 9.1 percent and the employment rate rising to 45.4 percent by October 2011, improving on pre-crisis levels. Economic growth, social policies, and the nation-wide

2 S&P raised Turkey's local-currency rating by one notch to BBB in September 2011 citing 'continuing improvements' in the country's financial industry and the expansion of local debt markets.

3 Turkey's ODA increased almost 15-fold from US$67 million in 2003 to US$967 million in 2010 and is predominantly bilateral (2010: US$920 million bilateral versus US$47 million multilateral). The largest bilateral recipients are Afghanistan, Kyrgyz Republic, and Pakistan, followed by Kazakhstan and Iraq. Turkey's contribution to International Development Association's (IDA) 16th replenishment was US$15.5 million, a share of 0.06 percent, the same as it was in IDA15.

4 The Parliamentary Commission charged with drafting a new constitution aims to complete a draft by 2012.

Health Transformation Program launched in 2003, are behind these achievements. The health status of the Turkish people has improved, particularly that of women. Maternal mortality fell from 29 deaths per 100,000 live births in 2005 to 16.4 deaths in 2010, while infant mortality fell from 25 deaths in 2005 to 10.1 deaths in 2010, meeting the MDG targets for maternal and infant mortality. There has also been an increase in access to education, particularly among girls: Turkey has virtually achieved universal primary education and increased secondary school enrollment to 69 percent.

5. **European Union (EU) accession continues to be a priority.** Turkey has a deep-rooted relationship with the EU. The EU is Turkey's largest economic partner, accounting for 46 percent of Turkish trade in 2010. Turkey became a candidate for full membership in the EU at the Helsinki summit in 1999. Accession negotiations began in October 2005 and continue to progress, albeit slower than Turkey would like. Following the June 2011 elections, the Government upgraded the institution which oversees EU accession into the new Ministry for EU Affairs. Negotiations on 13 chapters of the Acquis Communautaire are currently open. One of the 35 Chapters (Chapter 25: Science & Research) has been opened and provisionally closed. Turkey is determined to continue its reforms on the way to EU accession, its strategic objective. Turkey has benefited significantly from deepening integration with the EU through growing sophistication of both exports and imports and access to financing[5].

5 Golden Growth: Restoring the Luster of the European Growth Model (World Bank, ISBN: 978-0-8213-8965-2, 2012).

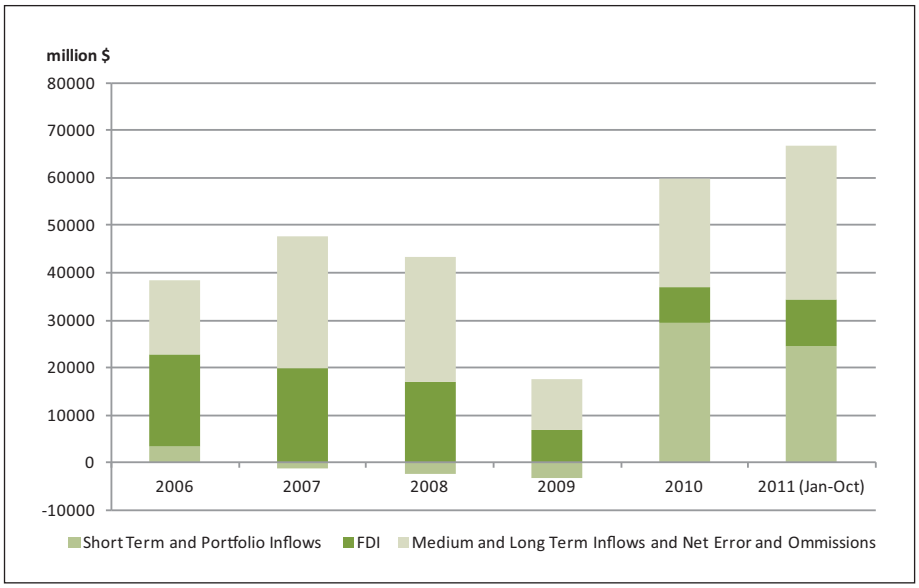
6. **While Turkey benefits from strong private and public sector balance sheets, an externally-financed demand boom has recently weakened Turkey's resilience.** Strong growth over the 2010-11 period has led to a fast widening current account deficit. In the current uncertain external economic environment, risks to growth (particularly in 2012) are significant. Recent economic developments are discussed below, followed by a discussion of medium-term prospects and risks.

Recent Economic Developments

7. **Turkey's macroeconomic policies and structural reforms over the past decade have yielded robust economic growth.** Real GDP growth averaged nearly 7 percent during 2003-07, up from 4 percent during the 1990s. Growth resumed rapidly after the 2008-2009 global crisis, at 9 percent in 2010 and 9.6 percent in the first three quarters of 2011. Per capita income now stands at US$10,067. Public sector primary balance averaged about 2.8 percent of GDP over 2004-10 and gross public debt as a percentage of GDP fell from 73.4 percent in 2002 to 45 percent in 2010, in spite of a moderate increase during the 2008-09 global crisis.

8. **The credibility built with consumers, investors, and financial markets over several years allowed the Government to adopt expansionary macroeconomic policies during the 2008-2009 global crisis.** Turkey suffered from a short but sharp fall in GDP (4.8 percent) in 2009. Imports and exports (which are concentrated in pro-cyclical goods) both declined in 2009. Foreign direct investment slowed considerably from 2.3 percent of GDP (US$17 billion) in 2008 to 1.1 percent of GDP in 2009 (US$6.9 billion). Unemployment reached a high of 16.1 percent in February 2009, an increase of 4.2 percentage points compared with the same time in 2008. The authorities moved quickly to maintain confidence and liquidity in the banking sector (including through a reduction in reserve requirements and the reintroduction of a 'blind-broker' lending facility), and implemented a set of employment measures, as well as fiscal stimuli. Between October 2008 and November 2009, the overnight interest rate was cut by a cumulative 10.25 percentage points. The general government fiscal deficit increased sharply from 1.6 percent in 2008 to 5.5 percent of GDP in 2009, due mainly to the operation of automatic stabilizers (such as the increase of approximately 1.8 percentage points of GDP in budgetary transfer to the Social Security Institution (SSI)). Facilitated by expansionary policies, output is now almost 10 percent higher than its pre-crisis peak, and the unemployment rate has fallen below 10 percent in April 2011 for the first time since mid-2008, notwithstanding an increase in labor force participation. However, Turkey faces the challenge of managing the financing of its high growth performance as well as increased inflation rates.

Figure 1: Composition of Capital Inflows



9. **As rapid growth resumed in 2010-2011, Turkey's current account deficit (CAD) rose from an eight-year low in 2009 to historic highs during 2011, financed largely by short-term inflows.** The CAD widened from US$14 billion (2.3 percent of GDP) in 2009 to US$47.1 billion (6.4 percent of GDP) in 2010 and US$77.8 billion as of November 2011 (9.8 percent of GDP) on a 12-month rolling basis. Furthermore, the composition of financing of the CAD deteriorated with the share of FDI in total inflows falling from 45 percent in 2007 to 18 percent in 2011 (Figure 1). Although energy accounts for a large share of the trade deficit (nearly 5 percent of GDP on average in recent years), the non-energy balance contributed significantly to the deterioration. The private sector accounted for the bulk of the CAD, and private external indebtedness increased correspondingly, from US$188 billion in 2008 to US$202.2 billion in 2011. The high level and short-term nature of the financing of the current account deficit will likely continue in the near future, with the associated risks of a significant growth slowdown should Turkey be hit by growing risk aversion in global financial markets.

Table 1: **Selected Macroeconomic Indicators (2005-2011)**

	2005	2006	2007	2008	2009	2010	2011Est.
GDP Growth (%)	8.4	6.9	4.7	0.7	-4.8	9.0	8.0
Investment (as % of GDP)	20.4	22.4	21.4	22.1	15.3	20.2	23.0
Domestic Savings (as % of GDP)	15.9	16.6	15.5	16.8	13.2	13.9	13.3
Unemployment Rate (%)	10.6	10.2	10.3	11.0	14.0	11.9	9.8*
CPI Inflation (%) (end-of-period)	7.7	9.7	8.4	10.1	6.5	6.4	10.5*
Public Sector Primary Balance/GDP, %	5.0	4.5	3.2	1.6	-1.0	0.8	1.2
Gross Public Debt/GDP	54.1	48.2	42.2	42.9	48.9	45.0	40.2
Gross External Debt/GDP	35.3	39.5	38.5	37.8	43.6	39.5	41.3
CAD/GDP (%)	4.6	6.1	5.8	5.7	2.3	6.4	9.8
Reserves (billion US$) (including gold)	50.2	60.7	74.7	72.9	74.8	86.0	88.2*

Source: Undersecretariat of Treasury, Ministry of Development, CBRT, TURKSTAT, Bank Estimates for selected 2011 variables.
*actualized

10. **High growth translated into continuing improvements in the headline fiscal balance, but primary spending remains above pre-crisis levels.** The general government fiscal deficit declined from 5.5 percent of GDP in 2009 to an estimated 1.2 percent in 2011 and, after a crisis-related increase in 2008, the public debt to GDP ratio has resumed its downward trend. The decline in the fiscal deficit reflects the strong cyclical nature of tax revenues, but a comprehensive tax restructuring program and a reduction in the interest bill have also contributed. However, primary spending remains significantly above the pre-crisis level, primarily due to higher capital investment, wage and pension spending. Adjusting for cyclical factors, the underlying structural fiscal position has loosened, from a structural primary surplus equivalent to 1.3 percent of GDP in 2007 to an estimated deficit of around 1 percent of GDP in 2011.

11. **Facing difficult policy trade-offs, CBRT (Central Bank of the Republic of Turkey) has implemented an 'unorthodox' policy, moving to a tightening stance in late 2011.** A weak global economy, the crisis in the Euro-zone, and the transition from large capital inflows and upward pressure on the lira in 2010 to declining inflows and lira depreciation pressures in 2011 have created difficult economic policy trade-offs. In late 2010, in response to surging capital inflows, CBRT adopted an 'unorthodox' monetary policy cutting overnight interest rates in an effort to discourage portfolio investors from taking short-term 'carry trade' positions in lira assets, while at the same time increasing reserve requirements to curtail domestic credit. The lira weakened significantly as a result, while credit growth began to slow following the introduction of macroprudential measures by the Banking Regulation and Supervision Authority in June 2011. Prompted by concerns about the global economy and early indicators of a domestic slowdown, CBRT reduced the policy rate by 50 bps in early August. Since mid-October 2011, responding to an increase in inflation (primarily reflecting pass-through of the cumulative 30 percent nominal depreciation since November 2010), CBRT has tightened monetary policy, *inter alia* by increasing overnight lending rates and engaging in large-sale foreign exchange selling auctions and direct interventions. As a result, the interbank overnight rate increased from 6.5 percent in December 2010 to 11.2 percent in December 2011, and the benchmark government bond yield rose from 7.11 to 11.04 percent during the same period.

12. **Turkey has moderate public safety net capacity and readiness in the event of a sudden increase in needs.** Social assistance spending is still low by international standards (1.2 percent of GDP in 2010) but growing fast (a budget increase of 40 percent in 2012). Large programs, such as the Green Card and the Conditional Cash Transfer Program, coexist with a multitude of small programs. These programs are now better integrated thanks to the creation of a new ministry in charge of all social assistance benefits and the introduction of an Integrated Social Assistance Information System (ISAIS). The new system, along with efforts to develop a single and improved proxy-means test for targeting all benefits, will enhance the responsiveness of the social assistance system to future crises by determining eligibility automatically and objectively through a single proxy-means test.

Medium-term Economic Prospects

13. **Growth is expected to slow down significantly in 2012, before recovering to about 5 percent annually in the medium-term.** On the back of slower credit growth and falling domestic and foreign demand, a slow-down in growth in the last quarter of 2011 is expected, following 9.6 percent GDP growth during the first three quarters of 2011. The annualized weekly credit growth rate declined to 23 percent in mid-December 2011, less than half its peak of 50 percent in January 2011. Annual GDP growth for 2011 is expected to be around 8 percent and about 3 percent in 2012. The medium term macroeconomic outlook beyond 2012 is more favorable and, in line with Government's Medium-Term Program, projects a GDP growth rate of around 5 percent per annum, driven largely by strong private-sector led domestic demand. The projected growth is predicated on capital inflows financing a current account deficit of 5-6 percent over the medium term.

14. **The growth path projected in the MTP is predicated on continued progress on Turkey's unfinished structural reform agenda**. Such reforms include the implementation of the new commercial code and the code of obligations, the labor market reform, measures to bolster long-term fiscal savings, and steps to reduce the dependency on imports of fuel through an expansion of renewable energy use in electricity generation and improvements in energy efficiency.

Table 2: **Medium-Term Macroeconomic Projections and Targets**

	2012	2013	2014	2015	2016
Growth (%)	2.9	4	5	5	5
CPI Inflation (%) (end-of-period)	7	5.2	5	5	5
Public Sector Primary Balance/GDP, %	1.3	1.1	1.4	1.7	1.9
Gross Public Debt/GDP[1]	38.4	37.0	35.2	33.2	31.2
Gross External Debt/GDP	42.6	43.0	42.6	41.8	41.1
CAD (billion US$)	63.7	66.0	66.4	64.9	61.1
CAD/GDP (%)	7.6	7.3	6.9	6.3	5.6
Reserves (billion US$) (including gold)	90.4	91.9	95.1	97.1	100.8

[1] World Bank staff estimates for total public debt stock (consistent with EU defined general government debt stock reported in MTP) and gross external debt stock.

Source: World Bank Staff Projections

15. **Despite the benign outlook in the baseline scenario, a combination of external and domestic factors pose significant risks going forward, including spillover from the European debt crisis.** With low domestic savings, Turkey's economic growth relies on capital inflows to finance imports. The country's large current account deficit and the composition of its financing remain critical concerns. Under a deepened crisis scenario in the Euro zone and a corresponding sudden stop of capital inflows to emerging markets driven by a flight to safety, Turkey could possibly face a renewed recession. See Annex 2 for the sustainability analysis.

III. VISION AND DEVELOPMENT CHALLENGES

16. **The Government of Turkey has set itself ambitious development goals.** Turkey intends to be one of the world's 10 largest economies by 2023 – the 100th anniversary of the founding of the Turkish Republic. The Government's 2023 'vision'[6] aims for a gross domestic product of US$2 trillion; a foreign trade volume in excess of US$1 trillion; per capita income to reach US$25,000; and, unemployment to decline to 5 percent. Turkey also aims to complete full membership negotiations with the EU; further develop Istanbul as a leading international financial hub; and, become the leading manufacturing and service provider both in the region and beyond[7].

17. **To achieve Turkey's development goals and realize sustainable shared growth, the Government is pursuing a wide range of economic policies and structural reforms, set out in its Ninth Development Plan for 2007-2013,[8] 2012-2014 Medium-Term Program, and annual programs.** Priorities include: (i) sound macroeconomic and related structural fiscal policies to maintain stability and reduce short and medium term vulnerabilities; (ii) investment climate, labor market, and skills reforms to increase competitiveness and create jobs, especially for women and youth; (iii) fundamental education reforms and continuing health and social welfare reform to increase productivity and help share the gains from growth through equal opportunities; and, (iv) continuing energy and water sector reforms and investments to increase energy efficiency, the use of renewable energy, improve energy security, help reduce greenhouse gas emissions, and mitigate and adapt to climate change.

The Challenge of Enhancing Competitiveness and Employment

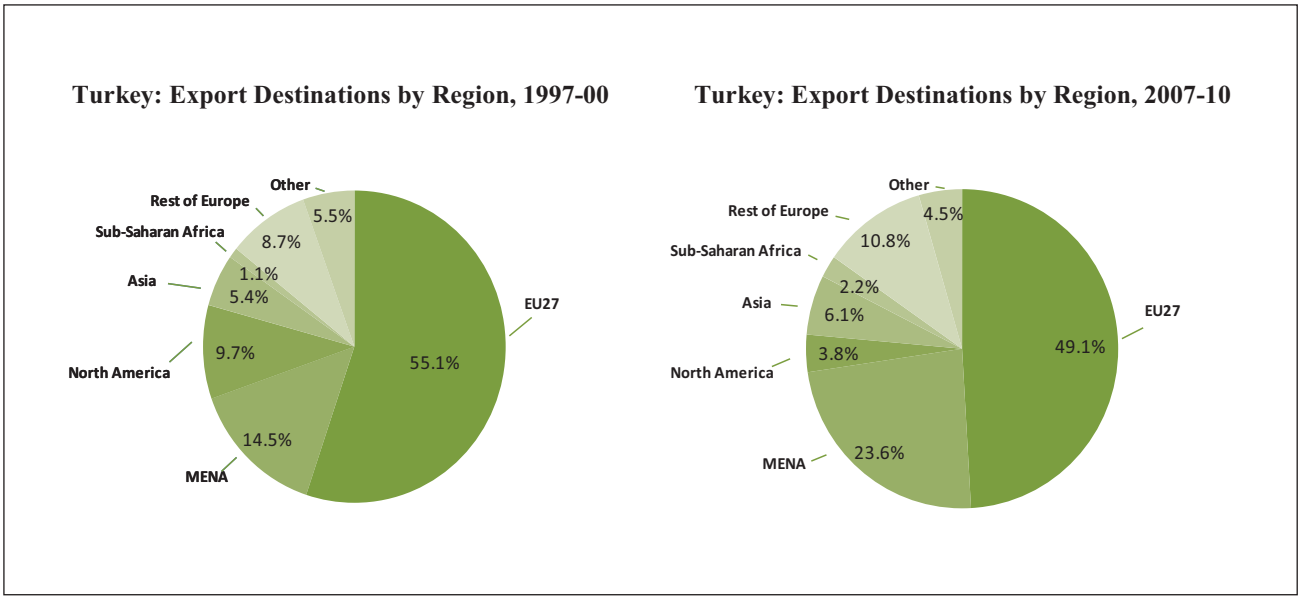
18. **For the last decade the Government's rolling multi-year programs have been grounded in macroeconomic policies and financial reforms to support sustainable public and external debt positions.** During the 2001 banking crisis, GDP contracted by 5.7 percent and the country embarked on a concerted path of structural reforms. These reforms included, inter alia, improving fiscal and public financial management and revamping the framework for macroeconomic management, within which an independent CBRT is now responsible for inflation-targeting and the lira floats freely against other currencies. The effect of these reforms has been pronounced. The International Monetary Fund (IMF) defined public sector primary balance averaged about 4.5 percent of GDP over 2004-07 and, after more expansionary policies in 2008-2009 during the global crisis, the primary balance reverted to 1.6 percent in 2010. Gross public debt fell sharply from 73.4 percent of GDP in 2002 to 45 percent in 2010. Strengthening private and public sector balance sheets in the aftermath of the 2001 crisis made Turkey resilient when the global economic and financial crisis hit in 2008, but growing external imbalances during the recovery have since eroded some of this resilience.

19. **The overarching macroeconomic goal of the Government's medium-term program for 2012-14 is to maintain robust growth and generate employment by improving competitiveness and increasing and diversifying exports, thus helping to contain and reduce the current account deficit.** As Turkey's openness to trade – measured as the share of imports and exports in GDP – increased modestly over the last decade, one target is to achieve exports of US$500 billion by 2023, up from US$114 billion in 2010. Meanwhile, the composition of exports by sector underwent changes with a switch from textiles and garments to machinery

6 See Prime Minister Erdoğan's Justice and Development Party's (AK Party) election manifesto for 2011, called 'Target 2023'.
7 Turkish Economic Policies Research Center (TEPAV): 'Turkey's Growth Puzzle', March 2011.
8 The Tenth Development Plan starting 2014 is presently under preparation.

exports. Turkey's trade with the EU-27 also changed as in particular Germany's share of total exports fell from 20.7 percent in 1997-99 to 10.5 percent in 2007-09. In 1997-99, the top five destinations for Turkey's exports (Germany, the United States, the United Kingdom, Italy, and France) accounted for 45.9 percent of total exports but in 2005 the top five (Germany, the United Kingdom, Italy, France, and Iraq) accounted for only 40.4 percent of total exports.

Figure 2: Diversification of Turkey's Export Markets over 1997-2010



20. **Creating more and better jobs for Turkey's young and growing population is the most important medium-term challenge.** Although the labor market adjusted flexibly after the international financial crisis, it remains characterized by low activity rates and low labor productivity, especially among women and youth. Less than half of the working-age population (15-64 year olds) is employed, 20 percent below the OECD average, and the employment rate of women is especially low (26.5 percent). About 31.1 percent of youth (15-24 year olds), mostly women, are neither working nor attending school—the highest share of inactive youth among OECD countries. Job informality (defined as jobs without social security benefits) has fallen remarkably, but still affects 43.3 percent of workers (29.1 percent excluding the agricultural sector), contributing to Turkey's lower labor productivity compared with OECD and other peer countries. Urbanization, agricultural labor shedding and a still rapidly growing working-age population (until 2020) will continue to put pressure on the labor market.

21. **The Government's prioritization of the labor market and jobs agenda will allow Turkey to use its gradually closing demographic window and lay the basis for the creation of more and more productive jobs as early as possible.** The Government introduced an action plan to reduce informality in 2008. The 2008 labor reform reduced non-wage labor costs and opened Active Labor Market Programs (ALMP) to all registered unemployed. Subsequently, the Government expanded the coverage and increased the relevance of ALMPs, with a focus on vocational training. The 2011 Omnibus Law reduced disincentives to part-time work and extended the program of subsidies to new employees (particularly women and youth).

22. **The Government is preparing a new National Employment Strategy, which will include a focus on making labor markets more flexible while increasing the protection of workers.** Policies and reforms under discussion include: more flexible contracting, including reduced restrictions or disincentives for part-time, fixed-term and temporary work; the introduction of pre-funded severance accounts and an increased coverage

of unemployment insurance; and an enhanced enforcement of labor laws and awareness-raising to reduce informality. Also under consideration are efforts to further scale up employment activation programs and services, particularly among low skilled youth and women, in a cost-effective way through better targeting and profiling (so that the package of services is adapted to the needs of the jobless) and linking the receipt of social benefits to activation. The new National Employment Strategy will complement ongoing and planned reforms to improve secondary education curricula to build job-relevant skills, increase program choice and flexibility in secondary education, and raise quality assurance in higher education.

23. **Building skills for work, entrepreneurship, and innovation will enhance productive employment.** Half of the working-age population has less than basic education and this group accounts for 64 percent of the jobless and 65 percent of informal workers. Younger workers are better educated and skilled, but still lag behind their counterparts in OECD countries. Turkish firms cite skills as the third most important constraint to business operations after credit availability and corruption. The Government is focusing on challenges like building a strong foundation through early childhood education, getting basic skills right through basic education, and building job-relevant skills through high quality secondary and higher education, as well as upgrading skills and reducing employment barriers particularly for low skilled youth and women.

24. **Continuing efforts to improve the business regulatory regime will also be important in enhancing private sector competitiveness.** Turkey has made strides to improve business regulation, partly through closer consultation with the private sector. This has been most notably done through the Committee for the Improvement of the Investment Climate (YOIKK) platform. However, challenges remain with red tape continuing to impose a significant cost on businesses.[9] The lead agency in regulatory reform, the Prime Ministry, is addressing these challenges in the preparation of a national strategy for regulatory reform. This is expected to focus on improving intra-government coordination, better documentation of the many relevant laws and secondary regulations, and on a pilot project for administrative simplification.[10]

25. **Turkey has made progress in promoting more competitive domestic markets, and the authorities have identified and set out to address remaining challenges, particularly in the area of state-owned enterprises.** Turkey has strengthened the application of antitrust and merger control policies, achieving a high level of alignment with the EU. Since the early 2000s a significant privatization program was launched reducing the share of SOEs net sales to 23 percent (2009) of the largest 500 firms. The share will go down further as the energy privatization progresses. However, it remains a reform agenda as government ownership is still prevalent in Turkey in some areas of the economy.[11] Moreover, these companies receive state support and often regulatory functions are not clearly separated. This risks distorting the market and creating a non-level playing field for potential private entrants and investors.

26. **The Government recognizes the importance of innovation to increase long term growth.** Innovation can serve as a 'silent engine of prosperity,' spurring sustained wealth and growth. It can lead to the expansion of an internationally competitive SME sector to complement Turkey's globally integrated large corporations. Public and especially private sector R&D spending can help boost the productivity of existing firms and stimulate the creation of new innovative businesses. While Turkey still has ample scope to grow by adopting frontier technologies from abroad, it shares with many European countries the challenge of promoting product and process innovation among its SMEs, which account for 27 percent of total output and 80 percent of employment.

9 According to the World Bank's 2008-2009 Enterprise Survey, the share of senior management's time spent dealing with requirements imposed by government regulations averaged 27 percent in Turkey compared to an average for Europe and Central Asia Region of 15 percent.
10 Enhancing technical capacity in the area of impact analysis and better measure costs to businesses and citizens of regulation.
11 Source: Treasury SOE Statistics; Fortune 500 company list; and staff calculation.

27. **Deeper and broader financial markets will promote investment and competitiveness.** Turkey's financial system has deepened since the 2001 crisis, with financial system assets amounting to 105 percent of GDP in 2010. However, despite a relatively large number and variety of non-bank financial institutions, the market share of the banking sector, already relatively high, has increased. Moreover, despite recent gains, the maturity profile of both assets and liabilities remain short term in nature, with the average maturity of deposits oscillating at around 45 days, and just about half of loans bearing a remaining maturity of one year or less as of end-June 2011. Turkey is still relatively under banked, with a credit to GDP ratio of about 50 percent.

28. **Turkey's financial services coverage is particularly low in rural areas and among female-owned enterprises.** Expanding access to finance is critical for both farmers and agro-processing companies–especially in the SME segment–to upgrade productive assets, compete with EU counterparts and move towards compliance with European Union food safety standards. In Turkey, women-owned businesses represent almost 40 percent of registered SMEs, of which only 15 percent have access to finance. The banking environment does not encourage women to receive bank financing.

29. **Productivity and competitiveness have been rising in agriculture and rural areas, but more slowly than in other sectors and urban areas—and government policies and programs aim to address the challenges of rural competitiveness; rural area job creation; and, rural-urban migration.** Although Turkey is a leader in the production of a number of crops with export potential, limited technical and human capacity and non-compliance with EU food standards (the largest potential market for Turkey's agro exports) constrain the development of Turkey's agri-business sector. Agricultural polices aim to bring agriculture in line with EU standards, with a particular emphasis on agri-business modernization. The Government aims to develop policies toward measures that support private investments in rural areas, including the agri-food sector, as well as in R&D and human resources to create rural opportunities and help boost efficiency, competitiveness and improve market access. The Government is in the process of strengthening water management to address energy, agricultural, environmental, and climate challenges. Possible government interventions may include programs for modernizing agri-food processing; an innovative rationalization of land consolidation; and, integrated approaches to water basin management and strategic regional development.

The Challenge of Improving Equity and Public Services

30. **While average social outcomes have improved, large inequalities persist, starting at a very early age and reinforced in school**. Turkey's Human Development Index (HDI) has increased from 0.671 in 2005 to 0.699 in 2011, putting Turkey in the high human development group, although its index remains below the OECD average. However, Turkey's inequality-adjusted Human Development Index (IHDI)—which adjusts for inequalities in health, education and income measures—is 23 percent lower than its nominal HDI. A large share of this inequality is explained by factors outside of individuals' control: one third of wealth inequality is explained by factors like birth place and parental education. Inequality of opportunities transcends generations and thus appears from a very early age, limiting the ability of poor children to succeed in life: 29 percent of 0-5 year olds in the low opportunity group suffer from stunting (very low height for age, an indicator of malnutrition), compared to only 3 percent of the high opportunity group.[12] Similar differences can be seen in child care and preschool use. These differences are reinforced by the school system, leading to differences in educational achievement and learning outcomes.

12 The low opportunity group includes children who live in rural areas, with parental educational attainment of primary school or less and households where the mother tongue is not Turkish. The high opportunity group includes children who live in urban areas; where the mother has at least secondary and the father at least tertiary education, and where the mother tongue spoken at home is Turkish. For further information, see Turkey: Equality of Opportunities and Early Childhood Development (World Bank, Report No. 48627-TR, February 2010).

31. **The Government plans to expand early childhood education (ECE) to help correct inequalities at an early stage by providing a strong foundation for all children**. Adding one year of pre-school education in Turkey could increase family incomes by 8 percent, reduce the number of poor families by 11 percent, and increase female labor force participation by 9 percent. A plan is underway to achieve universal enrollment of five-year olds by 2014.[13] Building on this plan, the further expansion and improvement of ECE could be supported by increased public funding; targeted resources for disadvantaged children and lagging provinces; a quality assurance system, including education standards and a mechanism for monitoring and enforcing them; and, reaching out to groups including the private sector and NGOs to complement government efforts.

32. **The Government aims to improve teacher quality and education service delivery in low performing schools to help promote equal opportunities and provide all children with basic skills**. The average 15 year old in Turkey is still about one full school year behind the average OECD student. However, performance varies across schools and regions: while students in Science and Anatolian high schools perform at OECD levels, other schools (accounting for 75 percent of students) perform below. These inequalities are partly rooted in the secondary education entrance exam and the system of private tutoring centers that it has generated—a system that the Government is reviewing and targeting to eliminate its demand. Efforts are under way to expand and improve in-service teacher training. Other key challenges and opportunities for improving the education service delivery system and learning outcomes lie in developing a more objective and transparent education financing system that allocates funding according to costs, providing additional resources to disadvantaged schools, and increasing school financial autonomy and accountability at all levels.[14]

33. **Gender equality has improved in education and health, but large inequalities remain in the access to economic opportunities**. There are virtually no differences in vaccinations and stunting between 0-5 year old boys and girls. Maternal mortality has been sharply reduced. Virtually all girls and boys attend primary schools and, in 2011, girls' secondary enrollment rate of 66 percent lagged 6 percent behind the 72 percent for boys. However, only about one quarter of women work (as opposed to 67 percent of men), 60 percent of women work in the informal sector (37 percent of men), and only 9 percent of firms have a female senior manager. Even among youth, 48.1 percent of women neither work nor attend school or training (21.6 percent of men). Improving women's access to more and better jobs as well as opportunities for entrepreneurship will increase total productive employment in Turkey. Indeed, a 6 percentage point increase in the proportion of working women might increase income by 7 percent and reduce poverty by 15 percent.

34. **Turkey's Health Transformation Program has produced gains in the access to and quality of health services since 2003, leading to cumulative improvements in aggregate health outcomes**.[15] The family medicine model is already operational nationwide and Universal Health Insurance covers most of the population[16]. Both internal factors (increased social security and health service coverage) and external factors (rising demand for new and expensive technologies, population ageing and the rising incidence of non-communicable diseases) will drive up health care costs in the coming years. Global expenditure caps have helped to contain health spending in the short term, but addressing the underlying drivers of health spending could further strengthen the long term sustainability of the health system. To sustain high performance, the Government is pursuing further reforms to increase the efficiency of health spending, including: a review of the basic benefits package, improvements to the current provider payment and cost containment mechanisms (through measures such as the expansion of diagnosis-related group payments for hospital inpatient and outpatient services to all hospitals), strengthened pharmaceutical policies, hospital autonomy, and the introduction of incentives for family medicine providers to act as gatekeepers to the system, particularly in strategic areas like Non-Communicable Diseases.

13 Turkey: Equality of Opportunities and Early Childhood Development (World Bank, Report No. 48627-TR, February 2010).

14 School report cards may be one tool for increasing school accountability.

15 For example, maternal mortality fell from 29 deaths per 100,000 live births in 2005 to 16.4 deaths in 2010. Infant mortality also decreased, dropping from 25 to 10.1 per 1,000 live births in the same period.

16 Starting from January 2012, the cost of health services provided to citizens covered by non-contributory health insurance (formerly known as the Green Card Program) will be part of SSI's balance and financed through the overall government transfers to the SSI.

35. **Turkey's 2008 social security reform improved the coverage of public pensions and is expected to yield significant savings - but these are insufficient to ensure pension system balance over the long term.** Pension spending in Turkey is still modest in comparison to high income OECD countries at around 7 percent of GDP, reflecting a relatively young population. However, more than half of pension spending is financed through budget transfers. This is due to the high system dependency ratio (fewer than two people contributing per beneficiary), unusual for a country with a young and growing population, resulting from generous eligibility for public pensions (early retirement, low minimum years of service). The 2008 reform adjusted pension parameters, gradually increasing the retirement age and contribution period and reducing the accrual rate. But the adjustments are phased in over a period of several decades, too slow to counter the effects of rising coverage and a maturing population on pension system deficits which are expected to remain around 3 percent of GDP until the middle of the century. To improve the long term sustainability of pensions, additional parametric adjustments of public pensions, increased formal labor force participation, and expanded private pensions would be necessary. Current efforts to reduce social security deficits are focused on reducing informality through better monitoring; enforcement and awareness; and, containing health spending.

36. **The Government is taking steps to develop an integrated social assistance system and expand targeted social assistance to help welfare recipients out of poverty.** Social assistance spending increased rapidly in recent years, but remains low by international standards (1.2 percent of GDP). Coordination across social assistance programs has been limited in the past. After the June 2011 election, the Government combined responsibility for all central government social assistance benefits under the new Ministry of Family and Social Policies. The Government is implementing a new Integrated Social Assistance Information System, with a single proxy-means test to target benefits more effectively. All beneficiaries of social assistance who are able to work are required to register with ISKUR.

37. **Building on the achievements in reforming the public financial management system, both in sectors (like health and social assistance) and the central government at large, Turkey is now focusing on implementation issues and an extension of the reforms to the rest of the public sector.** At the central level, the Government is planning to amend the Public Financial Management and Control Law, drawing on five years of experience with the systems the law established. Strengthening the link between plans, programs and budgets will be one priority for the Government—for example by moving towards a program based budget classification that is compatible with the existing budget code. Other areas include the full implementation of the new external and internal audit framework, the complete integration of the internal audit function, and improvements in the commitment monitoring system. In addition, the Government plans to broaden and deepen reforms in the public financial management and accountability framework for local administrations, where progress has been lagging to date, in part due to the weak capacity of many local administrations. The Government also plans to prepare a new governance framework for state-owned enterprises (SOEs), with a view to improving the transparency, accountability and efficiency of SOEs while promoting private sector entry and investment in markets where SOEs participate.

38. **The Government is planning to advance Turkey's decentralization agenda, with a focus on improving public service delivery while maintaining fiscal discipline.** In its 2012 Annual Program, the Government announced its intention to prepare new legislation on local administrations' own revenues. This will complement the previous efforts to reform intergovernmental fiscal relations.

Box 1: Implementing Governance to Underpin Economic Growth

Overall, Turkey is ahead of other upper middle income countries, as well as of countries in the Europe and Central Asia region, in many governance indicators. Significant strides have been made in introducing an appropriate legal framework to address governance challenges. However, implementation issues exist, as well as more generally access and use of information by civil society[1]. This box provides a summary of governance challenges in the public and private sector, focusing on areas where the authorities and the World Bank have partnered in the past and intend to continue work during this partnership strategy:

Governance and the Public Sector:

- *Public Financial Management Performance*: A 2010 benchmarking study highlights areas for improvements in downstream budget management, including internal control and audit systems and commitment monitoring. It also indicates that the modernization of external audit has not kept pace with progress in other parts of the public financial management system. The new Turkish Court of Accounts (TCA) Law, enacted in 2010, expands the mandate of the TCA to cover the entire public sector, introducing financial and performance audits in line with international standards and providing the legislative basis for improved control.
- *Legal Framework against Corruption:* A national Anti-Corruption Strategy and Action Plan were adopted in 2010, with a focus on preventative and awareness-increasing measures. The adoption of specific provisions in the Criminal Code, and legislation on public procurement, public financial management, right to information, and asset declaration strengthened the legal framework. Enforcement efforts have been enhanced through the establishment of agencies such as the Public Procurement Agency, the Ethics Board, the internal Audit Coordination Board and a more autonomous Revenue Administration Office. More streamlined procedures for tax administration; customs; and business licensing have increased efficiency and reduced opportunities for corruption. Judicial Reform and 'Fight against Informality' Strategies have been prepared, and action plans are in place to follow through on implementation.

Governance and the Private Sector:

- *Licensing Procedures:* Turkey lags behind comparator economies in offering efficient and transparent licensing procedures. OECD indicators of product market regulation show that administrative procedures in Turkey remain opaque and continue to impose high entry barriers on new market players. Compared to EU countries, for example, start-ups in Turkey have to undergo more mandatory steps, need to interact with more public and private bodies, spend more time and money to complete registration requirements, with no single contact points ('one stop shops') for obtaining information and for issuing licenses. Moreover, according to the World Bank's 2008-2009 Enterprise Survey, the share of senior management's time spent dealing with requirements imposed by government regulations averaged 27 percent in Turkey, compared to an average for the Europe and Central Asia region of 15 percent.
- *Corporate Governance and Contract Enforcement:* The implementation of a New Commercial Code (to become effective in June 2012), together with additional steps to reduce red tape, will play a significant role in improving corporate governance in Turkey. The main approach of the new Code is to introduce more transparent corporate governance principles, with the aim of fostering trust in the financial positions of Turkish companies and thus increasing their global competitive strength. The four main pillars of the code are: Transparency, Accountability, Regulatory Innovation and Fairness. It is expected that Turkey would improve its score in the 'protecting investors' indicators in the World Bank's Doing Business ratings following this reform.

[1] A detailed report on governance in Turkey has recently been prepared by Global Integrity. Comparative data can also be found in annual reports by Transparency International, the Bertelsmann Transformation Index and the World Bank Institute Governance indicators. The Business Environment and Enterprise Performance Survey provide information on governance issues seen from the perspective of the private sector. This box draws on these and other public sources.

The Challenge of Deepening Sustainable Development

39. **Building on fundamental energy sector reform, which accelerated over the last decade, Turkey is moving to develop an increasingly reliable and efficient energy supply, while seeking to mitigate climate change**. After a temporary slowdown during the global crisis, energy demand is growing rapidly, particularly electricity demand (which grew by 7 percent in 2010), mirroring the rebound in economic growth. Turkey has added significant new generation capacity - 11,400 MW between 2008-11. Future demand growth however, is projected to be around 6.5-7.5 percent per annum, and forecasts suggest that in the absence of continued large-scale investments in generation and under average hydrological conditions, Turkey could begin to see supply shortages by 2015/16. Challenges include:

i. *Import dependency*: Energy imports (mostly oil and gas) account for over 20 percent of Turkey's imports and about 50 percent of the current account deficit. Natural gas now accounts for almost half of total electricity generation, and has the largest share of primary energy supply (at 31 percent, followed by oil at 28 percent). Turkey's dependence on imported gas could therefore increase energy security risks - in terms of both volume and price. Growing diversification of energy supply, particularly through renewable resources, could help reduce this import dependence over time.
ii. *Legal and regulatory framework strengthening for more hydro energy:* Turkey's target is to utilize its estimated 140 TWh of economic hydro potential, of which about 40 percent has been exploited. Further development requires addressing potential cumulative environmental effects and dam safety issues.
iii. *Transmission network investments for more wind energy*: Turkey's target is to reach a wind generation capacity of 20,000 MW by 2023 from just above 1,300 MW in 2010. Wind generation is decentralized, has a short construction period and produces electricity intermittently with substantial variations. The challenge for the transmission system is therefore the large-scale implementation of the still largely untested licensing and grid connection mechanisms like SmartGrid applications.
iv. *Climate change mitigation through energy efficiency:* Turkey's economy is relatively energy intensive – requiring 0.26 ton of oil equivalent (toe) for every US$1,000 of GDP, compared with the OECD average of 0.18 in 2008. A recent World Bank study[17] estimated that in industry and buildings alone, the total energy saving potential is about 27 percent or 15.1 million tons; about 20 percent of annual energy imports. The systematic pursuit of energy efficiency is therefore a priority and critical for Turkey's energy security, macro/fiscal stability, competitiveness, climate change mitigation and environmental sustainability. The Government has taken many of the required legal, regulatory/pricing and institutional measures to promote energy efficiency and is supporting the financing of investments through specialized targeted credit lines.

40. **The sustainable management of natural resources and nature protection are growing in importance as long-term challenges for Turkey, along with climate change adaptation.** Turkey's natural resources face increasing pressures from growth in energy use, industry, transport, tourism, and agriculture resulting in water stress, soil erosion and pollution. At the same time, Turkey is also one of the most vulnerable countries in Europe and Central Asia to climate variability and change because of its location and the condition and sensitivity of its natural resource base. Issues include: *water stress*—with Turkey already being considered a 'water-stressed' country by international standards;[18] and s*evere land degradation*—with more than 59 percent of Turkey's land area suffering from severe erosion, and forest cover now at 26 percent, down from 70 percent originally. Turkey is already addressing a range of regulatory and institutional reforms in the environment and forestry sectors and prioritizing investment programs in infrastructure, pollution mitigation, and afforestation. Measures to address these challenges are now becoming a priority for the Government. Negotiations on the EU Chapter on Environment were opened in December 2009.

17 Tapping the Potential Energy Savings in Turkey (World Bank, Report No. 52210-TR, January 2011).
18 Turkey's renewable water resources are estimated around 1,500 m^3 per capita per year, expected to further drop in the future as a result of climate change and resource exploitation.

41. **Cities are at the forefront of Turkey's sustainable development agenda.** The pace of urbanization in Turkey has transformed what was a predominantly agrarian economy in the 1950s with only 4 million Turks living in cities (25 percent of the total population) into a globally competitive industrialized economy with over 70 percent of its population in cities. While cities enabled this economic transformation, bringing human capital, innovation and know-how to urban centres, they have also brought new sustainability challenges. For instance, motorization rates have increased more than ten-fold over the past 30 years (15 vehicles per 1,000 persons to 190 vehicles per 1,000 persons), adding congestion costs to growing metropolitan areas. Housing shortages have driven up rents, causing informal settlement expansion in precarious locations with inadequate services and sub-standard housing vulnerable to seismic risks. Longer planning horizons will be important for improvements in the sustainability of Turkish cities–as will improved land-use planning and a shift to life-cycle costing of investments, which may entail higher upfront capital outlays but reap better economic returns over the long term. The Government's newly issued National Integrated Urban Development Strategy (KENTGES 2011) reflects these progressive urban planning principles.

42. **Turkey is vulnerable to natural disasters, particularly earthquakes**. Within the nation's high-risk context, Istanbul is most vulnerable due to its seismic-prone location on the North Anatolian Fault, and its high population and commercial/industrial densities. The Government has made progress in strengthening the national emergency management system, and the local system in Istanbul. In addition, a large program of seismic retrofitting of public buildings in Istanbul is an internationally respected showcase. However, much remains to be done to replicate the experience of Istanbul in other high-risk areas in Turkey, and to expand the current mitigation actions to include private and commercial buildings. Disaster mitigation, including preparation for long-term effects such as climate change, remains a focus of Turkey's urban development agenda.

IV. TURKEY-WORLD BANK GROUP PARTNERSHIP

Previous Country Partnership Strategy

43. **During the FY08-11 CPS, Turkey achieved substantial development results, while weathering the impact of the global economic crisis, with the World Bank Group playing a catalytic role.** Sound government policies were at the heart of Turkey's strong overall economic performance. Policies, programs, and projects realized in partnership with the WBG produced concrete development results. For example, electricity transmission and peak capacity increased by 60 percent between 2002 and 2010. The health system's greater reach and efficiency improved health outcomes throughout the country, and has gained international recognition. The progress made by Istanbul's Governorship in strengthening the city's resilience against earthquakes, and disaster response preparedness, is considered an international model. Most CPS milestones were achieved or partially achieved (see CPS Completion Report, Annex 3).

44. **Over the course of the previous CPS, Turkey's partnership with IBRD, IFC and MIGA, while strategically focused, grew in size, importance, and strength**—with a timely scale-up of WBG financial and knowledge services during the global crisis:

a) ***Increased financing:*** Turkey became IBRD's second largest client, with US$12.9 billion in outstanding commitments at the end of FY11. Total new IBRD financing commitments in the CPS were US$7.6 billion, an increase of US$1.4 billion from the originally envisaged US$6.2 billion, reflecting increased financial support to help address the impact of the global financial crisis. IFC delivered US$2 billion in financing in 45 projects: 41 percent in the infrastructure sector; 38 percent in the financial sector; and 21 percent in manufacturing, agribusiness and the health and education sectors. Turkey is now MIGA's second largest client, with a growth in gross exposure from US$671.8 million at the end of FY08 to US$951 million at end-FY11.

b) ***Extensive demand-driven knowledge and technical assistance:*** IBRD's large program of analytic and advisory (AAA) services focused on supporting Turkey's policy and reform priorities. It featured 52 knowledge products, many of which were prepared jointly with Government and in collaboration with other development partners. Topics included, inter alia, work on public financial management; informality and savings; energy sector reform and regulation; food safety, and watershed management, education quality, female employment and gender certification, and the (in)equality of opportunities, the investment climate, competition and business regulation, and corporate bond market development.

45. **The CPS' flexible framework enabled the World Bank Group to support Turkey in attaining results beyond the strategy's original scope.** The WBG was able to respond to Turkey's request for additional support, and to adapt the composition and sequencing of analytical work and financing to help address urgent new challenges, while keeping a focus on longer-term development priorities. The CPS also permitted Turkey and the WBG to launch a new collaboration on climate change and environmental management. The initial strategy had not elaborated program activities in the areas of climate change and environment, but recognized and allowed for the possibility of developing collaboration later. Such collaboration indeed developed later, including through both analytic work and financing, and is expected to grow in the new CPS.

46. **Leveraging the capabilities of the entire World Bank Group in strategic sectors strengthened the partnership.** Work on private sector development is a good example. IBRD was able to focus on medium and long term policy issues, for example through investment climate assessments (ICAs) and the preparation of a roadmap for the development of the Turkish corporate bond market. IFC focused on infrastructure projects, mobilizing US$1.6 billion through private financial institutions, and helped to strengthen firms' competitiveness and international expansion including to the Balkans, Russia, Georgia, Tunisia, and Egypt. Both IBRD and IFC scaled up financing for SMEs and exporters during the global crisis when such financing was urgently needed—serving a broadly complementary customer base. MIGA also supported the private sector, and assisted Turkish companies looking to expand abroad – there were five active projects guaranteeing these sorts of investments at the close of the last CPS.

Lessons from the FY08-11 Country Partnership Strategy Completion Report

47. **Lesson 1: The systematic development and maintenance of a policy dialogue in support of long-term strategic goals, combining knowledge and lending operations, are vital to support reforms**. Major policy and legislative reforms can take time to implement; therefore flexibility and patience are critical for ensuring good results. Collaboration on the Commercial Code (seven years in preparation) provides an example of the value of long-term engagement from the previous CPS. To increase success, the full integration of combined analytical work and policy financing into national development plans and medium-term programs is critical. The programmatic structuring of work, in the form of modular interventions which build on each other sequentially, is particularly effective.

48. **Lesson 2: The new engagement on environment and climate change, which started during the previous CPS, illustrates the importance and value of carefully identifying strategic entry points and seizing opportunities as country priorities evolve.** Turkey and the WBG agreed not to use the environment as a pillar in the CPS FY08-11, reflecting limited advancement of the environmental agenda during 2004-2007 and a decision to consider a possible re-engagement, at Turkey's initiative, during the 2008-2011 CPS period. Turkey's accession to the Kyoto protocol and the opening of the Environmental Chapter of the EU Acquis in 2009 provided the opportunity and strategic entry point for a new engagement on this topic. This opportunity grew out of the Turkey-WBG partnership on energy. The electricity DPL series was broadened into the Environmental Sustainability and Energy Security (ESES) DPL series, with three components: energy, climate change, and environmental sustainability. This work led to collaboration in preparation for the 2012 UN Sustainable Development Conference (Rio+20). IFC used its support for Turkey's liberalization program to secure low carbon solutions to meet growing electricity demand.

49. **Lesson 3: A strengthened focus on monitoring and evaluation (M&E), welcomed by the Turkish authorities, became a vehicle for further developing the Turkey-World Bank Group partnership.** Turkey and the World Bank established a rolling programmatic Joint Portfolio Progress Report (JPPR) to collaborate in strengthening monitoring and evaluation and the results focus of government and WBG-supported programs. The World Bank also provided technical assistance on M&E financed by the IDF, and Turkey and the World Bank were partners in many task-specific M&E activities during the CPS period, including special efforts to include results frameworks in all AAA activities, with the intention of strengthening the World Bank's own approach to M&E.

50. **Lesson 4: In a number of fields Turkey's policies and reforms, conducted in partnership with the World Bank Group, have gained international recognition.** Examples include health, energy market development, and disaster risk management. This experience provides a basis for further such Turkey-WBG collaboration in this CPS. Turkey and the WBG plan to expand their partnership by working together on enabling knowledge sharing and contributing to development with other countries both in the region and globally.

51. **The World Bank Group will continue to be most effective in its partnership with Turkey by leveraging its three arms: IBRD, IFC and MIGA.** Turkey and the WBG expect to continue the approach to private sector support in the previous CPS—where all parts of the WBG provide complementary financing and services to Turkish clients.

Stakeholder Consultations and Client Country Survey

52. **The 2011 Client Country Survey, conducted in preparation for the new CPS, presented a broad range of opinions on the World Bank Group's work in Turkey**. Development priorities for Turkey-WBG partnership identified by respondents were education with an emphasis on skills; environment and natural resource management; employment; energy; and disaster preparedness[19]. These choices are broadly consistent with the priorities identified in this CPS and the analysis presented in the CPS Completion Report. Development priorities were as follows: rural development, increased job opportunities in the formal sector, enhancing opportunities for private sector growth and investment, access to pre-school education, and economic growth. With the exception of rural development, these sector priorities largely mirrored work carried out in the previous CPS. Less positively, respondents noted the slowness and complexity of processes as the WBG's greatest weakness in Turkey, and identified interaction with stakeholders outside government as an area for improvement. Respondents also perceived WBG work as not being particularly effective in reducing poverty in Turkey.

53. **The World Bank Group undertook a number of formal consultations and workshops with counterparts and civil society while preparing this CPS.** Events were held in Ankara, Erzurum and Istanbul, in addition to the WBG's regular process of consulting with both government counterparts and Turkish civil society. Overall, the feedback from all parties was encouraging and provided both a realistic vision of the efficacy of the WBG's work in Turkey to date, and provided valuable input on future directions the partnership might take–both in the new CPS and beyond. In this CPS, to further strengthen its partnership with Turkey and ensure that work carried out becomes increasingly responsive to client demand, the WBG will continue to work with, and listen closely to, civil society and our broader range of counterparts in Turkey.

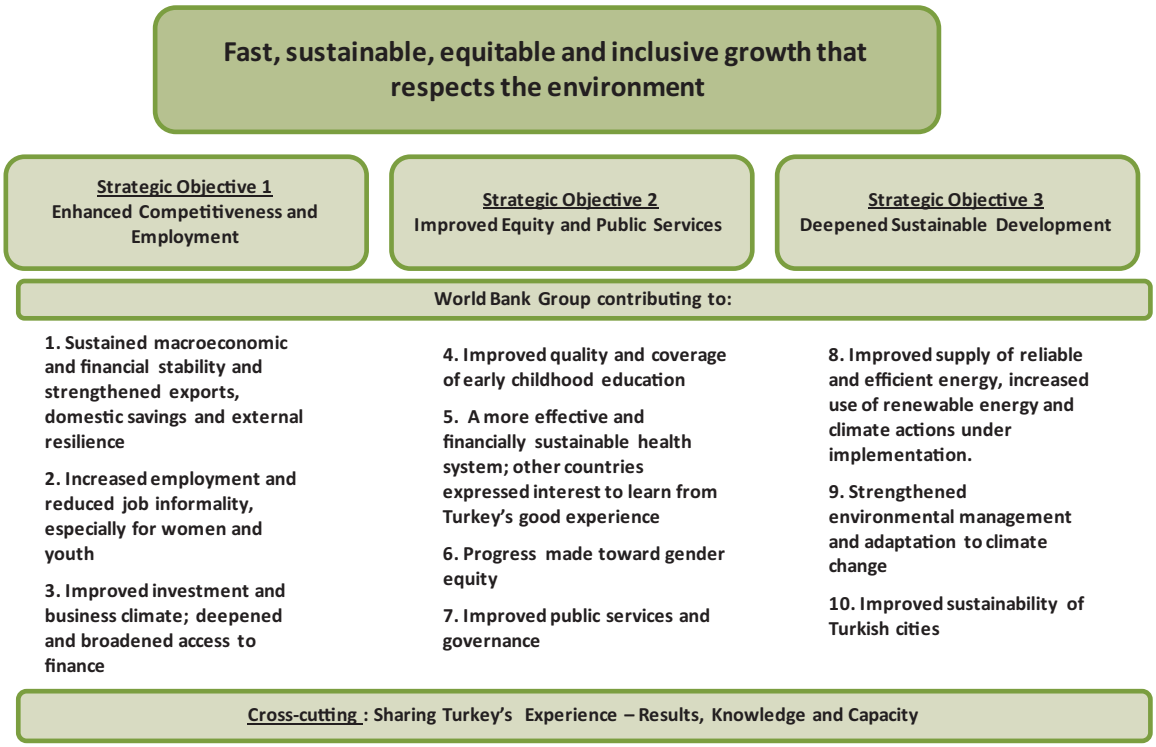
19 The survey had a 32 percent response rate.

Strategic Objectives of Country Partnership Strategy FY12-15

54. **The objective of this partnership strategy is to contribute to Turkey's goal of fast, sustainable, and inclusive growth that respects the environment.** Turkey has a set of clear strategic development frameworks that guide the implementation of its reform agenda. The most important medium to longer-term programs are the Ninth Development Plan 2007- 2013[20], the Medium-Term Program, and the Pre-Accession Economic Program 2011-13; these are complemented by the Government's Annual Programs. The CPS design reflects the priorities established in these programs and is flexible to respond to changes. The main criterion for WBG support in Turkey is its 'strategic value-added', through the combination of financing support, analysis and advice, and implementation support to help address particularly complex development challenges, and relevant international experience to provide benchmarks and help inform the development and implementation of policies and programs.

55. **The CPS has three main strategic objectives**: enhanced competitiveness and employment, improved equity and public services, and deepened sustainable development. In pursuit of these objectives, the Turkish government, private sector, civil society and the WBG plan to work together toward the following 10 outcomes during the four-year CPS period:

Figure 3: Turkey CPS FY12-15: Strategic Objectives and CPS Outcome Areas



20 The Tenth Development Plan starting 2014 is presently under preparation.

56. **A flexible CPS design**. The results framework for the CPS defines the development outcomes of the WBG partnership with Turkey for the entire four-year CPS period. These CPS outcomes are contributions to concrete government targets. A number of specific milestones will serve to monitor progress toward achievement of the CPS outcomes. These milestones mostly reflect the envisaged partnership through analytic and advisory services and DPL financing and, as much as possible, quantitative targets drawing on the planned implementation of WBG financed investments in some areas. The coverage of milestones is focused on FY12-13. The CPS Progress Report will define milestones for FY14-15, allowing for mid-term adaptation to respond to evolving priorities. This pragmatic approach is expected to facilitate the formulation of realistic and verifiable milestones that enjoy the ownership of implementing agencies.

57. **A sizable program of analytical and advisory activities (AAA) will continue to be a central feature of the Turkey-World Bank partnership.** Knowledge services and technical assistance add value through the provision of high quality analysis, global experience, and practical hands-on implementation support. Reflecting the high value that the Government places on AAA, the share of AAA spending in IBRD's total work program budget for Turkey has steadily increased over the last four years. In the next CPS, Turkey and the World Bank expect to identify and explore modalities, including cost sharing options, for continuing a large and strong AAA program.

58. **The World Bank Group financing program.** Responding to the Government's request for continued high levels of IBRD financing, the CPS FY12-15 envisages an IBRD financing program in the order of up to US$4.45 billion. The indicative financing program is set out in Table 3. Overall amounts will depend, inter alia, on government demand and performance, country and global economic and financial developments, and IBRD's financing capacity and demand by other borrowers throughout the CPS period. The IBRD financing program for FY14-15 will be finalized at the time of the CPS Progress Report. IFC own-account investment program in Turkey is expected to remain in the range of US$425-500 million a year or, US$1.7-2.0 billion for the CPS period. IFC expects to invest US$200-230 million a year in the financial sector, US$130-150 million a year in infrastructure, and US$90-120 million a year in the manufacturing, agribusiness and services sectors. IFC's advisory services will continue to focus on sustainable energy and gender finance.

Strategic Objective 1: Enhanced Competitiveness and Employment

World Bank Group contributing to:
Outcome 1: Sustained macroeconomic and financial stability and strengthened exports, domestic savings, and external resilience
Outcome 2: Increased employment and reduced job informality, especially for women and youth
Outcome 3: Improved investment and business climate; deepened and broadened access to finance

59. **Outcome 1: Sustained macroeconomic and financial stability and strengthened exports, domestic savings, and external resilience.** The Government's medium-term program projects robust growth for the next four years, grounded in continued strong economic policies and reforms. However, new vulnerabilities have emerged as a byproduct of strong growth. These are unlikely to abate in the near term, and careful management will be important to avoid the boom-bust cycles of the past. Implementing ongoing and planned reforms to bolster productivity, employment and to secure long-term fiscal savings will be critical. These include: implementing the new commercial code and code of obligations; planned second-stage labor market reforms; including severance pay reform and greater employment flexibility; improvements to the business environment; and further privatization that will help gradually improve corporate sector productivity and profitability.

60. **Outcome 2: Increased employment and reduced job informality, especially for women and youth**. The World Bank plans to continue supporting the Government's labor market reform and job creation agenda, including in particular the implementation of the new, comprehensive National Employment Strategy—with its expected focus on increased labor market flexibility and worker protection, the market relevance of skills and education, the employability of vulnerable groups such as youth and women, and reduced informality. The WBG intends to support government efforts to enhance productive employment, particularly the activation of low skilled youth and women into formal employment through the expansion of well-designed employment activation programs, with a focus on skills upgrading. The program for the planned new programmatic DPL series around growth, competitiveness, and employment is expected to include policy actions to increase labor market flexibility, worker protection, and reduction of job informality. AAA is expected to support the development and implementation of the National Employment Strategy; education and training initiatives through studies (e.g., ESW on Labor, ESW on Programmatic Education); and, technical assistance (e.g., Programmatic Human Development TA). The WBG is also expected to continue to work with the Employment Agency ISKUR on the effectiveness of vocational training programs.

61. **Outcome 3: Improved investment and business climate, and deepened and broadened access to finance**. The main objective of the ongoing Second Access to Finance for SMEs Project (FY10) is to broaden and deepen the access of Turkish small and medium enterprises to medium- and long-term finance, with a view to ultimately contributing to an expansion of productive activities and job creation. The Fourth Export Finance Intermediation Loan (FY08) supports exports by providing medium and long-term working capital and investment finance to private exporting enterprises, and improves the ability of the financial sector to provide financial resources to firms through development of financial intermediaries. Proposed CPS milestones and activities that help achieve them are expected to include:

- The development and completion of a review of the national *competition policy framework,* reflecting policy dialogue with the Turkish Competition Authority and through the planned programmatic DPL in support of growth, competitiveness and employment.
- Introduction of *simplified administration for licenses and permits, such as* a 'one stop-shop', or more broadly (under discussion): formulation of a national strategy for regulatory reform, reflecting technical assistance (e.g., Investment Climate and Competitiveness TA). The regulatory reform strategy would cover: (a) the formal use of Regulatory Impact Analysis for the introduction of new regulations, (b) an increase in the transparency of the regulatory process, including through formal consultation with stakeholders; and (c) the introduction of a well-defined administrative simplification program for Turkey, with specific monitorable goals.
- Identification of *regional dimensions of the challenges and opportunities facing the private sector* to inform future policy, reflecting, for example, the implementation and financing of regional Investment Climate Assessments (ICA), building on the 2010 ICA.
- Development of policy options for a *legal framework* to help foster the commercialization of *public research* and for rebalancing *incentives for private research*, reflecting policy dialogue, analysis, and TA focused on reforms to help increase the efficiency of R&D expenditures and enhance the role of the private sector in R&D[21].
- Improved SMEs' and exporters' access to longer-term funding, with an enhanced capacity of intermediaries to appraise investment projects with longer maturity profiles: IBRD expects to continue financing lines of credit for SMEs (including focus on specific sectors like agri-business and micro enterprises) and exporters. IFC expects to invest more than US$800 million in the financial sector during FY12-15 with emphasis on (a) financial inclusion by focusing on underserved sectors and regions like upgrading agribusiness productive assets; (b) gender finance by enabling banks to focus on women-owned SME's; (c) development of new ideas and products, including the development of

21 Turkey has the goal for R&D expenditure to reach 3 percent of GDP and private sector R&D spending to reach 2 percent of GDP by 2023 (Decree adopted in 23rd Meeting of Supreme Council for Science and Technology). In 2010 (latest available figure) R&D expenditure was 0.84 percent of GDP.

the Turkish corporate bond market; and, (d) South-South cooperation. If needed, IFC would be able to provide a rapid and coordinated crisis response in Turkey that is demand driven and can be quickly rolled out with active coordination with other IFIs.

- Enhanced *financial sector effectiveness*, reflecting technical assistance (e.g., Financial Sector Development TA) on broadening the investor base for non-bank liabilities, enhancing the capacity of bank regulators in evaluating system risks, and deepening financial intermediation.

62. **Support provided to Turkey in governance and reforms of public financial management systems is a part of the World Bank Group's Governance and Anticorruption Agenda (GAC).** The Bank's approach to governance aims both to directly improve the development effectiveness of its own support to Turkey as well as strengthening Turkey's country systems. As country ownership and leadership are vital in the implementation of the World Bank's GAC agenda, work in this area will continue to be driven by client demand. In this regard, support for the Government's new governance framework for SOEs will be particularly important; and will complement work carried out in the previous CPS.

Strategic Objective 2: Improved Equity and Public Services

World Bank Group contributing to:
Outcome 4: Improved quality and coverage of early childhood education
Outcome 5: A more effective and financially sustainable health system; other countries expressed interest to learn from Turkey's good experience
Outcome 6: Progress made toward gender equity
Outcome 7: Improved public services and governance

63. **Outcome 4: Improved quality and coverage of early childhood education (ECE)**. Turkey and the WBG plan CPS activities to contribute to an expansion in coverage and improvements in early childhood education (ECE) toward the broader objective of equality of opportunities for all. World Bank support for the development and implementation of a program to expand and improve ECE in Turkey will build on current progress to achieve universal enrollment of five-year olds by 2014 and may include a combination of programmatic analytic work, technical support and a financing operation. The Government's ECE program is expected to include a sound quality assurance system and, possibly, targeted resources for disadvantaged children and lagging provinces.

64. **Outcome 5: A more effective and financially sustainable health system; other countries expressed interest to learn from Turkey's good experience.** The WBG plans to support the Government's Health Transformation Program (HTP) as outlined in the Ministry of Health's (MOH) Strategic Plan 2010-14, which aims to improve the coverage, effectiveness and financial sustainability of health services in Turkey. The ongoing Health Transformation and Social Security Reform APL2 is contributing to these results through support to increase the effectiveness of the Social Security Institute (SSI) and the Ministry of Health (MOH) in formulating and implementing reforms in provider payments and health systems performance, and piloting output-based financing for prevention and control of non-communicable diseases. CPS activities are expected to include capacity building support to the Ministry of Health to carry out its stewardship functions, continued strengthening of the family medicine program, improvements in provider payment systems, and a focus on pharmaceutical spending and the rational use of drugs. Studies and technical support (e.g., Programmatic ESW on Health, including evaluation of the family medicine model, impact evaluation of positive incentives, rational use of drugs, and evaluation of benefits package and burden of diseases) are expected to be elements of WBG engagement. An operation, potentially featuring results-based disbursements, is expected to support

this agenda. The HTP is already recognized as a global 'good practice' reform and under the CPS, modalities are expected to be explored for sharing this experience in the region and beyond. The Turkish Ministry of Health's 'Health Care Public Private Partnership Program' and its strategic plan aims at providing affordable services beyond major urban areas. IFC plans to support it with tailoring financing products for healthcare companies.

65. **Outcome 6: Progress made toward gender equity.** The CPS program plans to support government efforts to increase women's access to economic opportunities, particularly access to formal employment and entrepreneurship. In the new CPS, Turkey and the WBG plan to build on the momentum of debate among the public and policy makers partly fueled by a Female Labor Force Participation Study in Turkey completed in 2009[22]. Analytical work and TA are expected to support efforts to help (i) low skilled women find formal employment; (ii) increase access to affordable child care; (iii) improve gender equity in the workplace; and, (iv) increase female entrepreneurship. The Government and the private sector expect an expansion of employment activation programs for low skilled women. The ongoing implementation of a WBG supported pilot gender certification program will promote the incorporation of gender equity as an internal business practice for enhancing equal job opportunities. Completion of the piloting and national expansion of the model is expected in the course of this CPS. In addition, work is planned on gender equity in the private sector. IFC intends to encourage women to receive bank financing to serve better women-owned businesses, which represent almost 40 percent of registered SMEs. In order to promote 'Banking on Women' in Turkey, IFC will establish a platform for Turkish banks to scale up their reach to women-owned SMEs. IFC will offer a package of investment and advisory services to interested financial institutions, encouraging them to focus on women owned businesses.

66. **Outcome 7: Improved public services and governance**. The WBG plans to continue its programmatic engagement in public expenditure and financial management with analytic studies and technical assistance. WBG support includes policy recommendations for the transport sector in a Public Expenditure Review (FY12), and continuation of the work on a Citizen Score Card system. The WBG expects to also work closely with the Turkish Government to support its efforts to strengthen the financial management and fiscal position of local administrations and improve SOE governance. In education services, the CPS is expected to support government efforts to raise l earning standards through improved education access, quality and equity including stronger governance mechanisms. Studies and technical assistance are planned to support efforts to (i) develop a more objective and transparent education financing system that allocates funding according to costs (as opposed to inputs); (ii) provide additional resources to disadvantaged schools; (iii) increase school financial autonomy; and (iv) increase school and teacher governance accountability (e.g., through school report cards). The School Development Program under the ongoing Secondary Education Project (FY05) is expected to deliver about 3,500 grants to disadvantaged schools throughout Turkey. IFC will explore opportunities to play an increasing role in the transport sector, given substantial funding gaps created by the current market dislocations and withdrawal of many traditional project finance banks from the market. IFC expects to support private sector participation in the financing and operation of motorways and bridges through debt and equity as well as the mobilization of funds from other financial institutions.

22 Female Labor Force Participation in Turkey: Trends, Determinants, and Policy Framework (World Bank, Report No. 48508-TR, November 2009).

Strategic Objective 3: Deepened Sustainable Development

World Bank Group contributing to:
Outcome 8: Improved supply of reliable and efficient energy, increased use of renewable energy sources and climate actions under implementation
Outcome 9: Strengthened environmental management and adaptation to climate change
Outcome 10: Improved sustainability of Turkish cities

67. **Outcome 8: Improved supply of reliable and efficient energy, increased use of renewable energy sources and climate actions under implementation.** During the FY12-15 CPS, Turkey and the WBG will continue addressing energy, environmental and climate change in an integrated fashion—an approach that has proved successful during the FY08-11 CPS. Milestones include: (i) improvements in energy security, through the commissioning of at least 10,000 MW new generation capacity, reduction/avoidance of electricity supply/demand imbalances, and/or conclusion of new gas import contracts, (ii) expansion of renewable energy, through increased renewable energy investments, measured by renewable electricity generation as a percentage of total generation, from 19 percent in 2009 to 30 percent or more in 2015, (iii) implementation of the Climate Change Action Plan with the help of technical assistance, (iv) the adoption of an Energy Efficiency Strategy, and (v) the adoption of market-based mechanism for greenhouse gas (GHG) emissions. The Private Sector Renewable Energy and Energy Efficiency Project (FY09) is helping to increase privately owned and operated energy production from indigenous renewable sources, enhance demand-side energy efficiency, and thereby help reduce greenhouse gas emissions. The ongoing Energy Community for South East Europe Project (FY11) will increase the reliability and capacity of the power transmission system in Turkey and improve its ability to integrate renewable energy into the system. Planned or possible energy sector CPS activities to help achieve these milestones include:

i. Continued AAA with an emphasis on energy efficiency and renewable energy.
ii. A third operation in the Programmatic Environmental Sustainability and Energy Sector (ESES) DPL series. The ESES DPL 3 program will revolve around further electricity and gas sector restructuring, further electricity market development, renewable energy, the National Climate Change Action Plan, and transposition of EU's Large Combustion Plants directive.
iii. Investment financing to support energy security, greenhouse gas emissions limitation through renewable energy development, energy efficiency in private firms, in the building sector, and in electricity production; to help the Turkish Electricity Transmission Corporation (TEIAS) integrate renewable energy into the national power system; and to help integrate renewable energy generation to the distribution system; and/or to help ensure adequacy of funding for the gas storage facility.
iv. Turkey's participation in the World Bank-managed Partnership for Market Readiness provides the opportunity to exchange views and learn from the experience of about 15 other middle-income countries.
v. EU IPA (Instrument for Pre-Accession Assistance) grant support for complex energy sector reforms and programs may draw on WBG managed analytical and TA support, possibly starting in 2012 with initial funding of around EUR 11.8 million (subject to a satisfactory project fiche). Such input will help maintain the reform momentum and strengthen institutional capacities in the areas of power and gas market development, energy efficiency and renewable energy integration as pointed out in the Multi-annual Indicative Planning Document as energy sector priorities.

vi. IFC also plans to emphasize financing for sustainable energy, renewable energy (e.g., geothermal, hydro, and wind power), and gas distribution projects. IFC will focus on projects with high development impact that cannot be achieved through alternative investments resulting in significant GHG emission reductions and projects where IFC can play a mobilization role. IFC will increasingly seek opportunities to invest in large ticket equity investments utilizing the Asset Management Company and the new Global Infrastructure Fund.

68. **Outcome 9: Strengthened environmental management and adaptation to climate change**. WBG support for sustainable and equitable resource management and environmental protection is expected to focus on the implementation of EU environmental *acquis*, and exploring the options for Turkey to invest in environmentally sustainable growth (including sustainable accounting, carbon markets, climate adaptation in climate sensitive sectors such as agriculture and water management, and forestry management, including completion of the National Basin Management Strategy). Using AAA, the WBG plans to support the formulation of Turkey's position at the Rio+20 Conference. The continuation of the programmatic AAA on National Watershed Management is expected to include the development of a methodology for integrating the cumulative impact assessment of water usage installations in river basins in the current legislation, effective monitoring and evaluation tools, and more effective targeting of investments using social, environmental, and economic criteria. The final operation in the Environmental Sustainability and Energy Sector (ESES) Development Policy Loan series is expected to cover the implementation of environmental policies—including, for example, further harmonization with relevant EU legislation, strengthening the environmental permitting and enforcement processes, and further development and use of economic instruments.

69. **Outcome 10: Improved sustainability of Turkish cities**. The CPS envisages support for Turkey's response to its urbanization challenge through the Sustainable Cities Program. Using the Integrated Urban Development Strategy and Action Plan 2010-2023 as a basis, the sustainable cities program is expected to provide an umbrella framework for partners in government, civil society, financing institutions, among others, and the WBG to work together in a multi-sector manner to support: (i) policy analysis and advice in areas of urban development such as urban transport, housing and land markets, urban transformation including an assessment of risk, improving city management, fostering agglomeration and regional development, improved urban/rural linkages, and financing of cities; (ii) capacity building for government agencies, cities and domestic financing institutions to assess and strengthen financial capacity of cities; (iii) the use of global experience for monitoring city sustainability and livability; and (iv) investment financing, possibly through Iller Bank, for environmental and energy efficiency investments in cities. As the Sustainable Cities Program develops over time, other areas and mechanisms of engagement may be added. Along with the Bank, IFC will contribute to the Sustainable Cities Program by providing support at the municipal level to build financial management capacity and improve project preparation and implementation standards. IFC can draw on a wide range of products including straight senior loans, both in EUR and local currency, channeling its funds through local banks with a portfolio approach, and foreign exchange hedging for EUR denominated loans. IFC expects to seek collaboration with local banks in expanding access to finance to underserved municipalities. The World Bank and IFC/Public-Private Infrastructure Advisory Facility launched a joint initiative to provide technical assistance to Turkey's central government and local administrations in an effort to help improve the financial and environmental sustainability and the efficiency of public service delivery at the municipal level. The ongoing disaster mitigation and emergency preparedness program in Istanbul will undergo a detailed evaluation. On the basis of this information, an expansion of Turkey's disaster mitigation program will be discussed.

70. **The World Bank Group plans to explore with Turkish counterparts, over the CPS period, the possible scope for collaboration in addressing selected rural development challenges.** Areas to be explored include: policies for strengthening rural competitiveness and managing rural-urban migration; technical assistance

and possibly financing for the development of innovative rural investments including for the modernization of agri-business; and, technical assistance in areas such as basin management, land consolidation, sustainable tourism to foster local economic development, and adaptation to climate change in the agricultural sector. Building on the ongoing dialogue and analytic and advisory work, the CPS Progress Report may identify further specific activities for inclusion in the FY14-15 CPS program.

Table 3: Projected IBRD Financing Program FY12-15

FY12		FY13		FY14		FY15	
Project Name	US$ (M)	Project Name	US$ (M)	Project Name	US$ (M)	Project Name	US$ (M)
Development Policy Financing							
Third Programmatic Environmental Sustainability and Energy Sector DPL	600	Programmatic DPL Growth, Competitiveness and Employment	600	DPL (tbd)	350		0
DPL Subtotal	600	DPL Subtotal	600	DPL Subtotal	350	DPL Subtotal	0
Investment Financing							
Private Sector Renewable Energy and Energy Efficiency Additional Financing	500	Private Sector Energy Efficiency	200	Area of access to finance: SME or exporters			
		SME Access to Finance (Food Safety)	200	Areas of Education/Employment			
		Project on Health	200	Areas of Sustainable Cities/Disaster/Watershed/Energy			
		Allocation to be decided	100				
INV Subtotal	500	INV Subtotal	700	INV Subtotal	700	INV Subtotal	1,000
Total	1,100	Total	1,300	Total	1,050	Total	1,000
Total envelope US$: 4,450							
				Note: The IBRD Financing Program for FY14-15 is indicative and will be finalized at the time of the CPS Progress Report			

A Cross-Cutting Partnership Dimension: Sharing Turkey's Experience – Results, Knowledge and Capacity

71. **Turkey's development success and a number of its economic and social reforms have attracted international interest and recognition.** Turkey is also increasingly interested in expanding and strengthening certain elements of its international development cooperation. Together, Turkey and the World Bank are exploring avenues to collaborate in sharing Turkey's experiences abroad. Areas of particular interest include health sector reform and disaster prevention and mitigation (see Box 2). The WBG's 'value-added' in sharing development experience is the breadth and strength of its global network, and its credibility as the premier global development institution and 'honest broker' in validating international good practice. As one initial step, work has begun to explore trade relations between Turkey and its neighbors. Teams from Turkey, the Middle East and North Africa, and the Caucasus identified opportunities where the World Bank might support the regional sharing of Turkish success. Other World Bank tools available include support from WBI, the South-South Experience Exchange Trust Fund (SSTF), the Knowledge Platforms Initiative, and the Global Expert Teams.

Box 2: Sharing Turkey's Experience—Two Success Stories

Effective Disaster Risk Mitigation and Management: Istanbul's Experience

The Istanbul Governorship launched the *Istanbul Seismic Risk Mitigation and Emergency Preparedness Project* (ISMEP) in 2005 to help Istanbul prepare for potential earthquakes. The project pioneered an innovative approach of combining a focus on preventative investments (especially the retrofitting or reconstruction of schools and hospitals) and programs (e.g., broad public awareness campaigns) with disaster response investments (state of the art disaster management center with modern equipment and communications) and supportive measures, such as for an improved enforcement of building codes and land use plans—as well as, a first in Turkey, the development of a digital inventory for cultural heritage buildings and pilot designs for the seismic strengthening of buildings. Initially supported with a US$550 million IBRD loan, the project has attracted a total financing of Euro 969.8 million (about US$1.3 billion) from International Financial Institutions. The Istanbul Governorship, with the support of the National Disaster Management Presidency under the Prime Ministry, and through the Istanbul Project Coordination Unit (IPCU), is already sharing its experience with other countries in neighboring regions and globally, and plans to continue to expand and strengthen these activities during the CPS period. Activities will include the dissemination of the project methodology, guidelines, and publications; the provision of training through training modules, training materials, or training of trainers; public campaign models; workshops, seminars and conferences; on-site surveys; and customized project design, implementation, and dissemination activities based on needs assessments.

Health Sector Reform: Delivering Affordable Universal Health Insurance and Quality Health Care to All

The transformation of Turkey's health sector and health service delivery systems through the implementation of the *Health Transformation Program* (HTP) since 2003 has attracted many countries' attention, and Turkey has already entered in a number of cooperation agreements. One of the goals of the Strategic Plan of the Ministry of Health (MOH) is to share its successful experience systematically and expand and strengthen the collaboration on the design and implementation of health policies and delivery systems with other countries and national and international institutions. Specifically, the MOH aims to (i) increase the number and quality of projects with international institutions, (ii) enter into new cooperation agreements, (iii) strengthen its own efficiency and effectiveness in engaging with international institutions, (iv) implement projects and programs for third countries, and (v) conduct training and research activities for and with foreigners who come to Turkey under the framework agreements. Neighboring countries, countries in the Balkans and Central Asia, the Middle East, Afghanistan, Pakistan, African and other interested countries are potential partners. Some initial priority areas for MOH in sharing its success story include health system analysis, the development of training programs, and the preparation of presentation and training materials on the HTP and specific topics

Implementation of the FY12-15 Partnership Strategy

Managing the Program

72. **Analytical and Advisory Services (AAA) are central to the Turkey-World Bank partnership and are expected to grow further—programmatic multi-year; 'discrete' single-year; and, 'just-in-time' AAA.** In the new CPS, Economic and Sector Work (ESW) and technical assistance are expected to be financed in two ways. While the World Bank's core provision of AAA will continue, Turkey and the World Bank will explore and complement the core AAA program with cost sharing activities. Cost sharing, as an element of the Turkey-WBG partnership, is expected to enable the Government to select, design, and pursue additional tasks.

73. **The financing framework provides for up to US$4.45 billion in the CPS FY12-15 period**. Development Policy operations (DPL) have a proven record of combining policy advice and support and flexible financing and are expected to continue to play an important role. At the same time, the proportion of investment financing, as a constituent part of the overall lending envelope, is expected to increase. Reflecting lessons learnt from the previous CPS, the timing and composition of IBRD financing is expected to be managed flexibly, allowing for financing across instruments and areas of engagement in response to evolving global conditions and country priorities within the overall envelope. During the next CPS, Turkey and the World Bank also intend to explore the use of new investment financing instruments like Program for Results.

74. **IFC aims to tailor its program in Turkey to achieve maximum development impact.** Although IFC's investment volume is not expected to increase, its strategy is flexible and consistent with the WBG's approach to MICs. IFC aims to adjust its areas of intervention, products and instruments to the country's needs – focused on its competitiveness agenda and employment creation. IFC expects to target under-served segments of the economy, providing financing in areas including Micro, Small and Medium Enterprises; energy efficiency and renewable energy; municipalities; and, poorer regions in the country. IFC intends to continue promoting South-South investments and supporting Turkish companies to invest in the region and further abroad.

75. **The Turkey World Bank Group partnership covers only a small part of Turkey's development program.** WBG financing therefore accounts for only a small fraction of Turkey's total external financing[23]. In the new CPS, the WBG's contribution is targeted at providing mainly catalytic support. Direct attribution will remain challenging, if not often impossible—although Turkey's continued high demand for WBG services may provide an imperfect, indirect indicator of their 'value-added'. In this assessment it is important to remember that demand for IBRD services continues to exceed already high levels of new financing and knowledge services IBRD is able to provide, given financial risk management considerations and budget limitations.

Loan Portfolio and Pipeline Management

76. **IBRD's portfolio is expected to remain concentrated and strategically focused.** An effort to concentrate and increase the focus of the lending portfolio has resulted in fewer, larger operations. The average investment loan size increased from US$245 million in FY08, to US$339 at the end of FY11. As of January 2012,

23 The scale of WBG financing, averaging US$1.9 billion in new commitments and US$1.71 billion in disbursements during FY08-11, was very small when compared with Turkey's total public debt, which was US$321.4 billion in 2010, and it amounted to 23 percent of Turkey's average public external borrowing (US$8.43 billion between 2007-2010) and less than 1 percent of its average total gross external debt per year (US$266 billion) between 2007-2009.

the Turkey portfolio features 14 projects and US$5.56 billion in net commitments, compared to 24 projects and US$5.67 billion at the end FY07. Portfolio quality has continued to increase, supported by concerted efforts and joint management of the portfolio with the Government. A proactive approach to implementation issues translated in a significant decrease in problem projects, from five at end-FY09 to one in the first half of FY12. Good progress in project implementation is reflected in a disbursement ratio of 31% at end-FY11, and of 20% during the first half of FY12.

77. **A procurement review is planned to increase efficiency and help address challenges arising from differences between national procurement laws and those of the World Bank Group**. The proposed review will help the Bank to recognize the debarment under national law within the framework described in the January 2011 Procurement Guidelines as well as to understand the national rules. As the national procurement law does not allow contracts to be awarded to nationally debarred firms not only in national competitive bidding but also in international competitive bidding contracts, there is a danger that procurement processes might create reputational and implementation risks which could prove difficult to resolve. The planned Procurement Review is expected to explore this issue and seek to identify systemic solutions. In anticipation of potential results-based projects in health and education sectors, the World Bank will conduct a dialogue on procurement with the Government and undertake procurement assessments to underpin project preparation and monitoring of such operations.

Working with Development Agencies and Partners

78. **Good and broad relations with civil society remain an important part of the Turkey-World Bank Group Partnership.** Continuing with work begun in the previous CPS, where civil society participated in the preparation and implementation of projects including the HTP and ISMEP, the World Bank aims to broaden and deepen its relationship. The World Bank intends to continue using its convening power: working with the Turkish Investment Advisory Council; Parliament; and, developing new avenues for engagement with civil society, including organizations like TEPAV (Training and Research Institute for Public Policy), as it looks to support Turkey in sharing knowledge and expertise regionally and globally. Beyond consultations undertaken with civil society in developing this CPS, the World Bank will also seek to ensure that it maximizes the effectiveness of its relations with academia, think tanks, private sector associations and businesses, as well as NGOs.

79. **A continued strong and good relationship with development partners.** The World Bank aims to continue working closely with the IMF, sharing expertise on macroeconomic and a broad range of structural issues. It intends to continue its close working relationship with the UNDP and UNICEF in Ankara. Turkey, the WBG and the European Union are working closely together to further strengthen alignment on 'Europe 2020', while also seeking to strengthen their multi-lateral relationship. Regular meetings are planned between the EU Commission and the World Bank's Europe and Central Asia Vice-Presidency; the first of which took place in October 2010 with the EU's Directorate General for Employment and second of which is planned in March 2012. A new phase of tripartite institutional partnership may provide new opportunities for closer operational cooperation in important sectors including energy. For example, working alongside the European Commission and Turkey's ministries for EU Affairs and Energy and Natural Resources, World Bank technical and analytical assistance on energy is currently scheduled for 2012 EU IPA funding of about EUR€ 10 million. The WBG also expects to look to further relations with bilateral partners – building on the pilot project run by the World Bank's private sector team (ECSPF) on the simplification of administrative procedures with the UK Foreign and Commonwealth Office (FCO) in FY12. IFC intends to continue working closely with other IFIs, including the European Bank for Reconstruction and Development, the Black Sea Trade & Development Bank, and Kreditanstalt für Wiederaufbau Bankengruppe (German Development Bank).

80. **The outcomes targeted by this CPS are subject to economic and external risks.** Increasing global uncertainty and, deteriorating prospects for economic growth and stability in Europe and other developed economies create downside risks to the global demand for Turkish exports, to output growth and correspondingly fiscal performance, and to the availability of international private capital flows to finance Turkish investments. The main macroeconomic risk is a reversal of capital flows, which could cause a significant growth slowdown, given the high level and the short-term nature of the financing of the current account deficit. There is also a risk of further systemic disruption in the global financial system, with potentially significant ripple effects on the Turkish economy. The key to mitigating the most severe risks of further global economic disruption lies in sound economic management – and in particular measures to contain and reduce the current account deficit. Over the medium term, higher productivity, higher exports to more diverse markets, higher domestic savings, and greater energy efficiency and diversification are the keys to reducing Turkey's reliance on external finance.

81. **Risks of natural disasters, while mitigated by some World Bank supported programs, remain**. Turkey is particularly vulnerable to earthquakes, and within the nation's high-risk context, Istanbul is most vulnerable due to its seismic-prone location on the North Anatolian Fault, and its high population and commercial and industrial densities. As the recent, tragic, earthquakes in the Van region have shown the preparation for and the mitigation of risks associated with seismic activity remain a foremost development challenge for Turkey and the WBG and the Turkish authorities expect to maintain ongoing dialogue on this issue over the course of the new CPS.

82. **Implementation risks.** Social consensus on the reform program and institutional capacity are needed for the implementation of the CPS which supports the Government's Ninth Development Plan. The complexity and social impact of many elements of the reform program require consensus building among all interested groups. This is a process which takes time and results in compromises. However, the implementation of reforms would be more problematic without the careful application of such processes. A systematic policy dialogue with country counterparts on World Bank supported project preparation and implementation, and analytic and advisory work can support countries' reform process. Institutional capacity building, in particular in the area of monitoring and evaluation, strengthens the implementation of policies and projects.

Turkey – World Bank Group Country Partnership Strategy FY12-15: Results Framework

Strategic Theme 1: Enhanced Competitiveness and Employment		
Country Development Outcomes to which CPS Contributes	**Milestones and Outputs of the CPS Program**	**World Bank Group Program**
Country-level Indicators: • Average economic growth of 4.5% through 2015. • Employment rate increased from 43% in 2010 to 45% in 2015. • Expand the coverage and increased relevance of ISKUR's (Turkish Employment Agency) vocational training. • OECD Product Market Regulation Indicator of Barriers to Entrepreneurship reduced from 2.44 in 2008. • Business sector share in research and development expenditures increases from 43% in 2010. • Loans to SME increased from 23% in 2010 & Size of financial investor base (assets of insurance, mutual funds and private pension funds) increased from 5.5% of GDP in 2010.		
Outcome 1: **Sustained macroeconomic and financial stability and strengthened exports, domestic savings, and external resilience** *through*: • Implementation of the Medium-Term Program, including policies on growth, employment, competitiveness and savings. • Domestic savings rate increases from 13.9% in 2010. • Non-agricultural job informality rate reduced from 29.1% in 2010 (WBG staff calculation). • Public debt levels continue to decline.	❒ Development of policy options on trade competitiveness and regional trade integration as identified in AAA, including trade outcome and firm level analysis of constraints to trade. ❒ Government/WBG continued discussions and implementation of policies to increase domestic savings as identified in the CEM Savings (FY11), including a benchmarking survey on level of household financial literacy in view of the national financial education strategy under preparation by the Capital Market Board. ❒ Development of policy options for improving the efficiency of public spending.	**Indicative Financing:** • Programmatic Development Policy Loan - Growth, Competitiveness, and Employment (FY13) • Development Policy Loan – to be determined (FY14) **Ongoing and Indicative AAA:** • ESW Programmatic Public Expenditure and Financial Management 4 - General Public Expenditure Review (FY12) • ESW Country Economic Memorandum on Trade 1 & 2 (FY12 & FY13) • ESW New Country Economic Memorandum (TBD) (FY13) • TA Financial Literacy (which is follow-up to Programmatic Country Economic Memorandum on Savings) (FY12) • Regional AAA: Regional Trade – Economic Integration in Turkey, Caucasus, and the Mashreq Region (FY13)
Outcome 2: **Increased employment and reduced job informality, especially for women and youth** *through*: • Increased share of youth and women with less than high school education in ISKUR vocational training from 21% in 2011. • Decrease in Turkey's Employment Protection Legislation Index score from 3.46% in 2008. • IFC's real sector portfolio companies will provide about 70,000 jobs.	❒ Support to the implementation of the National Employment Strategy, including: (i) progress towards the introduction of pre-funded severance accounts; (ii) increased unemployment insurance coverage; (iii) reduced restrictions on disincentives to part-time, fixed-term, and temporary work. ❒ Development of policy options for improving the cost-effectiveness of employment activation programs for low skilled youth and women. ❒ Expansion of employment activation programs for low skilled youth and women. ❒ Implementation of renewed Informality Action Plan to reduce informality, including measures to improve audit coordination.	**Ongoing Financing:** • TF SIEF (Spanish TF for Impact Evaluation): Impact Evaluation of Vocational Education Programs (FY10) **Indicative Financing:** • Programmatic Development Policy Loan - Growth, Competitiveness, and Employment (FY13) • Development Policy Loan – to be determined (FY14) • Areas of Education/Employment (FY14/15) • IFC Investments in the real sector and in the financial sector **Ongoing and Indicative AAA:** • ESW Programmatic Jobs 1: Managing Labor Markets through the Business Cycle (FY13) • ESW Programmatic Jobs 2: Activation of Low Skilled Youth and Women (FY13) • ESW Programmatic Jobs 3: Labor Mobility (FY14) • TA Programmatic Human Development 1 & 2 (FY12 & FY13) • Impact Evaluation of ISKUR's (Turkish Employment Agency) Vocational Training Programs (FY12) • IFC Support for vocational education

Strategic Theme 1: Enhanced Competitiveness and Employment		
Country Development Outcomes to which CPS Contributes	**Milestones and Outputs of the CPS Program**	**World Bank Group Program**
***Outcome 3*: Improved investment and business climate; deepened and broadened access to finance** *through:* (a) Improved investment and business climate: • The number of days for a company in the manufacturing sector to obtain an operating license is reduced from 62 (2010 ICA). • The Doing Business Strength of Investor Protection Index increases from 5.7 (2012 Report). (b) Improved access to finance: • Export growth in firms benefiting from IBRD financing relative to sector export growth is greater than zero. • Sales growth in SMEs benefiting from IBRD financing greater than zero adjusted for inflation. • Gross non-performing loans (NPL) ratios for financial institutions benefiting from IBRD financing do not exceed the average for the banking sector (2.7 percent as of end-2011, BRSA). • IFC estimates leveraging through local financial intermediaries financing to about 100,000 SME clients and 120,000 farmers.	(a) Investment and business climate: ❒ A one-stop shop simplified administration for licenses in place. ❒ Completion of functional review of the national competition policy framework. ❒ Development of policy options for a legal framework to help foster the commercialization of public research and for rebalancing incentives for private research. ❒ Identification of regional dimensions of the challenges and opportunities facing the private sector to inform future policy. (b) Access to finance ❒ The capacity of the Bank Regulation and Supervision Agency to monitor market risks has been enhanced. ❒ Capacity of intermediaries to appraise investment projects with longer maturity profiles is enhanced. ❒ Policy actions to broaden the investor base for private securities adopted /start implementation.	**Ongoing Financing:** • First Access to Finance for Small and Medium Enterprises Project (FY06) • Fourth Export Finance Intermediation Loan (EFIL IV) (FY08) • Second Access to Finance for Small and Medium Enterprises Project (FY10) • MIGA underwriting of financial sector project **Indicative Financing:** • Programmatic Development Policy Loan - Growth, Competitiveness, and Employment (FY13) • Development Policy Loan – to be determined (FY14) • SME Access to Finance (Food Safety) (FY13) • Area of Access to Finance: SME or Exporters (FY14/15) • IFC Investments in the energy sector • IFC Financing in the rural areas • IFC Corporate bond market development • IFC Use of securitization structure • IFC Long-term financing to the banking sector for on-lending to agribusiness and renewable energy projects • IFC Support for South-South projects • IFC Short-term financing and trade • IFC SME funding support through financial intermediaries • IFC Equity investments reducing systemic banking sector risk • IFC Support for systemically important western banks' subsidiaries in Turkey **Ongoing and Indicative AAA:** • TA Investment Climate and Competitiveness including Regional ICAs (FY12) • TA Financial Sector Development (FY12) • WBI Joint MENA/ECA/WBI cross-regional knowledge sharing initiative on the 'How-to of Technology Acquisition, Innovation and Entrepreneurship'

Strategic Theme 2: Improved Equity and Public Services		
Country Development Outcomes to which CPS Contributes	**Milestones and Outputs of the CPS Program**	**World Bank Group Program**
Country-level Indicators: • Increased preschool enrollment from 30% in 2011 to 70% in 2014 • Improvement in resource allocation for health by reducing Social Security Institution's (SSI) drug expenditures as a share of total from 41.6 % in 2010 to 37.5 % in 2014 • Ministry of Health is reorganized and focuses exclusively on the health sector's stewardship functions by 2015. • Increase female labor force participation rate from 27.6 % (TUIK 2010). • Significantly reduce the gender gap in secondary school enrollment from 6 percentage points (2010).		
Outcome 4: **Improved quality and coverage of early childhood education (ECE)** *through*: • Indicator to be defined based on project design.	❒ Development of a program for expanding and improving early childhood education, informed by ESW. ❒ Introduction of quality assurance system for early childhood education, including clear education standards and mechanisms for monitoring and enforcing those standards. ❒ Introduction of mechanisms for targeting resources to disadvantaged children and provinces with low early childhood education enrollment.	**Indicative Financing:** • Areas of Education/Employment (FY14/15) **Ongoing and Indicative AAA:** • ESW Programmatic Education: Financing and Accountability 1 & 2 (FY12 & FY13)
Outcome 5: **A more effective and financially sustainable health system; other countries expressed interest to learn from Turkey's experience** *through:* • Ministry of Health is reorganized and focuses exclusively on the health sector's stewardship functions by 2015. • All public hospitals organized in public hospital unions and paid on the basis of performance contracts within a global budget.	❒ Increased capacity of the Ministry of Health to carry out stewardship functions. ❒ Development/adoption of policy options for the provision of quality health care while containing costs. Options could include: (i) revision of mechanisms for setting global expenditure caps for Social Security Institution health expenditure categories; (ii) diagnosis-related group (DRG) payments for hospital inpatient and outpatient services in all MOH hospitals; (iii) reduction of pharmaceutical spending and promotion of rational use of drugs; and (iv) gradual introduction of incentives linked to preventive interventions among family doctors. ❒ Sharing of Turkey's health reform experience with other countries in the region and beyond – under discussion with the Government.	**Ongoing Financing:** • Health Transformation and Social Security Reform Project APL 2 (FY09) • TF GPF (Governance Partnership Facility): Health Transformation and Social Security Reform (FY09) • TF IDF (Institutional Development Fund): Strengthening Institutional Capacity for One Health Strategic Planning and Economic Analysis (FY11) **Indicative Financing:** • Project on Health (FY13) • IFC Support for healthcare companies **Ongoing and Indicative AAA** • ESW Programmatic Health 1: Family Medicine (FY12) • Programmatic Health 2: Pharmaceuticals (FY13) • WBI activities

Strategic Theme 2: Improved Equity and Public Services		
Country Development Outcomes to which CPS Contributes	**Milestones and Outputs of the CPS Program**	**World Bank Group Program**
***Outcome 6*: Progress made toward gender equity** *through*: • At least 20 companies granted new Gender Equity Certification by end of 2015. Baseline: zero in 2011. • Financial support tailored to additional 900 small and medium female-owned enterprises. • Contribution to increased female labor force participation through support to 900 women owned SMEs through IFC financed SMEs.	❒ Gender certification program to promote gender equality in the workplace developed and implemented in 11 firms by July 2012. ❒ Development of policy options to increase female formal employment through (i) flexible contracting; (ii) employment activation programs; and (iii) access to child care. ❒ Obstacles for women in the investment climate are identified.	**Indicative Financing:** • IFC Gender finance **Ongoing and Indicative AAA:** • ESW Programmatic Jobs 2: Activation of Low Skilled Youth and Women (FY13) • TA Gender Equity in the Private Sector 1 & 2 (FY12 & FY13) • Impact Evaluation of ISKUR's (Turkish Employment Agency) Vocational Training Programs (FY12)
***Outcome 7*: Improved public services and governance** *through*: • Turkey's benchmarking against other countries in the areas of education financing, teachers policies, school autonomy and accountability improved as measured by the System Assessment and Benchmarking for Education Results (SABER). Baseline will be developed in 2012. • Budget, transparency and accountability improved based on reviews like 2010 PEFA scores. • Strong competition among public institutions to receive higher rating based on Citizen Report Card. Baseline: 1 pilot municipality (Manisa). Target: 6 municipalities. • A new SOE framework legislation is prepared to improve governance at SOEs.	❒ Development of policy options to improve financial management and governance of public institutions, with focus on: • *Education*: (i) develop an objective and transparent education financing system (ii) increase school financial autonomy; and (iii) increase accountability at all levels of the education system. • Local administrations' financial management structure and fiscal position. • State-owned enterprises governance. • Transport sector expenditures. ❒ Citizen Report Card format produced and municipality of Manisa self-financed its 2012 survey. • New grants delivered under the School Development Program (SDP) to 3,500 disadvantaged schools by June 2012.	**Ongoing Financing:** • Secondary Education Project (FY05) • TF GPF (Governance Partnership Facility): Capacity Building for the Parliament and Parliamentary Budget Office in the New Public Financial Management Framework) (FY 09) • TF IDF (Institutional Development Fund): Capacity Building for Internal Audit • TF SAFE (Strengthening Accountability and Fiduciary Environment): Enhancing the Supreme Audit Function of the Turkish Courts of Accounts **Indicative Financing:** • IFC Investments in transport logistics • IFC Municipal finance **Ongoing and Indicative AAA**: • ESW Programmatic Public Expenditure and Financial Management 3 – Transport Public Expenditure Review (FY12) • ESW Programmatic Public Expenditure and Financial Management 4 – General Public Expenditure (FY12) • ESW Programmatic Education: Financing and Accountability 1 & 2 (FY12 & FY13) • ESW Programmatic Public Expenditure and Financial Management 4 continued (FY13) • TA SOE Governance (FY12)

Strategic Theme 3: Deepened Sustainable Development		
Country Development Outcomes to which CPS Contributes	**Milestones and Outputs of the CPS Program**	**World Bank Group Program**
Country-level Indicators: • Implementation of the 2011 National Climate Change Action Plan. • Make progress toward increased energy efficiency through reducing primary energy intensity by 20% compared to 2011 by 2023 as a result of implemented and planned policies and measures. • Improved adaptation to climate change through improved water resources management as part of a Water Law to be approved before 2013. • Increased sustainability of Turkish cities; achievements to be measured by the Integrated Urban Development Strategy and Action Plan (KENTGES).		
Outcome 8: **Improved supply of reliable and efficient energy, increased use of renewable energy sources and climate actions under implementation** *through*: • Improved supply of reliable and efficient energy by adding at least 10,000 MW new generation capacity by 2015. • Renewable electricity generation as a percentage of total generation increased from 18% in 2009 to 30% or more in 2015. • IFC reached through its portfolio companies about 6 million electricity customers by FY15 Baseline: 2.6 million customers in FY11.	❒ Energy Efficiency Strategy adopted. ❒ Action Plan to increase energy efficiency in existing buildings developed by 2014. ❒ Start implementation of the Climate Change Action Plan. ❒ Market-based mechanism for greenhouse gas emissions adopted. ❒ Policy options developed to implement Turkey's vision of 'sustainable development' through increased energy efficiency and renewable energy, with 'climate action' as a possible focus.	**Ongoing Financing:** • Gas Sector Development Project (FY06) • Electricity Distribution Rehabilitation Project (FY07) • Private Sector Renewable Energy and Energy Efficiency Project (FY09) • Energy Community of South East Europe (ECSEE) APL6 Project (FY11) • TF CTF (Clean Technology Fund): Private Sector Renewable Energy and Energy Efficiency Project (FY09) • TF IFC GeoFund (Geothermal Energy Development Program): Technical Assistance (FY11) • TF PMR (Partnership for Market Readiness): Carbon Markets Initiatives **Indicative Financing:** • Third Programmatic Environmental Sustainability and Energy Sector (ESES) Development Policy Loan (FY12) • Private Sector Renewable Energy and Energy Efficiency Additional Financing (FY12) • Private Sector Energy Efficiency (FY13) • IFC Sustainable energy financing • IFC Financing for renewable energy projects (geothermal, hydro and wind power) • IFC Financing for gas distribution projects **Ongoing and Indicative AAA:** • TA Energy Efficiency and Renewable Energy (FY13) • Regional AAA: Assessment of Prospects and Road Map for Synchronization of Mashreq Electricity Networks (tbd)
Outcome 9: **Strengthened environmental management and adaptation to climate change** *through*: • Fifty percent of all companies subject to the 'Regulation on Permits and Licenses in accordance with the Environmental Law' employ certified environmental officials. • Improved water basin management: (a) Protection action plans prepared for Turkey's 25 river basins, taking into account principles of the Water Framework Directive. Baseline: 4 in 2009; Target: at least 20 by end-2012. Status: 15 at the end of 2011. (b) Area of watershed rehabilitation increased: Indicator to be defined based on project design.	❒ EU-Environmental Chapter opened in 2009 and negotiations remain underway. ❒ Transposition and implementation of Directive 85/337/EEC as amended with 97/11/EC and 2003/35/EC on Environmental Impact Assessment (EIA) into legislation. ❒ Transparency and public participation in environmental decision making increased is being achieved through implementation of the EIA regulation. EIA decisions are disclosed in Ministry of Environment and Urbanization website. ❒ An integrated system for environmental permitting, monitoring and inspection in provincial directorates will be established. ❒ National Water Basin Management Strategy approved by the High Planning Council and implementation started. ❒ Legislation updated to include cumulative impact assessment for water usage installations in river basins.	**Ongoing Financing:** • Anatolia Watershed Rehabilitation Project plus GEF Project (FY04) • TF GEF3 Full-Sized Project: Turkey Anatolia Watershed Rehabilitation Project (FY05) • TF PROFOR (Program on Forests): Support for Targeting Watershed Rehabilitation Investments in Turkey (FY09) **Indicative Financing:** • Third Programmatic Environmental Sustainability and Energy Sector (ESES) Development Policy Loan (FY12) • Areas of Sustainable Cities/ Disaster/ Watershed/ Energy (FY14/15) • IFC Equity investments with junior exploration companies in the mining sector in frontier regions of Turkey **Ongoing and Indicative AAA:** • ESW Rio+20/Cleaner Production (FY12) • ESW New Country Economic Memorandum (TBD) (FY13) • TA Food Safety Programmatic TA (FY12) • TA National Disaster Risk Mitigation (FY12) • TA National Watershed Management (FY12)

Strategic Theme 3: Deepened Sustainable Development		
Country Development Outcomes to which CPS Contributes	**Milestones and Outputs of the CPS Program**	**World Bank Group Program**
***Outcome 10*:** **Improved sustainability of Turkish cities** *through*: • An additional 420,000 people in the four pilot cities under the Municipal Services Project have gained access to basic urban services, e.g., water supply, garbage collection, sewerage, etc. • Four pilot cities meet Sustainable Cities Index performance targets by increasing energy efficiency, reducing carbon emissions, and/or improving financial sustainability. • At least a total of 750 public buildings in the Istanbul Metropolitan Area retrofitted/reconstructed to resist a major earthquake compared to 595 building in 2011.	❒ Program on key urban areas developed and discussed to: (i) improve urban transport and housing; (ii) expand cities' capacity building, including financial capacity; (iii) monitor city sustainability and livability based on international experience; and (iv) finance investment through Iller Bank, for environmental and energy efficiency investments in cities. ❒ Policy options developed for supporting cities to adapt energy efficiency standards into building permits and construction licensing. ❒ Real property cadastre and registry information systems modernized in digitally accessible format for at least 4 million parcels in five priority regions (Ankara, Antalya, Istanbul, Izmir and Gaziantep) by 2013. ❒ Support development of urbanization policy. ❒ Policy options developed to implement Turkey's vision of shifting the industrial sectors towards cleaner production.	**Ongoing Financing:** • Municipal Services Project (FY05) plus Additional Financing (FY10) • Istanbul Seismic Risk Mitigation and Emergency Preparedness Project (FY05) plus Additional Financing (FY10) • Land Registration and Cadastre Modernization Project (FY08) • MIGA underwriting of infrastructure projects including Istanbul Metro • TF GFDRR (Global Facility for Disaster Reduction and Recovery): Disaster Mitigation and Preparedness (FY09) • TF PPIAF (Public-Private Infrastructure Advisory Facility): Sustainable Cities (Municipal Credit Ratings Transaction Structuring) **Indicative Financing:** • Areas of Sustainable Cities/ Disaster/ Watershed/ Energy (FY14/15) • IFC Municipal finance **Ongoing and Indicative AAA:** • ESW Sustainable Cities 1 & 2 (FY12 & FY13)

MACROECONOMIC ANNEX

Recent Economic Developments[24]

1. **After a banking crisis in 2001, when GDP contracted by 5.7 percent, and an expensive recapitalization of its banks, Turkey embarked on a path of concerted structural reforms.** Reforms were wide-spanning and aimed at improving fiscal and public financial management, strengthening banking supervision, introducing a comprehensive social security reform, and revamping the framework for macroeconomic management, within which an independent CBRT is responsible for inflation-targeting.

2. **Turkey's macroeconomic policies and structural reforms over the past decade have yielded robust economic growth. Real GDP increased by 50 percent between 2001 and 2010 and the average growth rate was nearly 7 percent during 2003-07, up from an average of 4 percent during the 1990s.** Growth resumed rapidly after the 2008-2009 global crisis, at 9 percent in 2010 and 9.6 percent in the first three quarters of 2011. Per capita income almost tripled since 2002 and now stands at US$ 10,067. Public sector primary balance averaged about 2.8 percent of GDP over 2004-10 and gross public debt as a percentage of GDP fell from 73.4 percent in 2002 to 45 percent in 2010, in spite of a moderate increase during the 2008-09 global crisis. Inflation came down from a high of around 70 percent to under 10 percent. Healthy export growth (13 percent per year over 2004-10) contributed to limiting external vulnerability. On the back of strong reserve build up, improvements in the country's prospects were also signaled by upgrades post- 2008 and outlook revisions by all the main credit rating agencies. More recently, in September 2011 S&P raised Turkey's local-currency rating by one notch to BBB-. In November 2011 Fitch changed Turkey's sovereign debt rating outlook from positive to stable while keeping the rating at BB+, reflecting increasing near term risks to macroeconomic stability (see below).

3. **The Government adopted expansionary macroeconomic policies during the 2008-2009 global crisis. Turkey suffered from a short but sharp fall in GDP (4.8 percent) in 2009 reflecting a strong deterioration of investor and consumer confidence and a drop in external demand and capital inflows.** The current account deficit narrowed significantly as imports reacted strongly to the sharp slow-down in domestic demand while exports were less affected. Foreign direct investment slowed considerably from 2.3 percent of GDP (US$ 17 billion) in 2008 to 1.1 percent of GDP in 2009 (US$ 6.9 billion). Unemployment reached a high of 16.1 percent in February 2009, an increase of 35 percent compared with the same time in 2008. The authorities moved quickly to maintain confidence and liquidity in the banking sector (including through a reduction in reserve requirements and the reintroduction of a 'blind-broker' lending facility), and implemented a set of employment measures, as well as fiscal stimuli. Between October 2008 and November 2009, the overnight interest rate was cut by a cumulative 10.25 percentage points. The general government fiscal deficit increased sharply from 1.6 percent in 2008 to 5.5 percent of GDP in 2009, due mainly to the operation of automatic stabilizers (such as the increase of approximately 1.8 percentage points of GDP in budgetary transfer to the Social Security Institution (SSI)). Facilitated by expansionary policies, unemployment peaked by mid-2009 and output began to recover by the last quarter of 2009.

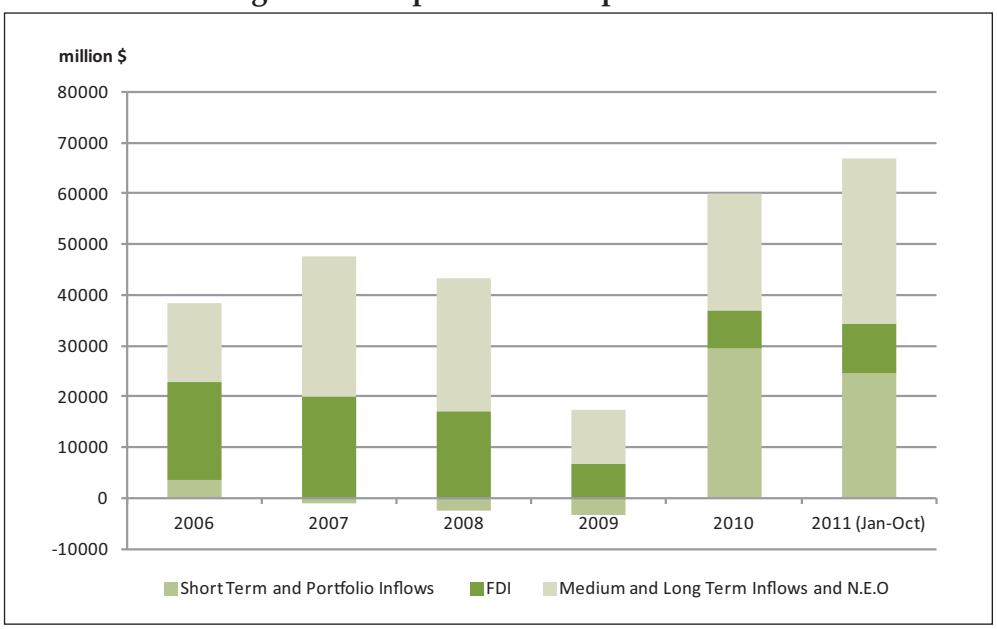
4. **Turkey recovered from the 2009 recession with a GDP growth of 9 percent in 2010 and 9.6 percent during the first three quarters of 2011, facilitated by rapid credit growth[25] and high capital inflows on the back of global liquidity and healthy Turkish balance sheets.** Output is now almost ten percent higher than its pre-crisis peak. During the past two years, growth has been driven by domestic consumption and investment demand from the private sector, fueled by historically low interest rates. In 2010 economic growth was 9 percent; of this, private consumption and private investment accounted for a sizeable share (about 5 percentage points each, with net exports making a negative contribution; see Table 1). With very low domestic savings, and on the back of healthy Turkish balance sheets and quantitative easing in some

24 See Figures 2-15 for a graphical illustration of the recent economic developments.
25 Annualized weekly credit growth peaked at 50 percent in January 2011.

advanced economies, growth has relied on short-term, capital inflows (mostly mediated by the banking system) to finance imports, while Foreign Direct Investment (FDI) has remained subdued. This has in turn contributed significantly to the widening of the current account deficit.

5. **High growth of imports (in particular of capital and intermediate goods) led to a rapid rise in Turkey's current account deficit (CAD), from an 8-year low in 2009 to historic highs during 2011.** The CAD widened from US$ 14 billion (2.3 percent of GDP) in 2009 to US$ 47.1 billion (6.4 percent of GDP) in 2010 and 77.8 billion as of November 2011 (9.8 percent of GDP) on a 12-month rolling basis. Furthermore, the composition of the CAD deteriorated with the share of FDI in total inflows falling from 45 percent in 2007 to 18 percent in 2011 (Figure 1). Although energy accounts for a large share of the trade deficit (nearly 5 percent of GDP on average in recent years), the non-energy balance contributed significantly to the deterioration. The private sector accounted for the bulk of the CAD, and private external indebtedness increased correspondingly, from US$ 188 billion in 2008 to US$ 202.2 billion in 2011. The reliance on high level and short-term nature of the financing of the current account deficit will likely continue in the near future, with the associated risks of a significant growth slowdown should Turkey be hit by growing risk aversion in global financial markets.

Figure 1. Composition of Capital Inflows



Source: CBRT.

6. **Unemployment has fallen below pre-crisis levels, notwithstanding an increase in labor force participation, but it remains high.** After peaking at above 16 percent in February 2009, seasonally adjusted unemployment has decreased steadily falling to 9.1 percent by October 2011, improving upon pre-crisis levels. Nonetheless, open unemployment in Turkey remains high in absolute terms, and the Turkish labor market is characterized by low activity rates and high job informality. The employment rate of working age (15-64) women in 2010 is the lowest among OECD and Europe and Central Asia countries. And about 40 percent of those employed are working in the informal sector, although job informality has been decreasing somewhat.

Table 1: Selected Macroeconomic Indicators (2005-2011)							
	2005	2006	2007	2008	2009	2010	2011 Est.
Growth (%)	8.4	6.9	4.7	0.7	-4.8	9.0	8.0
Contributions to Growth (percent)							
Consumption	5.8	4.1	4.4	0.0	-0.8	5.0	6.3
o/w Private	5.6	3.3	3.8	-0.2	-1.6	4.7	5.5
Gross Fixed Capital Formation	3.9	3.2	0.8	-1.5	-4.5	6.0	4.8
o/w Private	3.1	3.1	0.6	-2.0	-4.4	5.4	4.4
Net Exports	-1.4	-0.3	-1.2	1.9	2.7	-4.4	-3.0
Exports	1.9	1.6	1.8	0.7	-1.3	0.9	1.4
Imports	-3.3	-1.9	-3.0	1.2	4.0	-5.2	-4.4
Change in Inventories	0.1	-0.1	0.6	0.3	-2.3	2.4	-0.1
GDP (billion US$)	481.5	526.4	648.6	742.1	616.7	734.9	791.5
Consumption (as % of GDP)	83.1	82.5	83.8	82.3	85.8	85.3	86.2
Investment (as % of GDP)	20.4	22.4	21.4	22.1	15.3	20.2	23.0
Domestic Savings (as % of GDP)	15.9	16.6	15.5	16.8	13.2	13.9	13.3
Credit Growth (%)	56.8	40.2	27.9	29.8	7.1	33.7	29.5
Unemployment rate (%)	10.6	10.2	10.3	11.0	14.0	11.9	9.8*
CPI Inflation (%) (end-of-period)	7.7	9.7	8.4	10.1	6.5	6.4	10.5*
General Govt. Rev./GDP, %	32.9	34.8	33.6	32.9	34.6	35.5	36.9
General Govt. Exp./GDP, %	33.0	33.4	33.8	34.6	40.1	38.4	38.1
General Govt. Bal./GDP, %	-0.1	1.4	-0.2	-1.6	-5.5	-2.9	-1.2
Public Sector Primary Balance/GDP, %	5.0	4.5	3.2	1.6	-1.0	0.8	1.2
Gross Public Debt/GDP1	54.1	48.2	42.2	42.9	48.9	45.0	40.2
Gross External Debt/GDP	35.3	39.5	38.5	37.8	43.6	39.5	41.3
Export Growth (f.o.b.)	16.3	16.4	25.4	23.1	-22.6	11.5	18.5*
Import Growth (c.i.f.)	19.7	19.5	21.8	18.8	-30.2	31.7	29.8*
CAD (billion US$)	22.3	32.2	38.4	42.0	14.0	47.1	77.2*
CAD/GDP (%)	4.6	6.1	5.8	5.7	2.3	6.4	9.8
Reserves (billion US$) (including gold)	50.2	60.7	74.7	72.9	74.8	86.0	88.2*
Reserves (as months of imports)	5.2	5.2	5.3	4.3	6.4	5.6	4.4*

Source: Undersecretariat of Treasury, Ministry of Development, BRSA, CBRT, TURKSTAT, Bank Estimates for selected 2011 variables.

[1] Gross public debt as defined by the Undersecretariat of Treasury varies from the EU defined general government debt stock definition. The difference arises from the following adjustment items for EU defined debt: (i) recording of zero coupon securities at face value; (ii) inclusion of inflation variation for CPI indexed bonds; (iii) inclusion of coins in circulation issued by Treasury; and, exclusion of the government securities held by different public sector institutions, (iv) exclusion of debt stocks of SOEs. *actualized

7. **High growth has translated into continuing improvements in the headline fiscal balance, but primary spending remains above pre-crisis levels.** The general government fiscal deficit declined from 5.5 percent of GDP in 2009 to an estimated 1.2 percent in 2011 and, after a crisis-related increase in 2008, the public debt to GDP ratio has resumed its downward trend. The decline in the fiscal deficit reflects the strong cyclical nature of tax revenues, but a comprehensive tax restructuring program and a reduction in the interest bill have also contributed. However, primary spending remains significantly above the pre-crisis level, primarily due to higher capital investment, wage and pension spending. There has been structural loosening in recent years, from a structural primary surplus equivalent to 1.3 percent of GDP in 2007 to an estimated deficit of around one percent of GDP in 2011.

8. **Facing difficult policy trade-offs, CBRT has implemented an 'unorthodox' policy, moving to a tightening stance in late 2011.** A weak global economy, and the transition from large capital inflows and upward pressure on the lira in 2010 to declining inflows and lira depreciation pressures in 2011 have created difficult economic policy trade-offs. In late 2010, in response to surging capital inflows, CBRT adopted an 'unorthodox' monetary policy cutting overnight interest rates in an effort to discourage portfolio investors from taking short-term 'carry trade' positions in lira assets, while at the same time increasing reserve requirements to curtail domestic credit. The lira weakened significantly as a result, while credit growth began to slow following the introduction of macro-prudential measures by the Banking Regulation and Supervision Authority only in June 2011. Prompted by concerns about the global economy and early indications of a domestic slowdown, CBRT reduced the policy rate by 50 bps in early August 2011.

9. **Since mid-October 2011, responding to an increase in inflation (primarily reflecting pass-through of the cumulative 30 percent nominal depreciation since November 2010), CBRT has tightened monetary policy.** It has *inter alia* increased overnight lending rates and engaged in large-sale foreign exchange selling auctions and direct interventions. As a result, the interbank overnight rate increased from 6.5 percent in December 2010 to 11.2 percent in December 2011, and the benchmark government bond yield rose from 7.11 to 11.04 percent during the same period.

10. **Turkey's EMBI spread has continued to outperform the aggregate emerging market index.** It fell from a post-crisis high of 889 (October 27, 2008) to 265 at end-November 2009, essentially back to pre-crisis levels. By mid-November 2010, Turkey's EMBI spread had dropped to 159 bps, but by end-November 2011, they surged to 352 bps (although still below the 413 bps EMBI global spread for emerging markets).

Medium-term Economic Prospects

11. **Growth is expected to slow down significantly in 2012, before recovering to about five percent per annum in the medium-term.** The annualized weekly credit growth rate declined to 23 percent in mid-December 2011, less than half its peak of 50 percent in January 2011. On the back of slower credit growth and falling domestic and foreign demand, growth is estimated to have slowed down already in the last quarter of 2011, bringing the growth rate for the year at around eight percent. Real GDP growth is expected to slow down to about three percent in 2012. The macroeconomic outlook beyond 2012 is more favorable and, in line with Government's Medium-Term Program (MTP), projects a GDP growth rate of around five percent per annum, driven largely by strong private-sector led domestic demand. The projected growth is predicated on capital inflows financing a current account deficit of 5-6 percent over the medium term.

12. **This growth path is predicated on continued progress on Turkey's unfinished structural reform agenda**. Such reforms include the implementation of the new commercial code and the code of obligations, the labor market reform, measures to bolster long-term fiscal savings, and steps to reduce the dependency on imports of fuel through an expansion of renewable energy use in electricity generation and improvements in energy efficiency. The current account deficit is projected to narrow in the outer years (on the back of structural reforms and enhanced competitiveness as well as a recovery in global growth) and supported by higher domestic savings.

13. **The MTP envisages gradual improvements in fiscal balances.** On the public sector side, Table 2 shows a shift from a 1.0 percent public sector primary deficit in 2009 to a 1.4 percent surplus by 2014, with the general government balance shifting correspondingly from a 5.5 percent deficit in 2009 to a 0.5 percent deficit in 2014. Given current global economic uncertainties, the Authorities need to remain vigilant and avoid fiscal policy slippages. This will help limit risks, which can rapidly increase in the current volatile environment, strengthen investor confidence, and moderate aggregate demand.

14. **The fiscal adjustment over 2012-14 will come mainly from expenditure measures.** General government expenditures as a share of GDP are projected to decline, from the 2009 level of about 40 percent, to about 36.8 percent by 2014, leading to a declining borrowing requirement. The decrease in spending over the MTP period is driven by a decline in current expenditures, mainly cuts in goods and services spending, and a decrease in current transfers to the Social Security Institutions (because of the improvements in its balance).

Table 2: Medium-Term Macroeconomic Projections and Targets

	2012	2013	2014	2015	2016
Growth (%)	2.9	4	5	5	5
Contributions to Growth (percent)					
Consumption	2.5	3.2	3.6	3.4	3.3
o/w Private	2.3	2.9	3.3	3.3	3.2
Gross Capital Formation	1.0	1.7	2.2	2.3	2.3
o/w Private	0.8	1.2	1.9	2.1	2.2
Net Exports	-0.5	-0.9	-0.8	-0.7	-0.6
Exports	1.7	1.5	2.0	2.1	2.4
Imports	-2.2	-2.4	-2.8	-2.8	-3
CPI Inflation (%) (end-of-period)	7	5.2	5	5	5
General Govt. Rev./GDP, %	36.4	36.5	36.3	36	36
General Govt. Exp./GDP, %	37.4	37.2	36.8	36.5	36.4
General Govt. Bal./GDP, %	-1.0	-0.7	-0.5	-0.5	-0.4
Public Sector Primary Balance/GDP, %	1.3	1.1	1.4	1.7	1.9
Gross Public Debt/GDP[2]	38.4	37.0	35.2	33.2	31.2
Gross External Debt/GDP	42.6	43.0	42.6	41.8	41.1
CAD (billion US$)	63.7	66.0	66.4	64.9	61.1
CAD/GDP (%)	7.6	7.3	6.9	6.3	5.6
Reserves (billion US$) (including gold)	90.4	91.9	95.1	97.1	100.8

[1] World Bank staff estimates for total public debt stock (consistent with EU defined general government debt stock reported in MTP) and gross external debt stock.

Source: World Bank Staff Projections

15. **External financing needs will remain high in 2012-16 (Table 3).** Turkey should be in a position to attract further FDI given privatization efforts and the potential for mergers and acquisitions. The baseline net FDI inflows are projected to rise from US$13 billion in 2012 to US$18.1 billion in 2016. Similarly, net portfolio flows are assumed to be positive, consistent with continued Eurobond issuance and the potential of the domestic capital market to raise financing. However, higher oil prices than assumed here (US$100), for a sustained period, would create additional external financing requirements - a risk that needs to be closely monitored going forward. A US$10 increase in oil prices would increase the CAD by an estimated 0.4-0.5 percentage point of GDP, and would shave around 0.2-0.3 percentage points of growth.

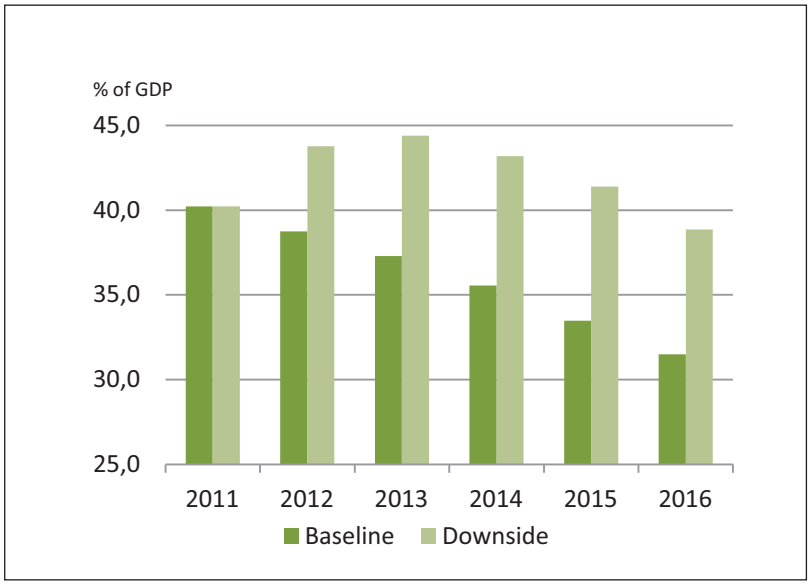
Table 3: External Financing Projections (US$ billion)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Gross financing requirement	**82.9**	**61.2**	**92.9**	**118.6**	**102.5**	**102.3**	**101.3**	**95.8**	**89.9**
Current account deficit	42.0	14.0	47.1	77.2	63.7	66.0	66.4	64.9	61.1
Eurobond repayments	3.4	1.9	2.6	1.7	2.5	1.6	3.3	3.8	4.6
Medium and long-term debt amortization	37.5	45.3	43.2	39.7	36.3	34.7	31.6	27.0	24.3
Public sector	5.4	3.9	5.3	5.7	5.2	4.0	3.9	3.3	3.2
Private non-bank sector	24.9	33.8	31.2	27.1	20.1	22.7	20.8	16.9	14.8
Banks	7.2	7.6	6.7	6.9	11.0	8.0	6.9	6.8	6.3
Capital Inflows	**81.9**	**61.3**	**105.7**	**116.7**	**103.1**	**103.8**	**102.0**	**96.9**	**92.9**
FDI (net)	17.0	6.9	7.6	13.4	13.0	16.5	17.1	17.8	18.1
Portfolio (net)	-5.0	0.2	16.1	22.2	17.1	22.3	25.4	29.5	33.9
General Government	8.9	4.8	6.7	4.9	6.2	4.8	4.7	4.0	3.8
Private Non-Bank Sector (Medium Long Term)	47.7	24.4	25.1	29.7	25.1	29.5	27.0	22.0	19.2
Banks (Medium and Long Term)	8.1	6.0	7.6	12.3	17.0	12.0	10.4	10.2	9.5
Net Error and Omissions	4.1	4.1	2.7	12.2	0.8	0.0	0.0	0.0	0.0
Short-term inflows (net)	1.1	14.9	39.8	22.1	23.8	18.7	17.4	13.4	8.4
Change in Reserves	**1.1**	**-0.1**	**-12.8**	**1.8**	**-0.5**	**-1.5**	**-0.7**	**-1.1**	**-3.0**
Rollover Ratios (%) Assumptions									
Central Government	163.3	123.6	127.2	85.3	120.0	120.0	120.0	120.0	120.0
Corporate (MLT)	191.4	72.2	80.5	109.6	125.0	130.0	130.0	130.0	130.0
Banks (MLT)	112.9	78.6	114.1	177.6	155.0	150.0	150.0	150.0	150.0

Source: Undersecretariat of Treasury and CBRT (until 2011), World Bank Staff Projections

16. **Despite the benign outlook in the baseline scenario, a combination of external and domestic factors poses high risks going forward, including from the spillovers of the European debt crisis.** Turkey's dependence on external financing has left the country prone to boom-bust cycles. The weakening global economic outlook and increasingly severe international funding strains have the potential to spill over to Turkey. Under a deepened crisis scenario in the Euro zone and a corresponding sudden stop of capital inflows to emerging markets driven by a flight to safety, Turkey could possibly face a renewed recession.

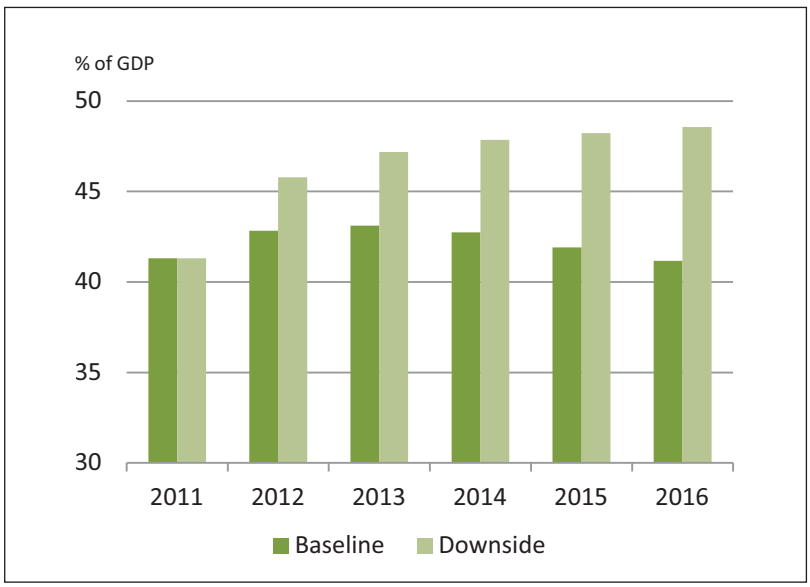
17. **In such a scenario, unlike in the baseline scenario, public debt would rise.** The public debt sustainability analysis suggests that the risks to the sustainability of Turkey's debt burden are moderate in the baseline scenario. Under the baseline macroeconomic scenario, gross public debt is forecast to decline from 45 percent of GDP at end-2010 to 33.2 percent of GDP by 2015. However, in the extreme downside scenario described above the interest rate would go up, the exchange rate would depreciate and GDP contract and fiscal performance would deteriorate. As a result, public debt to GDP ratio would rise to 44.4 percent (7.4 percentage points above baseline) in 2013 before resuming its downward trend and declining to slightly below 39 percent by 2016.

Figure 2. Public Debt Sustainability



18. **External debt dynamics are also vulnerable to a severe unfavorable shock.** After declining considerably from 56.2 percent in 2002 to 35.3 percent in 2005, external debt stood at 41.3 percent at end-2011 and is forecast to increase to 42.6 percent by end-2012 before easing to 41.1 percent by end-2016 in a baseline scenario. However, external debt sustainability analysis shows that, in the event of a sudden stop of capital flows, the external debt to GDP ratio would rise from 41.3 percent to almost 48 percent in 2014 (5.3 pp higher than in the baseline) (Figure 3). The pace of increase in the external debt ratio would slowdown thereafter, with external debt to GDP at 48.6 in 2016.

Figure 3. External Debt Sustainability



The 2000s Growth Story:

Fig. 4. Turkey has had strong recent growth …

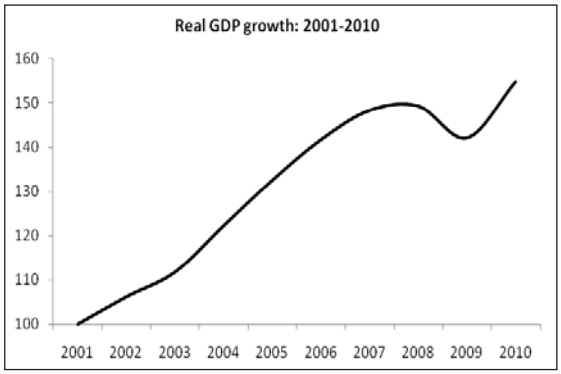


Fig. 5… supported by buoyant trade …

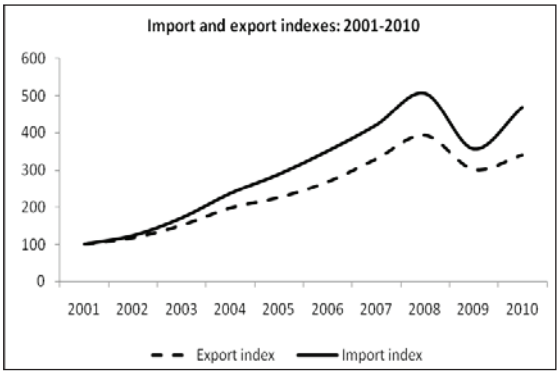


Fig. 6 … and falling inflation.

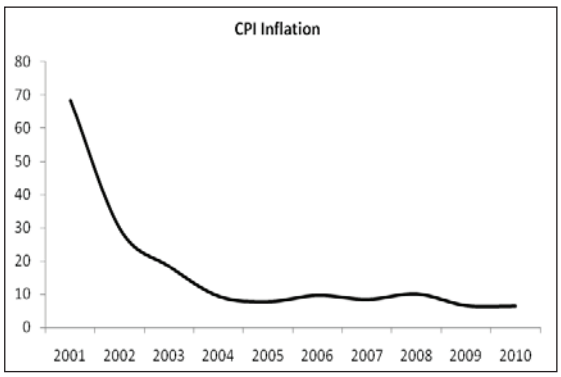


Fig. 7. Growth also helped to reduce public debt.

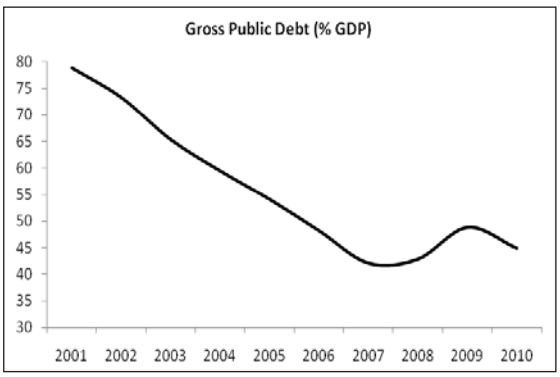


Fig. 8. Strong credit growth amongst other factors …

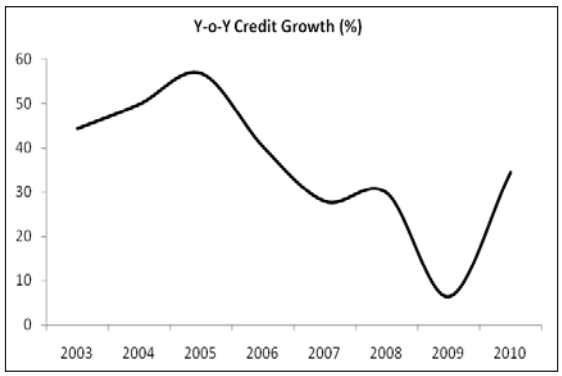
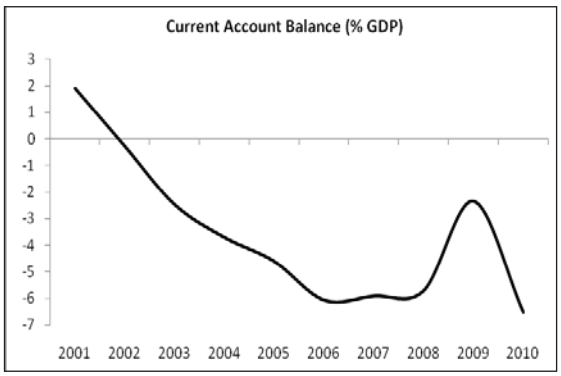


Fig. 9 … led to a widening Current Account Deficit.



Recovery from the Global Financial Crisis:

Fig. 10. A temporary increase in government spending …

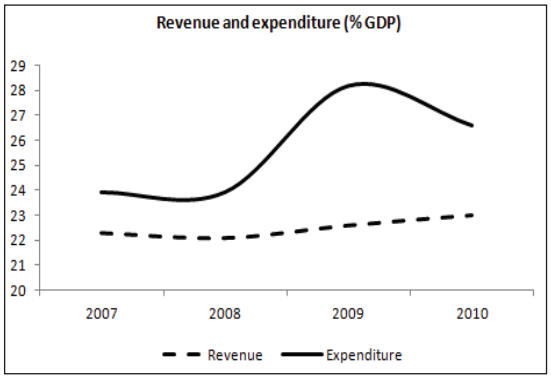


Fig. 11 … a reduced policy rate …

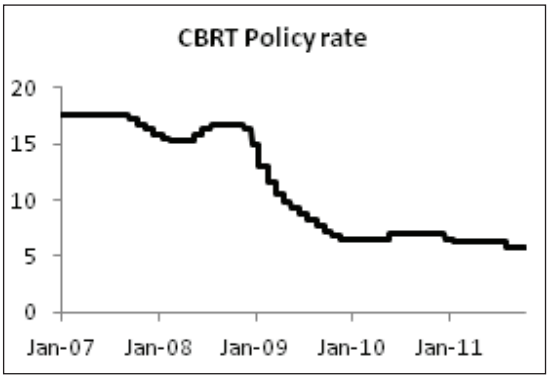


Fig. 12 … combined with renewed confidence in the economy …

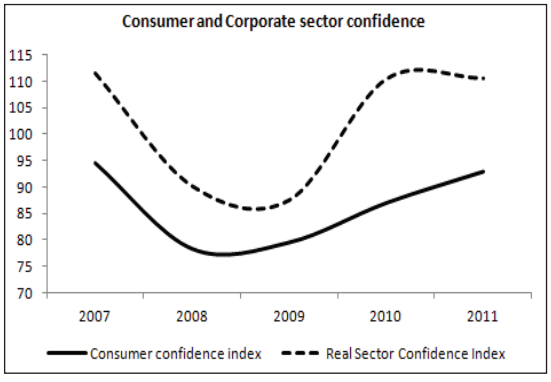


Fig. 13 … and increased credit growth …

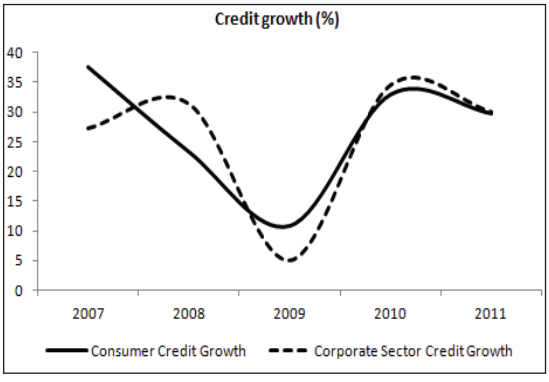


Fig. 14 … all helped to reduce unemployment to lower then pre-crisis levels

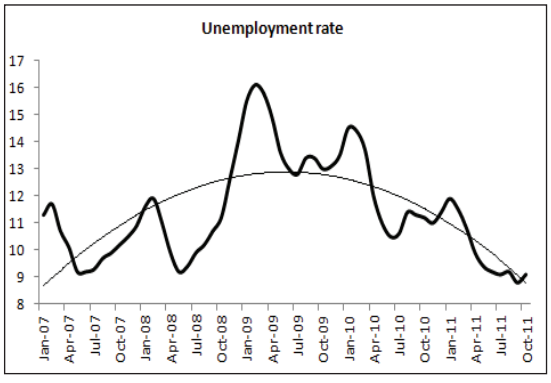
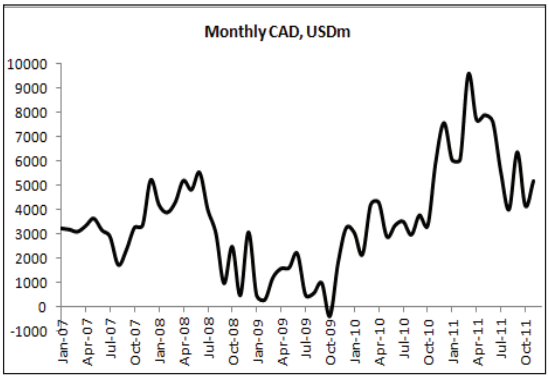


Fig. 15… while the current account deficit increased sharply, increasing vulnerabilities.



TURKEY: COUNTRY PARTNERSHIP STRATEGY COMPLETION REPORT
World Bank Group FY08-11[26]

I. INTRODUCTION AND OVERVIEW

1. **The FY08-11 Country Partnership Strategy (CPS) between Turkey and the World Bank Group (WBG) was carried out against the backdrop of the global financial crisis.** The global downturn had a significant impact on Turkey, but the economy rebounded quickly and strongly. Turkey's robust growth before the global crisis, resilience during the global crisis, and renewed rapid growth after the global crisis are grounded in sustained strong economic management and fundamental and systematic structural reforms carried out since the economic crisis in 2001 and continuing today—all supported by the WBG.

2. **Turkey expanded and strengthened its partnership with the International Bank for Reconstruction and Development (IBRD), the International Finance Cooperation (IFC), and the Multilateral Investment Guarantee Agency (MIGA) during the CPS period**. Total new IBRD financing of USD 7.6 billion in this CPS—an increase by USD 1.4 billion over the originally envisaged USD 6.2 billion, reflecting increased financial support to help address the impact of the global crisis—meant that by June 2011 Turkey was IBRD's second largest borrower, with USD 12.9 billion outstanding. Total new IFC financing was USD 2.0 billion and its committed portfolio grew by 82 percent. Turkey is MIGA's 2nd largest client, as gross exposure grew by 42 percent, from USD 671.8 million in 2008 to USD 951 million at end-FY11.

3. **Turkey and the WBG adjusted the CPS at its halfway point.** The modification, laid out in the Country Partnership Strategy Progress Report (CPSPR), enabled the WBG to support Turkey in its response to the financial crisis and the recovery of sustainable growth. The adjusted CPS centered on macroeconomic resilience and stability; an increase in medium-term credit to the private sector, especially small and medium enterprises (SMEs), which create around 80 percent of employment in Turkey; and medium-term structural reforms to underpin sustained economic growth and job creation—with an additional new focus (introduced through the CPS PR) on the environment and climate change. IFC realigned its strategy to help its clients to survive the crisis and improve their competitiveness, while conserving and creating jobs.

4. **This self-evaluation argues that the FY08-11 CPS was successful.** Both the program's performance in influencing CPS outcomes as laid out in the results matrix, and the WBG's performance in designing and managing the implementation of the program during the CPS period have been assessed as satisfactory. The reasons for this are as follows:

- ***All CPS milestones were achieved or partially achieved*** (see Section III below for details)**.** Sound policies and reforms, supported by the WBG, contributed to Turkey's strong overall economic performance—rapid growth, interrupted for two years by the global crisis, macroeconomic and financial stability, and increased employment. Moreover, policies, programs, and projects realized with the support and partnership of the WBG produced concrete development results in key CPS areas. For example, electricity transmission and peak capacity increased by 60 percent between 2002 and 2010. The health system's greater reach and efficiency improved health outcomes nationwide, gaining international recognition. The progress made by the Istanbul Governorship in strengthening the city's resilience against earthquakes, and preparedness for responding to disasters is considered to be an international role model.

26 Date of CPS: January 25, 2008 (Report No. 42026 TR). Board discussion on February 28, 2008. Date of CPS Progress Report: December 3, 2009 (Report No.51689-TR) Prepared by Ina-Marlene Ruthenberg, Ben Welch and the Turkey Country Team. George Konda had the leadership for IFC contributions, and Franciscus Johannes Linden for MIGA. October 26, 2011.

- ***The open design, flexible mid-point adaptation, and effective implementation of the CPS helped ensure that all goals and milestones were at least partially met even in the highly challenging context of the 2008-2009 global financial crisis.*** Goals and milestones that were partially rather than fully achieved are concentrated in areas particularly sensitive to the impact of the crisis, such as increasing private investment, improving export competitiveness, and increasing employment.

- ***The CPS delivered results beyond its originally envisaged scope and goals.*** The WBG worked closely with Turkey in responding to the global crisis. Support for Turkey's energy reforms grew into collaboration on renewable energy, energy efficiency, and climate change mitigation. Turkey became the first country to access the Clean Technology Fund (CTF). The engagement on clean energy and climate change and customized knowledge services on watershed management and the alignment with EU environmental regulations led to consideration of a sustainability pillar in the FY12-15 CPS.

II. PROGRESS TOWARDS COUNTRY GOALS

Turkey emerged from the global financial crisis with an impressive rebound in GDP growth
The current account deficit remains a vulnerability

5. **Turkey has made major advances towards achieving its development goals** outlined in the Ninth Development Plan[27] and its Millennium Development Goals (MDG), as shown by its 2010 MDG Report. Turkey's per capita income almost tripled since 2002 and now exceeds USD 10,000[28]. Extreme poverty has been eliminated; the primary education and maternal health goals have been achieved; significant progress has been made in reducing infant mortality and improving environmental sustainability; and Turkey is on its way to reach other outstanding MDGs by 2015[29]. EU harmonization is advancing, albeit slowly—with 13 chapters of the EU-Acquis opened and one (Science and Research) provisionally closed. Turkey increased its net official development assistance from USD 67 million in 2003 to USD 967 million in 2010[30].

6. **Turkey's economic stability is enhanced and its credit ratings have been upgraded,[31] although the country's current account deficit remains a critical vulnerability.** After rapid economic growth before the crisis averaging almost 7 percent during 2003-2007, GDP fell by 4.8 percent in 2009, and unemployment peaked at 16.1 percent in February 2009 (29 percent among youth). Yet, in a rapid and strong rebound, the Turkish economy grew by 9 percent in 2010 and by 10.2 percent in the first half of 2011, and unemployment fell back to pre-crisis levels, at 9.2 percent, in May-August 2011. The quick return to robust growth caps a decade of robust growth since 2010—a decade in which sound and prudent macro-economic management, coupled with ambitious structural economic reforms, turned Turkey into a leading international economy. EU defined gross public debt fell from 77.9 percent in 2001 to 42.2 percent in 2010 (even after the temporary increase during the global crisis). The government's primary surplus fell from 5.3 percent of GDP in 2006 to 0.7 percent in 2010, and the primary surplus is expected to increase in 2011[32]. Despite broad success, challenges remain. The largest of these is the current account deficit (CAD). The 12-month rolling CAD rose to USD 74.6 billion in June 2011, and the annualized current account as of June 2011 reached 9.3 percent of GDP—not yet reflecting initial signs of a cooling down of credit, import, and output growth. More than 60 percent of the CAD reflects Turkey's structural dependence on energy imports. The high CAD is a particular vulnerability, as about half of it is financed by short-term capital inflows.

27 Turkey's Ninth Development Plan 2007-2013 lists these strategic objectives: increasing competitiveness, increasing employment, strengthening human development and social solidarity, ensuring regional development, and increasing quality and effectiveness of public services.
28 According to TURKSTAT, per capita GDP was USD 3,492 in 2002 and USD 10,079 in 2010.
29 Other MDGs cover universal primary education (Goal 2), gender equality & empower women (Goal 3); child mortality (Goal 4); HIV/AIDs, malaria & other diseases (Goal 6); ensure environmental sustainability (Goal 7); and a global partnership for development (Goal 8).
30 Source: OECD DAC statistics.
31 At end 2007, S&P, Moody's & Fitch's ratings were BB-, Ba3 and BB respectively. As of 17th August 2011, they had risen to BB, Ba2 & BB+.
32 Source: CBRT General Government Balance.

7. **The financial sector proved resilient in the crisis, and financial markets are deepening slowly, but medium and long-term credit remains scarce.** Credit markets are stronger and the scope of financial services is greater today than in 2007, at the beginning of the CPS period and before the global crisis. Bank credit increased significantly after 2008-09; by 2010 the share of total credit in the economy was 48 percent of GDP, up from 32 percent of GNP in 2006[33]. Nevertheless, while the maturity profile of loan portfolios has improved, as of end-June 2011 about 50 percent of banks' loans had a remaining maturity of less than one year. Other forms of financing have expanded commensurately: leasing, factoring and consumer finance assets grew by more than 80 percent, from TL 20 billion in 2006 to TL 36.4 billion in 2010. Bonds issued by banks have increased almost tenfold, with TL 14.3 billion of corporate bonds outstanding in July 2011.

8. **A business climate reform program is underway, but trade performance is improving slowly after a steep decline in 2008-2009, in part due to weak external demand.** Export growth slowed in late 2010 and early 2011, held back by weak demand (particularly European)[34]. Foreign direct investment flows also dropped dramatically during the crisis[35]. Despite significant increases in 2010 they have yet to return to pre-crisis levels. Business climate reforms, started before the crisis, have resumed. Sweeping legislation to modernize the investment climate and further align it with EU regulation was passed in 2010 and 2011—including a new Commercial Code, which fundamentally reforms and is akin to a 'new constitution' for the corporate sector and commerce; a new Code of Obligations; a new Civil Procedures Law; and a new Monitoring and Supervision of State Aids Law.

9. **Employment and labour market reform is incomplete.** The Government separated reforms into two packages. The 2008 Labour Package reduced non-wage labour costs, cutting employers' social security contributions by 5 percent. This lowered tax loads, reduced the non-financial costs of providing employment, and supported the expansion of Active Labour Market Policies (ALMP). The February 2011 Omnibus Law reduced disincentives for part-time work. The Government's Medium-Term Program for 2011-2013 envisaged the adoption and implementation of a comprehensive new employment strategy, including reforms to increase labour market flexibility and worker protection.

10. **Turkey's energy reforms yielded impressive results.** Effective management and regulation increased energy security and reliable supply to households and firms. Annual output increased from 176 TWh in 2006 to 210 TWh in 2010. Electricity tariffs have allowed for full cost recovery since 2008. The private sector's share of distribution grew from 3 percent in 2006 to 44 percent in 2010. Renewable energy capacity and investments increased: electricity produced by privately owned renewable generation facilities rose nine-fold, from 1,490 GWh in 2002 to 14,002 GWh in 2010; and the 2007 Energy Efficiency Law gives further impetus to energy efficiency.

Social outcomes have improved

11. **Health outcomes have improved**. **Access to education and to social security has broadened.** According to government data, maternal mortality fell from 28.5 deaths per 100,000 live births in 2005 to 16.4 in 2010, and infant mortality decreased from 25 to 10.1 per 1,000 live births in the same period—a major achievement, although infant mortality remains high in comparison to other OECD members. Access to education has improved substantially: primary education is now virtually universal, and secondary education enrolments and completion are also on the rise (for details: paragraph 28). Pre-primary school enrolment, at 30 percent, is rapidly increasing, but remains below the level of countries with similar income levels. Consumption(food and non-food)-based poverty[36] fell from 27 percent in 2002 to 17 percent in 2008 and, after a modest increase to 18 percent in 2009 during the global crisis, is estimated to have been falling again in 2010-2011.

33 TURKSTAT calculated GNP in 2006 and calculates GDP today.
34 MTP 2011-2013 revised targets to USD 127 billion in 2011, USD 143.5 billion in 2012 & USD 160 billion in 2013.
35 Gross FDI was: USD 22 billion (2007), USD 19.5 billion (2008), USD 8.4 billion (2009) & USD 8.9 billion (2010).
36 In keeping with WBG practice in Turkey, this Completion Report uses the Turkish Government's definition of poverty lines.

Public sector management and service delivery are improving in quality and transparency

12. **Public sector management has improved.** Successful tools include medium-term projects and budgets, strategic plans, and performance programs. Turkey's systematic implementation of public financial management (PFM) reforms has improved the comprehensiveness, transparency, accountability and credibility of government budgets, especially at the national level. It has also strengthened the capacity, transparency, and effectiveness of the public sector and public sector service delivery throughout the central public administration.

13. **Sustainable municipal development is key; improved disaster risk management is a success.** Turkey's urbanization rate has reached at 65 percent. The Law on Iller Bankası A.Ş., enacted in 2011, is a major achievement in the development of municipal infrastructure financing and effective local financial management systems. Turkey's new Integrated Urban Development Strategy and Action Plan for 2010-2023 lays out a comprehensive approach to city development, including spatial planning and infrastructure prioritization. Turkey has made great strides in upgrading its disaster management system. Istanbul's Seismic Risk Mitigation and Emergency Preparedness Project is acknowledged as a leading international example of work in the field.

III. DEVELOPMENT OUTCOMES OF THE COUNTRY PARTNERSHIP PROGRAM

Pillar 1: Competiveness and Employment Opportunities

Macroeconomic stability and economic growth have been sustained

14. **Turkey and the WBG responded to the global economic crisis by adapting the CPS to focus on macroeconomic resilience and stability, maintaining medium-term credit to the private sector, especially SMEs, and medium-term structural reforms to underpin growth and job creation.** The implementation of the CPS program supported and contributed to Turkey's achievement of robust and resilient economic growth, improved fiscal performance, and a decline in inflation, which fell to 6.2 percent in June 2011, the end of the CPS period.

15. **Central to the WBG's partnership with Turkey were four programmatic DPL series, and accompanying parallel programmatic AAA, focused on competitiveness, employment, the public sector, energy, environmental sustainability and crisis response[37].** The four DPL series provided total IBRD financing of USD 4.4 billion. More importantly, the DPL series and parallel AAA were the key vehicle for the WBG's partnership and engagement with Turkey on macroeconomic policy and medium-term structural reforms. Economic growth was also supported by 11 IBRD and 45 IFC investment projects.

Private investment, export competitiveness, and financial sector performance felt the impact of the global financial crisis but proved resilient

16. **Private sector credit, including financing for exporting firms and SMEs, has resumed rapidly after contracting during the crisis.** After remaining essentially flat in real terms in 2009, total loans increased by 33.9 percent, and loans to SMEs increased by 50.6 percent, in 2010. During the entire CPS period, credit to SMEs increased by 64 percent. The growth in total credit, and in particular SME credit, during 2007-2010 is particularly noteworthy, because the global crisis sharply curtailed credit to the private sector, especially to SMEs. However, lending remains mostly short-term although maturities are gradually being extended, reflecting a dearth of longer-term financing. Indeed, the 2010 Investment Climate Assessment showed that the majority of surveyed firms (especially SMEs) see themselves as restrained by problems associated

37 Development Policy Lending during CPS period:
- Competitiveness and Employment DPL 2 (CEDPL2) for USD 500 million. (CEDPL 1 was part of the previous CAS.)
- Programmatic Public Sector DPL 2 (PPDPL) for USD 400 million (PPDPL 1 was part of the previous CAS.); Restoring Equitable Growth and Employment (REGE) DPL 1 for USD 1,300 million; and REGE DPL 2 for USD 700 million. Responding to the global crisis, the PPDPL series continued into the REGE series, which also incorporated key elements from the remaining CEDPL agenda.
- Programmatic Electricity DPL (PEDPL) 1 for USD 800 million and Environmental Sustainability and Energy Sector (ESES) DPL 2 for USD 700 million. The name of the series changed (PEDPL to ESES) when it was broadened to include climate change and the environment.

with access to finance. SMEs account for almost half of total investments, two-thirds of total retail sales, and around 60 percent of total exports in Turkey. Both IBRD and IFC financing helped the Turkish private sector maintain production, exports, and employment during the crisis. IBRD lines of credit (LOC) provided targeted support to exporting firms and SMEs. The IBRD AAA program included an evaluation of the results of the LOCs—showing that the two SME LOCs contributed to the creation of an estimated 9,300 jobs and the exports of firms benefitting from the second export finance intermediary LOC (EFIL II) increased by 117 percent during the CPS period. The SME LOCs included a requirement that on average 25 percent of disbursed funds be provided to underserved regions. IFC support included an emphasis on short-term trade finance and debt roll-overs, risk diversification through exports, microenterprise and SME financing through portfolio financial institutions and private equity investments, and the mobilization of long-term funds from other financial institutions (USD 1.73 billion). IFC's client banks provide more than USD 10 billion in loans to MSMEs and its portfolio companies have 68,000 employees, including 16,000 women.

17. **The investment climate, export competitiveness, technology use and innovation are improving slowly; further advances are a priority.** The CPS program included a substantial of analytic and advisory services as well as policy based financing in support of business and investment climate reforms—including investment climate assessments, Environment and Enterprise Performance Surveys (BEEPS), a study of SME development, and financing under the Second Competitiveness and Employment Development Policy Loan (CEDPL) and the Restoring Equitable Growth and Employment Development Policy Loan (REGE DPL) series. The program helped sustain the momentum of investment climate reforms through the global crisis. Significant progress has been made, including the adoption of major reforms, such as the Commercial Code and the Monitoring and Supervision of State Aids Law, supported by the WBG. However, the achievement of milestones has been slow. The final draft of a new Public Private Partnership Law (PPP) was prepared in 2010 (in the meantime BOT Law no: 3996 was amended in 2011 and the secondary legislation was revised accordingly to move forward with the BOT highway projects), enforcement of the new Intellectual Property Rights (IPR) legislation has still to be fully raised to EU standards and the Commercial Code will take time to become effective and be implemented. Preparation for a new capital markets law is ongoing. IBRD and IFC are working together in providing ongoing support to the Capital Markets Board on the development of a corporate bond market. In the meantime, IFC financing has helped strengthen Turkish firms' competitiveness with new technology (e.g. energy efficiency and cleaner production) and on supporting Turkish companies' regional and international expansion (15 projects in the Balkans, Russia, Georgia, Haiti, Tunisia, Egypt, and Argentina with over USD 350 million in financing). MIGA worked extensively on this issue. In Turkey 5 projects (4 infrastructure and 1 finance) [38] were carried out, with a total of USD 1.02 billion in gross exposure. The first underground metro system on the Asian side of Istanbul was supported by MIGA's new guarantee product. MIGA added 1 guarantee supporting an investment sponsored by a Turkish investor in a manufacturing project in Iraq, bringing the total gross exposure of MIGA guarantees to Turkish investments outside Turkey to USD 29 million in 5 currently active projects.

Turkey's low employment rate and high informality remain a challenge

18. **Turkey's low employment rates and high informality made policies to enhance productive employment a top priority**. A series of analyses, most joint with government and other development partners, and advisory work led to key policy recommendations on labour taxes, informal economy, female labour force participation, and youth employment. IBRD financing under the PPDPL-REGE DPL series supported the first stage of Turkey's labour market reform in 2008, which was focused on reducing non-wage labour costs and improving skills. Technical assistance supported the preparation of a crisis-response employment package; the expansion and improvement of Active Labor Market Policies (ALMP);[39] and the development of the upcoming National Employment Strategy.

38 Bandirma Port (2 projects), the Otogar- Bağcılar-Ikiteli-Olimpic Village and the Kadikoy-Kartal-Kaynarca metro projects in Istanbul.
39 400,000 ALMP beneficiaries are expected in 2011, up from 33,000 in 2007.

Energy supply is more reliable and more efficient

19. **Turkey has an impressive track record in implementing reforms and improving energy security.** During the CPS period, Turkey updated its energy strategy; and introduced and implemented cost recovery pricing. IBRD's financing and knowledge activities supported tariff reform, privatization, energy market liberalization and regulation, power generation rehabilitation and transmission investments, and the strengthening of Turkey's Electricity Transmission Corporation (TEIAS). IFC invested around USD 2.2 billion (USD 560 million of its own financing and over USD 1.6 billion through mobilization) in 5 power sector projects. The power sector represented the majority of IFC investments in infrastructure, with syndication an important component of IFC financing. IFC investments focused on supply security through private sector participation in power distribution, including one of Turkey's first two privatized distribution companies[40], and new generation capacity projects, particularly clean energy projects[41].

20. **Increasing renewable energy use and energy efficiency is vital for Turkey.** Renewable energy and energy efficiency investments increase energy supply security; help contain energy imports and thus the current account deficit; create jobs; and reduce greenhouse gas emissions and help mitigate climate change. In short, they are a "quadruple win." The Turkey-WBG partnership has included a major focus on promoting renewable energy use and energy, and during the CPS period Turkey established a clear legislative-regulatory framework for renewable energy, implemented energy efficiency legislation, and included renewable energy and energy efficiency as key components in its new National Climate Change Strategy. As a result, Turkey was able to attract substantial private investment for the development of renewable energy, especially wind and small hydropower stations. Extensive IBRD knowledge services and the PEDPL-ESES DPL series supported the new legislation and reforms. WBG financing included IBRD credit lines, intermediated through local institutions, for renewable energy and energy efficiency investments,[42] especially in wind power and small-scale hydropower plants. IBRD and IFC partnered with the Clean Technology Fund (CTF). IFC also undertook the first limited recourse wind farm financing, laid the groundwork for private investment in new technologies like solar technology, facilitated JVs between international players and local partners, and in March 2011 published 'Sustainable Investment in Turkey', as a part of IFC's broader efforts to promote sustainable investment.

21. **Addressing climate change is becoming a priority.** Turkey became a party to the Kyoto protocol on August 26th 2009, and the Government and the WBG have become partners in Turkey's efforts to mitigate and adapt to climate change. As the energy sector accounts for more than 70 percent of Turkey's greenhouse gas emissions, climate change mitigation is closely tied to "green and clean" energy investments and reforms. This link is reflected in Turkey's new National Climate Change Strategy and forthcoming National Climate Change Action Plan. The World Bank has supported the National Climate Change Strategy and Action Plan with advisory services and through the Environmental Sustainability and Energy Sector (ESES) DPL II. IFC supported its client companies to invest in new technologies with a focus on energy efficiency and cleaner production. Also, IFC's investments in the energy sector were focused on renewable energy projects[43]. As Turkey is expected to be among the countries most affected by climate change in the Europe and Central Asia region, climate change adaptation will continue growing in importance over the medium term.

40 Awarded "Best Power Deal in CEE" by EMEA Finance

41 Enerjisa was selected as 2008 "European Portfolio Power Deal of the Year" by Project Finance Euromoney Magazine, as well as "Best EMEA power Deal for 2008" by EMEA Finance Magazine.

42 IBRD Credit Lines in this CPS were as follows: Fourth Export Finance Intermediary Loan (EFIL IV), 2008; Access to Finance for SMEs – Additional Financing, 2009 ; Private Sector Renewable Energy & Energy Efficiency, 2009; Access to Finance for SMEs – Second Additional Financing, 2010; Access to Finance for SME II, 2010; & Fourth Export Finance Intermediary Loan (EFIL IV) Additional Financing, 2011.

43 The Enerjisa project alone is expected to generate over 20,000 MWh of clean energy, representing nearly 10 percent of Turkey's electricity needs, and to reduce anticipated CO2 emissions by 1.15 million tons per year by 2014.

Pillar 2: Equitable Human and Social Development

Social security has been strengthened and become more equitable

22. **Turkey's health and social security reform (the Social Insurance and Universal Health Insurance Law was enacted in 2006, amended in 2008 and most provisions of the Law took effect by October 1, 2008) established universal health insurance, increased coverage for the poor, and fundamentally reformed the pension system.** The Green Card system, established in 1992, provides free access to medical care for those who earn less than a certain minimum (defined by law) and are not covered by public insurance. The Green Card program grew from 6.852 million beneficiaries in 2004 to 9.4 million in 2010 which, along with the introduction of universal health insurance, have significantly increased the share of the population covered by some form of health insurance (an increase from 86 percent in 2005 to 96.2 percent in 2010). All Green Card holders are expected to be covered by 2012 according to the Law No: 5510 Provisional Article 12. The health and social security reform also put the pension system on a path toward long-term fiscal sustainability and improved its equity, by better aligning the pensions of civil servants, workers and the self-employed.

23. **Some initial steps were taken to integrate social assistance programs.** While social assistance spending increased rapidly, it accounted for only 1.2 percent of GDP in 2009. A new ministry called the Ministry of Family and Social Policies was created after the June 2011 elections, bringing all social benefits under a single roof. An integrated social assistance information system has been developed and is already operational.

24. **The WBG has been a close partner with Turkey in supporting social security reform and in efforts to improve equity and inclusion.** The PPDPL and REGE DPL series and parallel policy dialogue, analyses, and advisory services supported the social security and universal health insurance reform, the accompanying administrative reform to unify existing social security schemes under the Social Security Institution (SSI), and crisis response measures. The Second Privatization Social Support Project (PSSP2) assisted the privatization program by mitigating the negative social and economic impacts of the privatization of State-Owned Enterprises (SOEs). Analytical studies, technical assistance and close policy dialogue included assessments of the welfare impact of the economic slowdown, labour force activation policies, pensions' and the Green Card program**.**

25. **Two major studies, on female labour force participation (joint with the Government) and on equality of opportunity, broke new ground on key social policy issues in Turkey, providing new analysis, advancing public debate, and helping inform policy.** The female labor force participation study found that an increase in female employment to 29 percent (the target rate in Turkey's 9th Development Plan), with new entrants assuming full-time jobs, could reduce the poverty rate to 15.5 percent. The equality of opportunity study found large demographic disparities in opportunity among children from early ages and made the case for early childhood development as an effective means to promote equal opportunities, strengthen growth, and reduce poverty. The studies' findings were taken up in a joint WBG/United Nations Children's Fund (UNICEF) conference on Early Childhood Development (ECD). A roundtable on Early Childhood Education (ECE) and a study exploring the expansion of the provision of high quality ECE followed—in partnership with UNICEF and in support of the Government's priority program to roll out universal pre-school education.

Turkey's health system has become more effective

26. **Turkey's Health Transformation Program (HTP) has improved healthcare.** It increased access, financial protection, service coverage and patient satisfaction. The roll-out of Family Medicine as part of the HTP, completed in December 2010, improved patient satisfaction and access to health services across the country. Average patient satisfaction in family medicine provinces rose from 69 percent in 2004 to 86 percent in 2008.

27. **WBG support for the strong implementation of the HTP complemented the support for the introduction of universal health insurance, improvements in health system performance, and fiscal sustainability under the PPDPL-REGE DPL series**. IBRD support for the HTP focused on increasing health insurance coverage, expanding and improving family medicine, improving hospital autonomy, and strengthening performance management. It included two Adaptable Program Loans—the Health Transition Project and the Health Transformation and Social Security Reform Project—and accompanying advisory services and technical assistance. A 2008 study jointly prepared with the Organisation for Economic Co-operation and Development (OECD) assessed health system performance and provided the analytical foundation for deepening reforms. The World Bank Institute (WBI) engaged policy makers and stakeholders on health sector reform and sustainable financing. IFC supported private sector participation with two investments totalling USD 50 million. Through a loan to a leading leasing company in Turkey, IFC supported 550 SME healthcare projects. Additionally, through equity investments in a distressed but significant healthcare provider, IFC enabled improved access to high quality private healthcare services at affordable prices, including frontier and underserved regions.

The education system is expanding, reforming, and increasing its sensitivity to labor demand

28. **Education reforms led to improvements in school access and educational achievements.** Primary education is now nearly universal (98 percent in 2010-2011). Secondary education enrolment and completion rates increased significantly during the CPS period: enrolments increased from 57 percent in 2006-2007 to 69 percent in 2010-2011, and completion rose from 45 percent to 51 percent in the same period[44]. Pre-primary education enrolments are increasing rapidly, as the Government is rolling out its program to implement universal pre-school enrolment of 5 year olds by 2014. Regional and gender disparities remain significant. For example, 2010-2011 preschool enrolments varied between 13 percent in Hakkarı and 59 percent in Amasya, and girls' secondary school enrolments remain six percentage points below boys' (66 versus 72 percent). Turkey's results in the Program for International Student Assessment (PISA), which assesses the educational attainment of 15-year olds, improved significantly in the 2009 round compared with the 2006 round, partly due to the new primary education curriculum. However, the average 15 year old remains about one full school year behind the average OECD student.

29. **Turkey's partnership with the WBG in education focused on improvements in quality and equity.** The IBRD supported Secondary Education Project (SEP) included the development of a new secondary school curriculum and a national career guidance and counselling system to improve the quality and relevance of secondary education—along with the development of a national qualifications framework for vocational education and training, and enhanced in-service teacher training. To improve the quality of disadvantaged schools, the SEP introduced school grants and piloted a different way of financing schools: funds are distributed in proportion to the number of students, and schools have autonomy in the allocation of funds. Analytic and advisory services included studies on the quality and equity of basic education and early childhood education.

Pillar 3: Efficient Provision of High Quality Public Services

Public expenditure management system has improved; Public sector governance was strengthened

30. **Turkey's public sector increased in breadth, transparency, accountability and credibility**, according to the Public Financial Management Performance (PFMP) benchmarking in June 2010. Turkey has reformed many central government institutions, systems and laws governing public sector transparency and performance. The implementation of the 2006 Public Financial Management and Control (PFMC) Law throughout the CPS period effectively delegated financial control and internal audit to line agencies.

44 Here the secondary completion rate is defined as the proportion of 20-24 year olds who have completed at least secondary education, data taken from Labor Force Survey.

Accordingly, financial controls and internal and external audit structures have significantly improved. The enactment of the Turkish Court of Accounts (TCA) Law in December 2010 broadened the mandate of the TCA to audit the entire general government and aligned its structure with the PFMC Law.

31. **The Turkey-WBG partnership on public sector reform included both analytic and advisory services and financing**. Programmatic public expenditure and public financial management analytic work and technical assistance, jointly implemented with the Government and also with Parliament, and financial support under the PPDPL-REGE DPL series were closely integrated with the National Development Plan. Their programmatic design proved effective in the support of complex public sector legal and institutional reforms, which often require a number of years to fully implement and deliver. Two examples are the establishment of strategy development units for financial control and internal audit in all general government institutions, and the development of specific codes to allow the Ministries of Finance and Health to track program expenditures under the HTP. The TCDD Railway Restructuring Project met its development objectives, as operating revenues and the ratio of operating revenues to expenses rose toward commercially viable levels. TCDD's legal status is unchanged, although a draft law is under preparation.

32. **Progress on the judicial aspects of governance has been slower.** A new Civil Procedure Code was enacted in February 2011 and the Government plans to resubmit a draft mediation law to the Judicial Commission of the Grand National Assembly. The judicial network project (UYAP) established online connections in 100 percent of courts. The Judicial Reform Strategy and Action Plan was endorsed and published in 2009. Regional Courts of Appeal have been established in 15 centers (Istanbul, Bursa, İzmir, Ankara, Konya, Samsun, Adana, Erzurum, Diyarbakır, Sakarya, Gaziantep, Antalya, Kayseri, Trabzon and Van) but are not yet operational. However chief public prosecutors of all these courts have been appointed by High Council for Judges and Prosecutors. The efficiency of judicial processes has been reforming slowly, and Turkey's demand for World Bank contributions was limited.

Local service delivery and disaster preparedness have improved

33. **Municipal reform has moved forward.** Total budgetary transfers to local administrations as a share of tax revenues increased from 9 percent in 2007 to 10 percent in 2010 (including BELDES and KOYDES programs that support development at local level, the budgetary transfer to local administrations increased from 10 percent to 11 percent during the same period). The Law on Iller Bankası A.Ş., enacted in 2011, was critical for municipal infrastructure financing and effective local financial management systems. Progress was made on cadastre modernisation. Cadastre and Registration Agency has started working on property valuation policy in-line with international practices and standards, and 24 institutions now have on-line access to digital cadastre information, exceeding the target of 18. Successful IBRD support for municipal infrastructure investments, through Iller Bank, led to additional financing in 2010 to scale up results. IFC's investment in the Istanbul Metro was the first WBG financing in Turkey at a sub-national level without a sovereign guarantee and has become a flagship project for private sector participation in the urban sector. It is considered a major step towards greater financial strength and independence for municipal governments in Turkey. Beyond the original CPS objectives, Turkey and the WBG started work on 'Sustainable Cities', and Turkey launched a new Integrated Urban Development Strategy and Action Plan (2010-2023)—envisaging a comprehensive approach to city development, including spatial planning and infrastructure prioritization.

34. **Istanbul's improvements in disaster preparedness are an international success story.** Investments have been made in seismic strengthening for public buildings, especially schools, hospitals and dormitories. Of 1,576 public facilities identified, 496 had been completed by February 2011 through combined World Bank, EIB and CEB financing. The Istanbul Seismic Mitigation and Emergency Preparedness (ISMEP) Project includes collaboration with the Global Facility for Disaster Reduction and Response and the World Bank Institute (WBI). A national-level Disaster and Emergency Management Presidency was created in the Prime Ministry, unifying previously fragmented institutional responsibilities.

IV. WORLD BANK GROUP PERFORMANCE

Country Partnership Design

35. **The CPS was designed to be based on, fully aligned with, and adaptable to changes in Turkey's evolving development priorities.** The flexible CPS design was tested and proved successful during the global financial crisis, as the strategy was adjusted at the mid-term progress review (CPSPR). DPL support expanded and focused on macroeconomic stability and medium-term structural reforms to support economic growth and job creation (REGE DPL series)[45]. In response to client demand, IBRD increased total financing over the CPS period was USD 7.6 billion, with USD 3 billion committed in FY10. In parallel, in view of global credit restrictions, IFC focused on client companies rolling-over short-term debt, provided much needed short-term finance such as trade finance, and mobilized long-term funds from other financial institutions (USD 1.73 billion).

36. **The CPS was designed to support Turkey's Ninth Development Plan, with advisory services geared to inform and support national policies and WBG financing contributing to large nation-wide programs and selected specific projects.** Combined financing and knowledge services enabled support to be delivered in a targeted, effective and timely manner. The extensive use of programmatic AAA and DPLs allowed IBRD to provide customized and consistent yet flexible support for broad development goals and programs over several years. The large volume of LOCs (6 WBG operations, including 3 Additional Financings, totalling USD 2.35 billion) is a distinct feature of the CPS program, facilitating the wide reach and rapid disbursement of WBG project financing.[46] These design choices reflect country demand and a shared assessment by Turkey and the WBG of the areas of maximum WBG "value-added." Naturally, the Turkey-WBG partnership covers only a small part of Turkey's development program, and WBG financing accounts for only a small fraction of Turkey's total external financing[47]. The WBG's contribution has thus been mainly catalytic, with direct attribution being challenging if not often impossible, and with Turkey's continued high demand for WBG services providing an imperfect, indirect indicator of their value added. Demand for IBRD services continues to exceed the already high levels of new financing and knowledge services IBRD is able to provide, given financial risk management considerations and budget limitations.

37. **In general, the CPS results framework was a useful structure for measuring progress and performance.** Milestones in the results framework were largely met. A review of results against targets must take into account that some original milestones and targets became less relevant as the crisis changed country and program priorities. Thus, the CPS goal of enhancing the educational system and increasing the sensitivity of education to labour demand (Pillar 2C) is assessed to have been substantively achieved, albeit in a very narrow sense. Similarly, progress has been made towards the goal of increased private investment, improved export competitiveness, and a deeper and broader financial sector (Pillar 1B), but major legislation to modernize the investment climate was passed only in late 2010 and in early 2011. As there is neither new Public Private Partnership (PPP) nor bankruptcy legislation, the achievement of milestones was slower than anticipated, and the overall goals in this pillar are assessed to have been partially achieved. At the same time, WBG support has contributed to the achievement of additional outcomes, beyond those originally envisaged in the CPS. These are outlined above.

45 REGE-DPL focused on the transition from managing the impact of the global crisis to fiscal consolidation and shared growth and contributed to the following objectives: (1) economic management; (2) public financial management; (3) affordable universal healthcare and improved educational access; (4) employment; (5) improved investment climate; and (6) increased financial intermediation, especially to SMEs.

46 The WBG's Independent Evaluation Group (IEG) rated the outcomes of two export finance loans (EFIL II & III) as highly satisfactory.

47 The scale of WBG financing, averaging USD 1.9 billion in new commitments and USD 1.71 billion in disbursements during FY08-11, was very small when compared with Turkey's total public debt, which was USD 321,4 billion in 2010, and it amounted to 23 percent of Turkey's average public external borrowing (USD 8.43 billion between 2007-2010) and less than 1 percent of its average total gross external debt per year [USD 266 billion] between 2007-2009.

CPS Implementation

38. **IBRD's portfolio is large, focused and considerably improved.** Disbursement rates steadily increased, rising from 20 percent in FY08 to 31 percent in 2011**.** With a realism rate of 94 percent, which stood at virtually 100 percent over the majority of the CPS period, and proactive portfolio management (67 percent), only one problem project remained at end FY11 (compared to 3 at end-FY10 and 4 in mid-FY11). The one problem project was the Istanbul Municipal Infrastructure Project (Loan No. 4866-TU), which was cancelled at the borrower's request in July 2011.

39. **IFC financing during FY08-11 was spread across 45 projects with USD 2 billion in commitments, compared to USD 1.55 billion over 35 projects during FY04-07**. IFC also mobilized USD 1.73 billion through private financial institutions to assist the private sector. Targeted areas included exporters, MSMEs, renewable energy, energy efficiency, cleaner production and energy security, health, infrastructure, trade finance and support for Turkish companies investing in the region and beyond.

40. **Implementation of an extensive program of analytic and advisory (AAA) services, focused on Turkey's key policy and reform priorities, was central to the success of the CPS.** IBRD's AAA program featured 52 major knowledge products, many prepared jointly with the Government and in collaboration with academia, UN institutions, and other development partners. Topics ranged from public financial management, informality, and savings to energy sector reform and regulation, food safety, and watershed management, to education quality, female employment and gender certification, and the (in)equality of opportunities, to the investment climate, competition and business regulation, and corporate bond market development. The program also included focused "just in time" analyses of draft legislation and reform options and policy notes for the incoming Governments in August 2007 and June 2011. Turkish counterparts' persistent strong demand for these knowledge services is testimony to their value-added, which is rooted in their demand driven selection and design, their collaborative preparation, the extensive engagement on findings and conclusions with a broad range of stakeholders, and the increasing use of results frameworks for knowledge activities.

41. **Good relations with civil society.** Civil society participated in the preparation and implementation of projects, including HTP and ISMEP. The WBG works with academia, think tanks, private sector associations and businesses, as well as a wide range of non-governmental organizations including TUSIAD (Turkish Industry and Business Association) and KAGIDER (Women Entrepreneur's Association of Turkey). The WBG played a convening role: working with Parliament; supporting the World Water Forum; and holding its 2009 Annual Meetings in Istanbul. A specific example of the WBG's convening power is the human development policy dialogue carried out jointly with the Middle East Technical University, Ankara University, Sabanci University, and UNDP. In preparing this CPSCR, the WBG met with civil society organizations to gauge opinions of work carried out during the CPS period and seek inputs to the report**.**

42. **Strong partnership with development partners.** The WBG works closely with the International Monetary Fund (IMF) on macroeconomic issues, sharing expertise on pension, energy sector, and a broad range of other structural issues. It maintains a close relationship with the EU, UNDP and UNICEF in Ankara. Of particular note was the success of the WBG private sector team (ECSPF) in mobilizing £100,000 from the UK Foreign and Commonwealth Office to fund a pilot project to simplify administrative procedures, a first for the WBG in Turkey. IFC increased its cooperation with other IFIs in Turkey. Work included a country engagement plan with EBRD on the Clean Technology Fund; syndicating a first loan with Black Sea Trade and Development Bank, based on IFC's Master Cooperation Agreement; coordinating with FMO to jointly sign a subordinated loan to a client bank; and cooperation in two projects with KfW on energy efficiency and MSME financing.

43. **The 2011 Country Survey presented a broad range of opinions of the work of the WBG.** With a 32 percent response rate, respondents identified education (skills), environment and natural resource management, employment, energy, and disaster preparedness as key development priorities for the WBG's partnership with Turkey. This choice is broadly consistent with the CPS and the analysis in this CPSCR. Sector priorities were as follows: rural development, increased job opportunities in the formal sector, enhancing opportunities for private sector growth/investment, access to pre-school education, and macroeconomic growth. With the exception of rural development, these largely mirror work carried out in this CPS. Less positively, respondents noted the slowness and complexity of processes as the WBG's greatest weaknesses in Turkey and identified interaction with stakeholders outside Government as a key area for improvement. Respondents also perceived WBG work as not being particularly effective in reducing poverty.

V. KEY LESSONS LEARNED & RECOMMENDATIONS FOR MOVING FORWARD

44. **The systematic development and maintenance of a policy dialogue in support of long-term strategic goals, combining knowledge and lending operations, is vital to support reforms**. Major policy and legislative reforms can take time to implement; therefore flexibility and patience are critical for ensuring success. Successful collaboration on the Commercial Code (seven years in preparation) is an example of the value of long-term engagement. To increase success, the full integration of combined analytic work and policy financing into national development plans and medium-term programs is critical. Programmatic structuring of work, in the form of modular interventions which build on each other sequentially, was particularly effective.

45. **The story of engagement on environment and climate change: step back, identify strategic entry points and seize opportunities that open as country priorities evolve.** Turkey and the WBG agreed not to use environment as a pillar in CPS FY08-11, reflecting limited advancement of the environmental agenda during 2004-2007 and a decision to consider jointly a possible re-engagement, at Turkey's initiative, later during the 2008-11 CPS period. Turkey's accession to the Kyoto protocol and the opening of the Environmental Chapter of the EU Acquis in 2009 then provided the opportunity and strategic entry point for a new engagement on environment and climate change. The new engagement grew out of the Turkey-WBG partnership on energy. The electricity DPL series was broadened into the ESES DPL series, with three components: energy, climate change and environmental sustainability. This work led to collaboration in preparation for the 2012 UN Sustainable Development Conference (Rio+20). IFC used its support for Turkey's liberalization program to secure low carbon solutions to meet growing electricity demand.

46. **A strengthened focus on M&E and results has been welcome and useful.** Turkey and the WBG have collaborated in strengthening monitoring and evaluation and the results focus of government and WBG supported programs - through the rolling programmatic JPPR, technical assistance on M&E financed by the IDF and many other task specific M&E activities. A special effort was made to include results frameworks in all AAA activities. One joint example of M&E and a strong results focus is the work on vocational training with ISKUR.

47. **Sharing success.** A number of Turkey's policies and reforms, conducted in partnership with the WBG, are leading examples of work in their fields. These include: (1) the Health Transformation Program; (2) energy market development, and (3) disaster risk management. This experience provides a basis for further Turkey-WBG collaboration during the next, FY12-15, CPS in knowledge sharing and contributing to development with other countries, regionally and globally.

CPS Completion Report Results Matrix

A cross-cutting finding from the implementation of the FY08-11 CPS is that Turkey has achieved international good practice results in key areas of the Turkey-WBG partnership, with WBG support. Examples include: (1) the Health Transformation Program; (2) energy market development, and (3) disaster risk management. This experience provides a basis for further Turkey-WBG collaboration during the next, FY12-15, CPS in knowledge sharing and contributing to development with other countries, regionally and globally.

Pillar 1: Competitiveness and Employment Opportunities

1A. Sustained Macroeconomic Stability and Sustained Economic Growth

National Key Outcomes & Indicators influenced by the CPS (no consideration of possible WBG contribution)	Milestones/Indicators influenced by WBG during CPS Period (consideration of possible contribution of WBG activities)
• Sound macro-policies leading to sustainable public debt and sound external position. ◗ The general government fiscal deficit declined to 3.7 percent of GDP in 2010, while gross public debt as a share of GDP fell further to 45 percent in 2010. Due to the impact of the crisis, fiscal and public debt targets had to be revised and the 2011-13 medium-term program envisages a general government fiscal deficit of 1.1 percent of GDP and 36.8 percent of GDP EU defined public debt by 2013.	• Effective economic policy dialogue, grounded in AAA findings. ◗ Achieved: Programmatic AAA (analytic and advisory work) facilitated an effective policy dialogue. This included two programmatic Country Economic Memoranda (CEM): one on Informality and the other on Savings and Growth. Programmatic Public Expenditure & Financial Management studies were run over three years.

IBRD Portfolio & Financing Activities which contributed to this outcome:

- Restoring Equitable Growth and Employment Programmatic DPL (REGE DPL). Approval Date: 03/23/2010.
- Second Restoring Equitable Growth and Employment Programmatic DPL (REGE DPL II). Approval Date: 5/5/2011.
- Second Programmatic Environmental Sustainability and Energy Sector Development Policy Loan DPL (ESES II). Approval Date: 6/15/2010.
- First Programmatic Electricity Sector DPL. Approval Date: 06/11/2009. Closing Date: 08/31/2003. ICR: 08/31/2003.
- Competitiveness and Employment DPL (CEDPL). Approval Date: 06/28/2007. ICR: 03/16/2009. IEG outcome rating: Satisfactory.
- Second Competitiveness and Employment DPL (CEDPL II). Approval Date: 12/16/2008. ICR: 04/28/2010. IEG outcome rating: Satisfactory.
- Second Programmatic Public Sector Development Policy Loan (PPDPL II). Approval Date: 06/19/2008.

IBRD AAA & Knowledge Activities which contributed to this outcome:

- Country Economic Memorandum: Informality – Causes, Consequences and Policies. AIS sign off: 09/16/2008. Delivery to Client: 06/30/2009.
- Programmatic Country Economic Memorandum: International Experiences with Informality. AIS sign off: 11/01/2007. Delivery to Client: 06/30/2008.
- Country Economic Memorandum: Savings and Sustainable Growth. AIS sign off: 05/28/2010. Delivery to Client: 06/30/2010
- Country Economic Memorandum: Savings and Sustainable Growth II. AIS sign off: 10/21/2010. Delivery to Client: 06/30/2011
- Country Economic Memorandum II - Sustaining High Growth: Selected issues. AIS sign off: 04/04/2006. Delivery to Client: 11/26/2007.

1B. Increased Private Investment, Improved Export Competitiveness; Deeper and Broader Financial Sector

National Key Outcomes & Indicators influenced by the CPS	Milestones/Indicators influenced by WBG during CPS Period
Private sector: • Increased export growth, to 11.2 percent p.a. Baseline for 2006 is 8.5 percent. ◗ Export growth was 25.4 percent, 23.1 percent, -22.6 percent and 11.6 percent in 2007, 2008, 2009 and 2010 respectively. Due to the impact of the crisis targets have been revised in the MTP 2011-2013 to USD 127 billion for 2011, USD 143.5 billion for 2012, USD 160 billion for 2013. • Sustained strong FDI inflow. Baseline: Target of USD 12.1 billion annually on average. 2006 actual: USD 20.1 billion. ◗ Gross FDI was USD 22 billion (2007), USD 19.5 billion (2008), USD 8.4 billion (2009) and USD 8.9 billion (2010). FDI flows suffered by global financial crisis. Government has not announced new targets. • Expansion of R&D expenditures, from 0.71 percent of GDP per year in 2007 (0.8 percent of GDP per year in 2006) to 2 percent in 2013. ◗ 2009: R&D expenditures are 0.85 percent of GDP.	• Increased medium-term financing for exporting firms and SMEs. ◗ Achieved. Total loans to the Private Sector increased by 99.2 percent, and loans to SMEs increased by 63.9 percent between 2007 to 2010. *Note*: The Turkish Banking Sector Chart of Accounts does not show a separate line for financing to exporters. ◗ In 2010 the annual growth rate of total loans was 33.9 percent, while those made to SMEs grew by 50.6 percent. *Note*: The Turkish Banking Sector Chart of Accounts does not show a separate line for financing to exporters. • Effective PPP legislation, informed by Bank supported international dialogue, advisory work and workshops. ◗ Partially Achieved. The draft law prepared in 2007 was reviewed by all concerned ministries in 2010 and a final draft was prepared. In the meantime BOT Law no: 3996 was amended in 2011 and the secondary legislation was revised accordingly (Council of Ministers Decree no: 2011/1807) to move forward with the BOT highways projects

Financial Sector:

- Increase private sector access to finance in Turkey by strengthening credit markets. Target: Expand the share of total credit in GNP from 31.7 percent in 2006 to around 35 percent by 2011.
  - 2010: Share of total credit in GDP was 48 percent. Note: TUIK now calculates GDP rather than GNP.
- Expand the scope of financial services in Turkey by developing non-bank finance as measured by NBFI assets (leasing assets, and insurance firm assets/total financial sector assets).
  - Leasing, factoring and consumer finance assets increased from TL 19.7 billion in 2006 to TL 36.4 billion in 2010. Insurance sector assets increased from TL 17 billion in 2006 to 36.6 billion by the end of March 2011.

- Development of Intellectual Property Rights legislation aligned with the EU Acquis.
  - Partially Achieved: The legal framework is in place but enforcement needs to be raised to EU standards, particularly in the area of Industrial Property rights. Key legal enforcement institutions and the Patent Institute need capacity strengthening. Measures to improve government-private cooperation and the commercialization of research are still needed.
- Implementation of investment climate reforms to facilitate entry and exit and remove obstacles to the growth of surviving entrants, such as a) bankruptcy reform including legislation; b) approving state aid legislation in conformity with EU and c) facilitating enterprise formalization by easing doing business.
  - Partially Achieved: Monitoring and Supervision of State Aids Law was approved in early 2011. Government working jointly with the Bank on a TA program to develop regulatory reform strategy to reduce "time tax." Ministry of Justice has prepared draft amendments to bankruptcy legislation to address some of the existing shortcomings, but there is no timetable for their approval yet.

IBRD Portfolio & Financing Activities which contributed to this outcome:

- Programmatic Electricity Sector DPL. Approval Date: 06/11/2009.
- Restoring Equitable Growth and Employment Programmatic DPL (REGE DPL). Approval Date: 03/23/2010.
- Second Restoring Equitable Growth and Employment Programmatic DPL (REGE DPL II). Approval Date: 5/5/2011.
- Competitiveness and Employment DPL (CEDPL). Approval Date: 06/28/2007. ICR: 03/16/2009. IEG outcome rating: Satisfactory.
- Second Competitiveness and Employment DPL (CEDPL II). Approval Date: 12/16/2008. ICR: 04/28/2010. IEG outcome rating: Satisfactory.
- Second Export Finance Intermediary Loan (EFIL II). Approval Date: 01/13/2004. ICR: 02/07/2008. IEG outcome rating: Highly Satisfactory.
- Third Export Finance Intermediary Loan (EFIL III). Approval Date: 05/17/2005. ICR: 12/23/2009. IEG outcome rating: Highly Satisfactory.
- Fourth Export Finance Intermediary Loan (EFIL IV). Approval Date: 05/22/2008.
- Fourth Export Finance Intermediary Loan Additional Financing (EFIL IV AF). Approval Date: 03/17/2011.
- Access to Finance for Small and Medium-size Enterprises. Approval Date: 06/08/2006.
- Access to Finance for Small and Medium-size Enterprises Additional Financing. Approval Date: 06/19/2007.
- Access to Finance for Small and Medium-size Enterprises Additional Financing. Approval Date: 12/09/2008.
- Access to Finance for Small and Medium-size Enterprises Additional Financing II. Approval Date: 12/15/2009.
- Credit Line Access to Finance for Small and Medium-size Enterprises II. Approval Date: 06/15/2010.
- Private Sector Renewable Energy and Energy Efficiency Project. Approval: 05/28/2009.

IBRD AAA & Knowledge Activities which contributed to this outcome:

- Promoting Gender Equity in the Private Sector. AIS sign off: 12/15/2010. Completion of first phase of the program - design and launching of the pilots: 06/30/2011.
- Investment Climate Assessment: From Crisis to Private Sector Led Growth. AIS sign off: 01/27/2009. Delivery to Client: 03/24/2010.
- Technical Assistance Follow up to the 2010 Investment Climate Assessment. AIS sign off: 09/27/2010. Delivery to Client: 06/29/2011.
- Corporate Debt Insolvency Framework. AIS sign off: 11/09/2009. Delivery to Client: 06/28/2010.
- Credit Lines Outcome Evaluation. AIS sign off: 08/16/2010. Delivery to Client: 06/28/2011.
- Corporate Bond Market Development--Priorities and Challenges. AIS sign off: 07/20/2010. Delivery to Client: 06/29/2010.
- Improving Conditions for SME Growth - Finance and Innovation. AIS sign off: 09/14/2009. Delivery to Client: 12/03/2010.
- The Impact of the Global Economic Crisis in Turkey's Corporate Sector. AIS sign off: 12/30/2009. Delivery to Client: 06/22/2009.
- Innovation Note: Background Paper on National Innovation System. AIS sign off: 09/19/2007. Delivery to Client: 06/30/2008.
- Developing Policy, Institutional, and Legal Framework for Second Generation Public Private Partnership Projects: AIS sign off: 01/25/2007. Delivery to Client: 06/02/2008.
- National Innovation and Technology System: Recent Progress and Ongoing Challenges. AIS sign off: 07/21/2008. Delivery to Client: 06/29/2009.
- National Innovation and Technology Policy for Competitiveness 2. AIS sign off: 12/30/2009. Delivery to Client: 06/11/2010. Not yet published.

IFC work which contributed to this outcome:

- MSME financing of over $400 million (5 projects) with local banks; emphasis rural areas.
- Financing of about $200 million (7 local companies) for competitiveness and risk diversification through exports when the credit market drastically contracted.
- Financing of 3 local banks in trade finance and sustainable energy finance.
- Financed over $160 million (4 projects) in infrastructure sectors, including two container handling facilities, a private natural gas distribution network (first IFC's TRY loan in infrastructure sector) and a oil storage and jetty facility.
- Support for Turkish companies investing outside Turkey: during FY08-11 IFC invested more than $350 million to support 13 projects with Turkish companies in the Balkans, Russia, Georgia, Haiti, Tunisia, India, Egypt, and Argentina.

MIGA work which contributed to this outcome:

- 5 projects (4 infrastructure & 1 in finance) amounting to a total of USD 1.02 billion in gross exposure.
- One guarantee provided to a Turkish investor working outside Turkey (Iraq) bringing total gross exposure of MIGA guarantees to Turkish investments outside of Turkey to $29 million in 5 currently active projects.

1C: Increased Employment	
National Key Outcomes & Indicators influenced by the CPS	**Milestones/Indicators influenced by WBG during CPS Period**
Increased Employment: • Passage of labor market reform law that increases labor market flexibility and improves the effective protection of workers. ◗ In 2010 and 2011 the government continued to expand Active Labor Market Policies and introduced reforms to improve the quality and relevance of vocational training. The so-called "Omnibus Law" of February 2011included some changes related to flexible contracting and the extension of the targeted subsidies to new hires. A comprehensive employment strategy, including reforms to increase labor market flexibility and worker protection, has been prepared.	• At least 3,000 workers made redundant by SOE privatization are placed in permanent employment under Labor Redeployment Services during 2007- 11. ◗ Partially Achieved: Few workers are currently seeking support through Labor Redeployment Services. • Labor market relevant policies informed by Bank supported AAA. ◗ Achieved: Analytic studies have covered labor taxes, informal economy, female labor force participation, and youth employment. The programmatic HD TA has provided advice on ALMP, labor market regulations, employment-related crisis measures and capacity building on impact evaluation. The findings and policy options in this work have helped inform policy discussions among government and non-government stakeholders. • Implementation of measures to reduce labor costs as well as increase labor market flexibility and worker protection ◗ Partially Achieved: First-stage labor market reforms reduced non-wage labor costs and non-financial costs of employment for employers (e.g. those imposed by profession-specific employment quotas and similar legal constraints has been partially achieved) and allowed for the expansion of ALMP. Second-stage labor market reforms (to address issues of short-term and part-time employment, unemployment insurance, severance pay, etc.) are pending, and a comprehensive employment strategy including those reforms is in the making. ◗ Beyond CPS Achievements: Government responded to the economic slowdown with several employment packages, including the expansion of vocational training (from 30,000 beneficiaries in 2008 to around 210,000 in 2010) public works and wage subsidies. Continued expansion and quality improvement of ALMP after the crisis (the Government expects 400,000 ALMP beneficiaries in 2011, up from around 33,000 in 2007; introduction of quality assessment of vocational training providers). IBRD supported these programs.

IBRD Portfolio & Financing Activities which contributed to this outcome:

- Restoring Equitable Growth and Employment Programmatic (REGE) DPL. Approval Date: 03/23/2010.
- Second Restoring Equitable Growth and Employment Programmatic DPL (REGE DPL II). Approval Date: 5/5/2011.
- Competitiveness and Employment DPL (CEDPL). Approval Date: 06/28/2007. ICR: 03/16/2009. IEG outcome rating: Satisfactory.
- Second Competitiveness and Employment DPL (CEDPL II). Approval Date: 12/16/2008. ICR: 04/28/2010. IEG outcome rating: Satisfactory.

IBRD AAA & Knowledge Activities which contributed to this outcome:

- Vocational Training with ISKUR Technical Assistance. AIS sign off: 11/03/2010. Delivery to Client: 06/22/2010 and related Trust Fund AIS sign off: 02/19/2009. Delivery to Client: 02/16/2010
- Female Labor Force Participation in Turkey: Trends, Determinants, and Policy Framework. AIS sign off: 04/10/2008. Delivery to Client: 06/30/2009.
- Investing in Turkey's Next Generation: The School-to-Work Transition and Turkey's Development. AIS sign off: 07/01/2006. Delivery to Client: 02/06/2008.
- Estimating the Impact of Labor Taxes on Employment and the Balances of the Social Security Funds in Turkey. AIS sign off: 04/29/2008. Delivery to Client: 06/06/2008.

***IFC & MIGA work which contributed to this outcome*:**

- All activities contributed to increased employment.

1D: Reliable & Efficient Energy Supply	
National Key Outcomes & Indicators influenced by the CPS	**Milestones/Indicators influenced by WBG during CPS Period**
• Improved electricity supply security by better demand management and increased generation. Baseline - 176 TWh annual outputs in 2006. ◗ Annual output was 198 TWh in 2008 and 210TWh in 2010. • Achieved full pass-through of costs to electricity tariffs. Baseline - proportion of electricity costs passed through to consumers: 91 percent in 2006. ◗ Since 2008 100 percent of costs have been passed through. • Reduced distribution system technical losses from 15.1 percent in 2006. ◗ Distribution losses were reduced to 14.4 percent in 2008 then rose to 18.6 percent in 2010. This figure is higher than the original figure because the remaining (not privatized) distribution companies are those with high loss & theft ratios. • Increased private sector participation in power distribution and generation. Baseline: 3 percent of the market served by distribution companies and 55 percent of generation output was private as of 2006. ◗ In 2010, electricity served by private distribution companies raised to approximately 44 percent of the market and 55 percent of output came from private generators. (Note: Development of the Electricity Market. Baseline - Electricity Sold on the market as percent of total electricity transmitted: zero percent in 2004) ◗ 26.5 percent of electricity was sold through the market in 2010.	• Tariff setting mechanisms revised to allow full pass-through of costs to intermediate and end-user tariffs. ◗ Achieved: Mechanism approved in February 2008 and became effective in July 2008. • Supply security measures informed by analytic work and energy program financing: e.g., improving supply and demand side energy efficiency; increasing renewable energy generation; introducing capacity mechanisms during CPS period. ◗ Achieved: Government has been informed effectively by analytic work and energy program financing focusing on increasing renewable energy generation and supporting energy efficiency investments. • Improve operational effectiveness of the Turkish electricity market and power systems, informed by advisory services on market functioning and rehabilitation of generation, transmission, and distribution networks, as measured by the approval of final market rules and their subsequent implementation during CPS period. ◗ Partially achieved: Improved operational effectiveness is anticipated, informed by delivered and ongoing advisory services. Market rules have been approved by EMRA. Day-ahead market has already been tested, and is planned to be launched in on December 1st 2011. • Implementation of the energy efficiency law commenced. ◗ Achieved: Implementation has started, wide-ranging regulations approved. Informed by advisory services, main regulatory body, EIE's mandate on EE is being strengthened and its capacity is being strengthened. Bank investment loan is supporting EE in key industrial sectors. • [Pilot of geothermal scheme to demonstrate heating efficiency. Indicator deleted at mid-term as priorities changed – no longer CPS objective.]

IBRD Portfolio & Financing Activities which contributed to this outcome:

- Second Programmatic Environmental Sustainability and Energy Sector Development Policy Loan (ESES DPL II). Approval Date: 6/15/2010.
- Programmatic Electricity Sector DPL. Approval Date: 06/11/2009.
- Competitiveness and Employment DPL (CEDPL). Approval Date: 06/28/2007. ICR: 03/16/2009. IEG outcome rating: Satisfactory.
- Second Competitiveness and Employment DPL (CEDPL II). Approval Date: 12/16/2008. ICR: 04/28/2010. IEG outcome rating: Satisfactory.
- Private Sector Renewable Energy and Energy Efficiency Project. Approval Date: 05/28/2009.
- Renewable Energy Project. Approval Date: 03/25/2004. ICR: 3/10/2010. IEG outcome rating: Highly satisfactory.
- Second Energy Supply Security of South East Europe APL (ESCEE APL II). Approval Date: 04/04/2005. ICR: 08/04/2011.
- Third Energy Supply Security of South East Europe APL (ESCEE APL III). Approval Date: 03/24/2006. ICR: 08/04/2011.
- Sixth Energy Supply Security of South East Europe APL (ESCEE APL VI). Approval Date: 08/20/2010.
- National Transmission Grid Project. Approval Date: 06/11/1998. Closing Date: 12/31/2007. IEG outcome rating: Highly satisfactory.
- Electricity Generation Rehabilitation and Restructuring. Approval Date: 06/06/2006. ICR 04/28/2010.
- Electricity Distribution and Rehabilitation. Approval Date: 04/19/2007.
- Gas Sector Development Project. Approval Date: 11/29/2005.

IBRD AAA & Knowledge Activities which contributed to this outcome:

- Energy Efficiency Assessment: 'Tapping the Potential for Energy Savings'. AIS sign off: 07/31/2008. Delivery to Client: 02/08/2010.
- Programmatic Energy Sector. AIS sign off: 11/20/2008. Delivery to Client: 06/23/2008.
- Programmatic Energy Sector Work (Turkey Energy Strategy). AIS sign off: 02/05/2008. Delivery to Client: 06/23/2008.
- Technical Assistance: ESMAP - Supporting Electricity Markey Operations. AIS sign off: 02/20/2007. Delivery to Client: 08/25/2010.

***IFC work which contributed to this outcome*:**

- Energy supply security investments of about $560 million and mobilization of $1.6 billion in 5 projects supporting about 3,300 MW of installed capacity, including small-scale hydropower plants and wind farms.

Joint IBRD & IFC Portfolio & Financing Activities which contributed to this outcome:

- Clean Technology Fund (CTF)

Key Lessons Learnt and suggestions for next CPS:

The systematic development and maintenance of a policy dialogue in support of long-term strategic goals, combining knowledge and lending operations, is vital to support reforms. Major policy and legislative reforms can take time to implement; therefore flexibility and patience are critical for ensuring success. Successful collaboration on the Commercial Code (seven years in preparation) is an example of the value of long-term engagement. To increase success, the full integration of combined analytic work and policy financing into national development plans and medium-term programs is critical. Programmatic structuring of work, in the form of modular interventions which build on each other sequentially, was particularly effective.

Pillar 2: Equitable Human and Social Development

2A: Increasing the Effectiveness of the Social Security System and Improving the Income Distribution, Social Inclusion and the Fight Against Poverty

National Key Outcomes & Indicators influenced by the CPS	Milestones/Indicators influenced by WBG during CPS Period
• Long-term sustainability of the social security improves as evidenced by successful implementation of new social security and universal health insurance law. ◗ Legislation enacted and implemented. Long-term fiscal balance of pension system will improve. • Equity of pension system improves: pension parameters are unified for workers, self-employed and new civil servants. ◗ Fully implemented. • Effective financial protection of the poor in health: a new targeting system (such as proxy means testing) is introduced for non-contributory health insurance, is implemented, and reaches at least 50 percent of the vulnerable population in 2011. ◗ Technical discussions on targeting options have begun. According to Law No 5510 all green card owners will be covered by the universal health insurance system by 2012 and their premiums will be paid by the government. • A coordinated social assistance system under clear management authority with adequate budgetary financing has been established. ◗ A new ministry of Ministry of Family and Social Policies was created, bringing all social benefits under a single roof.	• Enactment and effectiveness of a revised social security and universal health insurance law. ◗ Achieved. • Enactment of social assistance law creating a coordinated social assistance system. ◗ Partially Achieved: A social assistance law creating a coordinated social assistance system has not been enacted, but two significant steps to develop an integrated social assistance system have been taken: (i) all benefits are now managed under one roof in the newly created Ministry of Family and Social Policies, and (ii) an Integrated Social Assistance Information System (ISAIS) has been developed and is already operational. • Increased coverage of health insurance among vulnerable groups. ◗ Achieved. As a result of the expansion in obligatory insurance schemes as well as the green card program coverage among the poor, the percentage of population covered by some form of health insurance has increased from 86 percent in 2005 to 96.2 percent in 2010. • Effective proxy means testing system for green card holders developed and implemented. ◗ Partially Achieved. Although a proxy means test was not introduced during the CPS period, from January 2012 the identification of beneficiaries of non-contributory health insurance will be done using the proxy-means test developed by the new Ministry of Family and Social Policies through the ISAIS. The Green card program is well targeted to the poor: 71 percent of Green Card beneficiaries are in the poorest 25 percent of the population and administrative controls have been established to discontinue benefits among non-eligible households.

IBRD Portfolio & Financing Activities which contributed to this outcome:

- Restoring Equitable Growth and Employment Programmatic DPL (REGE DPL). Approval Date: 03/23/2010.
- Second Restoring Equitable Growth and Employment Programmatic DPL (REGE DPL II). Approval Date: 5/5/2011.
- Second Programmatic Public Sector Development Policy Loan (PPDPL II). Approval Date: 06/19/2008.
- Privatization Social Support Project 2 (PSSP 2). Approval Date: 06/14/2005. ICR: 04/29/2010. IEG outcome rating: satisfactory.

IBRD AAA & Knowledge Activities which contributed to this outcome:

- Programmatic Human Development Technical Assistance. AIS sign off: 10/20/2010. Delivery to Client: 06/24/2011.
- Programmatic Social Security and Labor Technical Assistance. AIS sign off: 11/20/2008. Delivery to Client: 06/22/2009.
- Programmatic Social Insurance Advisory Technical Assistance. AIS sign off: 11/06/2007. Delivery to Client: 06/02/2008.
- Programmatic Welfare and Social Policy TA Program. AIS sign off: 11/01/2007. Delivery to Client: 05/28/2009.
- Assessing the Social Impact of the Economic Slowdown. AIS sign off: 11/09/2009. Delivery to Client: 06/29/2010.

2B: Making the Health System More Effective

National Key Outcomes & Indicators influenced by the CPS	Milestones/Indicators influenced by WBG during CPS Period
• The technical and allocating efficiency of the health services improved. In particular: (i) increased spending on preventive and primary health care services increased, from around 25 percent of total public spending on health in 2006 to around 30 percent or more in 2011; (ii) occupancy rate of hospitals increases by at least 10 percent, from 64 percent in 2006 (corrected from 65 percent) to at least 75 percent in 2011. ◗ In 2009: (i) Spending on preventive and primary health care services increased to 27 percent, and (ii) occupancy rate of hospitals remained nearly the same with 63 percent in 2009.	• Family medicine and strengthened community health services implemented in at least 15 provinces of Turkey. ◗ Achieved: Family Medicine (FM) system has been implemented nationwide and covers the entire population (72.5 million) of Turkey as of December 13, 2010. Maternal mortality fell from 28.5 deaths per 100,000 live births in 2005 to 16.4 deaths in 2010 (already meeting the MDG goal on maternal mortality), and infant mortality decreased from 25 deaths per 1,000 live births in 2005 to 17 in 2008 (more improvements have been observed in 2009 and 2010). ◗ Beyond CPS Achievements: Substantial progress in achieving universal health insurance: percentage of population covered by some form of health insurance increased from 86 percent in 2005 to 96.2 percent in 2010.

IBRD Portfolio & Financing Activities which contributed to this outcome:
- Second Programmatic Public Sector Development Policy Loan (PPDPL II). Approval Date: 06/19/2008.
- Health Sector Transition APL. Approval Date: 05/20/2004. ICR: 07/14/2010.
- Health Transformation and Social Security Reform Project APL II. Approval Date: 06/11/2009.

IBRD AAA & Knowledge Activities which contributed to this outcome:
- Efficiency and cost containment in Turkey's health sector. AIS sign off: 09/22/2010. Delivery to Client: 06/9/2011.
- Programmatic Health. AIS sign off: 10/09/2007. Delivery to Client: 08/15/2008.
- Health Sector Institutional Fiduciary Assessment. AIS sign off: 02/23/2007. Delivery to Client: 03/05/2008.
- Pay for Performance in the Hospital Sector (TF). AIS sign off: 03/10/2008. Delivery to Client: 07/30/2009.

***IFC work which contributed to this outcome*:**
- Support for private sector participation in the health sector with $50 million investment in two projects. Through loan to a leading leasing company IFC supported 550 SME healthcare projects. Through equity investments to a distressed but significant healthcare provider, IFC improved access to high quality private healthcare services at affordable prices, including in underserved and frontier regions of Turkey.

2C: Enhancing the Educational System and Increasing the Sensitivity of Education to Labor Demand

National Key Outcomes & Indicators influenced by the CPS	Milestones/Indicators influenced by WBG during CPS Period
• Improved secondary schooling graduation/attainment rate to 50 percent (youth 20-24): Baseline is 44.7 percent in 2006. ◗ In 2009 secondary schooling graduation/attainment rate reached 52 percent (Labor Force Survey) exceeding the target set for the CPS period. • Improved education quality and student performance: improvement in PISA result between 2006 (baseline: average score 424) and 2009 as well as reduced disparities between students. ◗ PISA scores have improved significantly between 2006 and 2009. Average Reading score improved from 447 to 464; Math improved from 424 to 445; Science improved from 424 to 454.The percentage of students below competency 1 in reading has been reduced from 11 percent to 6 percent. • Development and implementation of flexible, modular- and competency-based lifelong learning strategy. ◗ Lifelong learning strategy published in June 2009. Revised secondary school education curricula implemented in four main subjects for students in grades 9 to 12 under SEP.	• Revised secondary school education curricula implemented in four main subjects for students in grades 9 to 12. ◗ Achieved. • National career guidance and counseling system developed and implemented. ◗ Achieved. National career guidance and counseling system developed and implemented under SEP. • [Foreign language teacher training program designed, implemented and evaluated. ◗ Indicator deleted as priorities changed at CPS mid-term – no longer CPS objective –the Secondary Education Project (SEP) was restructured and no longer includes a component on foreign language training.] • National debate is informed on education quality. ◗ Achieved. PISA score have improved significantly between 2006 and 2009. Average Reading score improved from 447 to 464; Math improved from 424 to 445; Science improved from 424 to 454.

IBRD Portfolio & Financing Activities which contributed to this outcome:
- Second Programmatic Public Sector Development Policy Loan (PPDPL II). Approval Date: 06/19/2008.
- Secondary Education Project. Approval Date: 03/15/2005.
- Basic Education Project APL 2. Approval Date: 07/16/2002. ICR: 02/29/2008. IEG outcome rating: Moderately unsatisfactory.

IBRD AAA & Knowledge Activities which contributed to this outcome:
- Programmatic Education: Early Childhood Education. AIS sign off: 11/02/2010. Delivery to Client: 06/30/2011.
- Programmatic Education: Improving the Quality and Equity of Basic Education in Turkey: Challenges and Options. AIS sign off: 01/31/2008. Delivery to Client:06/23/2010.

Key Lessons Learnt and suggestions for next CPS:
A strengthened focus on M&E and results has been welcome and useful. Turkey and the WBG have collaborated in strengthening monitoring and evaluation and the results focus of government and WBG supported programs - through the rolling programmatic JPPR, technical assistance on M&E financed by the IDF and many other task specific M&E activities. A special effort was made to include results frameworks in all AAA activities. One joint example of M&E and a strong results focus is the work on vocational training with ISKUR.

Pillar 3: Efficient Provision of High Quality Public Services

3A: Public Expenditures Management System Rationalized and Well Structured

National Key Outcomes & Indicators influenced by the CPS	Milestones/Indicators influenced by WBG during CPS Period
• Turkish Court of Accounts given the mandate to audit entire general government and do financial and performance audit. ◗ The Turkish Court of Accounts Law enacted in December 2010 broadens the mandate of the TCA and aligns its structure with Public Financial Management and Control Law. • Efficiency and economic life of existing public capital stock increased. ◗ The total central government maintenance and repair expenditures increased from 0.2 percent of GDP in 2007 to 0.3 percent of GDP in 2010. • Effective implementation of Public Financial Management and Control Law maintained. ◗ Fully implemented. • Financial controls and internal and external audit structures improved. ◗ Implementation of the 2006 Public Financial Management and Control (PFMC) Law delegates financial control and internal audit function from the central government institutions to the line agencies. This is in full operation now and constitutes significant improvement. • TCDD (Railway Company) operating revenues increased toward commercial operational viability. ◗ Operating revenue from traffic rose from TL 513 million in 2007 to TL 657 million in 2010. The working ratio (the ratio of operating expenses to operating revenue) also marginally rose over the period, from 3.14 to 3.17.	• New law on Turkish Court of Accounts adopted and implemented. ◗ Achieved: Legislation enacted and started to be implemented. • Strategy development units have become operational in all general government institutions and all central government institutions have completed their strategic plans. ◗ Achieved: Strategy development units in charge of financial control and internal audit are established and operational in all general government institutions. The strategic plans have not only been completed in all of the central government institutions but also in local administrations and SOEs. • Specific codes to allow MOF and MOH to track the program expenditures applied under Health Transition Program. ◗ Achieved. • Legal and operational restructuring of TCDD (Railway Company) as commercial entity. ◗ Not Achieved. The legal status of TCDD has not changed during the CPS period as the draft TCDD law has been under preparation. Under the project, steps have been taken by TCDD to integrate commercial accounting and auditing procedures, and other institutional developments, however, the effectiveness of these internal measures remains limited without the support of legal reform. No further moves on commercialization have been made since the restructuring of the project in 2009.

IBRD Portfolio & Financing Activities which contributed to this outcome:

- Restoring Equitable Growth and Employment Programmatic DPL (REGE DPL). Approval Date: 03/23/2010.
- Second Restoring Equitable Growth and Employment Programmatic DPL (REGE DPL II). Approval Date: 5/5/2011.
- Second Programmatic Public Sector Development Policy Loan (PPDPL II). Approval Date: 06/19/2008.

IBRD AAA & Knowledge Activities which contributed to this outcome:

- Second Programmatic Public Expenditure and Financial Management Study. AIS sign off: 07/20/2009. Delivery to Client: 06/28/2010.
- Financial Management Technical Assistance to Parliament and Turkish Court of Accounts: AIS sign off: 02/09/2009. Delivery to Client: 04/12/2010.
- Municipal Financing and Regional Development Workshop. AIS sign off: 03/31/2008. Delivery to Client: 06/26/2008.
- Programmatic Municipal Finance and Regional Development. AIS sign off: 01/28/2008. Delivery to Client: 05/28/2009.
- Programmatic Public Expenditure and Financial Management Study. AIS sign off: 08/07/2008. Delivery to Client: 06/30/2009.

3B: Public Sector Governance Strengthened	
National Key Outcomes & Indicators influenced by the CPS	**Milestones/Indicators influenced by WBG during CPS Period**
• Fast, fair and reliable operation of the judicial system through improvements in the quality of judging process and legal and institutional structures. ◗ Judicial Reform Strategy and Action Plan were endorsed by the Cabinet and both published. • Legal disputes resolved in a fast, simple and effective manner with low costs and reduced workload of judicial authorities through alternative dispute resolution methods in the legal system. ◗ Draft Law on Mediation will be re-submitted to the Judicial Commission of the Turkish Grand National Assembly. • Increased efficiency in judicial services and accelerated judicial process through the transfer of services into the electronic environment and sharing information among judicial institutions and other public organizations. ◗ In the coming years the judicial network project UYAP and e-government project are expected to be integrated.	• New Civil Procedural Code enacted. ◗ Achieved: New Civil Procedures Code was enacted on February 2011. • At least 3 Regional Courts of Appeal have been established and are fully operational. ◗ Partially Achieved: Regional Courts of Appeal have been established in 15 centers (Istanbul, Bursa, İzmir, Ankara, Konya, Samsun, Adana, Erzurum, Diyarbakır, Sakarya, Gaziantep, Antalya, Kayseri, Trabzon and Van) but are not yet operational. However chief public prosecutors of all these courts have been appointed by the High Council for Judges and Prosecutors. • Implementation of the judicial network project (UYAP) establishes online connections of 95 percent or more of courts by end of CPS period. ◗ Achieved: Online connections have reached 100 percent of courts. • Policy recommendations drafted for deepening judicial reform for faster and more efficient judicial service provision with focus on courts. ◗ Achieved: Judicial Reform Strategy and Action Plan were endorsed by the Cabinet and both published in 2009. The implementation of the action plan is moving forward in line with the timetable. The Ministry has already started to update the strategy.

IBRD Portfolio & Financing Activities which contributed to this outcome:

- Restoring Equitable Growth and Employment Programmatic DPL (REGE DPL). Approval Date: 03/23/2010.
- Second Restoring Equitable Growth and Employment Programmatic DPL II (REGE DPL II). Approval Date: 5/5/2011.
- Second Programmatic Public Sector Development Policy Loan (PPDPL II). Approval Date: 06/19/2008.

IBRD AAA & Knowledge Activities which contributed to this outcome:

- Judicial Reform Technical Assistance. AIS sign off: 12/17/2008. Delivery to Client: 06/30/2010.
- Judicial System Technical Assistance. AIS sign off: 05/27/2009. Delivery to Client: 06/11/2009.

3C: Improved Local Service Delivery and Disaster Preparedness

National Key Outcomes & Indicators influenced by the CPS	Milestones/Indicators influenced by WBG during CPS Period
Municipal Development: • Implementation of public expenditure management reforms such as adequate operation and maintenance and targeted completion of priority infrastructure projects that are economically feasible, to promote more efficient use of municipal resources. ◗ Total budgetary transfers to local administrations as a share of tax revenues increased from 9 percent of tax revenues in 2007 to 10 percent of GDP in 2010. (Including BELDES and KOYDES programs that support development at local level, the budgetary transfer to local administrations increased from 10 percent to 11 percent during the same period). • Local financial management systems consistent with international practice standards in tracking resources, monitoring service levels, programming capital investments in municipal and environmental infrastructure. ◗ The passing of the Law on Iller Bankası A.Ş. in 2011 is critical for municipal infrastructure financing and effective local financial management systems. The new law cements many of the internal reforms that Iller Bank has been implementing for the previous 6 years. • Reduce overdue receivables of local administrations to Treasury. (Estimated at TL 4.215 billion in 2007). ◗ Overdue receivables increased in nominal terms from TL 5.976 billion in 2007 to TL 7.790 billion in 2010. As a share of GDP, the receivables stayed flat at 0.7 percent. • Increased private sector involvement in local services and financing to municipalities to address problems of limited fiscal space. ◗ Increase in areas of operation and maintenance as some services such as billing and collection, meter reading, and maintenance are outsourced to private contractors. Cadastre/land registration: • Fewer cadastre disputes in courts. ◗ The indicator remains under review in the context of the Cadastre and Registration Agency's (TKGM) Strategic Plan 2010-14. A mid-term review is scheduled for June 2011. In April 2010, TKGM reported that the ratio of number of disputed plots over total plots in the database reached 2.5 percent. Improvements are due to several factors, including (a) increased coverage of rural areas, including public lands; (b) better technology utilized in the measurements; and (c) better information and consultation with communities during cadastre renovations. •Integration of real estate information into the overall e-government program. ◗ 24 institutions now have on-line access to digital cadastral information, exceeding project expectations of 18 institutions (source: TKGM) • Property valuation policy is in line with international practices and standards achieved under Cadastre Modernization. ◗ TKGM has started working on property valuation policy in line with international practices. Disaster Preparedness: • Streamline institutional responsibilities for disaster management. ◗ The law consolidating functions and creating the National Disaster and Emergency Management Agency was enacted in June 2009. Secondary legislation and internal reorganization successfully completed. Agency showing increased capacity to handle emergency situations.	Municipal Development: • Passing of Municipal Revenues Law establishing local financial discipline. ◗ Not Achieved: Legislation governing self-generated municipal activities not yet drafted • New revenue sharing law for Special Provincial Administrations and municipalities enacted resulting in increased revenue transfers from national government to local administrations. ◗ Achieved: Law enacted in July 2008. Total budgetary transfers to local administrations as a share of tax revenues increased from 9 percent in 2007 to 10 percent in 2010. (Including BELDES and KOYDES programs that support development at local level, the budgetary transfer to local administrations increased from 10 percent to 11 percent during the same period). • Quality of municipal infrastructure improved in targeted municipalities as measured by the expansion of water supply, sewerage and solid waste services to serve 2 million or more users. ◗ [Achieved: after correction of initially mis-specified targets]. The Municipal Services Project has financed new connections for 870,000 people to water supply, has reduced losses in the water system by up to 30 percent in some participating cities, and has increased coverage of sewerage systems to more than 300,000 people. Two cities, with a combined population of 75,000 that previously did not have sanitary landfills, are fully served by new facilities. • Targeted public facilities retrofitted to resist a major earthquake in Istanbul municipality. ◗ Indicator is no longer applicable as the Istanbul municipality decided not to pursue this work with the World Bank – no longer CPS objective. Proposed seismic retrofitting of highway infrastructure has not been implemented. Cadastre/land registration: • Reduced number of cadastre disputes in courts, from 4 percent of properties in targeted focus areas in 2007 to 2 percent by 2013. ◗ Achieved: As of end 2010, the share of properties with cadastre disputes had fallen to 2.5 percent, well on track to reach the 2013 target. • Automation of land administration allowing improved property valuation and taxation and urban development. ◗ Partially Achieved: Several commissions comprising government, private sector, academia and civil society have been established. The commissions completed their studies in (waiting for update). Agreement on the institutional framework for valuation and taxation has been reached, and clarified the role of TKGM. TKGM has initiated an extensive consultation procedure within the government, and some exchange with foreign institutions has taken place. Progress on policy development and pilot implementation needs to be expedited. • Rural land parcels in 20 provinces have cadastral maps, titles of the documented owners and electronic cadastre records. ◗ Achieved. • 40,000 square km of base maps including orthophoto maps are produced. ◗ Achieved: Over 46,000 square km of base maps were produced. By close 2010, 78,397 square km of base maps contracted, 80,000 to be completed by end 2011. • At least 4 million parcels renovated/updated in digital format. ◗ Partially Achieved. 901, 205 parcels have been contracted at end 2010 and all to be completed by end 2011. Majority parcels financed through TKGM budget. Additional parcels financed using government's own funds. Disaster Preparedness: • Retrofitting of 400 schools and hospitals in Istanbul Province. ◗ Achieved. Investments have been made for the seismic strengthening of public buildings, especially schools, hospitals and dormitories in İstanbul. Of the identified 1,576 public facilities in need of strengthening, 496 (458 schools and 6 hospitals) have been completed by February 2011 through a combination of World Bank, EIB and CEB financing.

IBRD Portfolio & Financing Activities which contributed to this outcome:

- Restoring Equitable Growth and Employment Programmatic DPL (REGE DPL). Approval Date: 03/23/2010.
- Second Restoring Equitable Growth and Employment Programmatic DPL (REGE DPL II). Approval Date: 5/5/2011.
- Second Environmental Sustainability and Energy Sector Development Policy Loan DPL (ESES DPL II). Approval Date: 6/15/2010.
- Second Programmatic Public Sector Development Policy Loan (PPDPL II). Approval Date: 06/19/2008.
- Istanbul Seismic Risk Mitigation and Emergency Preparedness. Approval Date: 05/26/2005.
- Istanbul Seismic Risk Mitigation and Emergency Preparedness: Additional Financing. Approval Date: 04/21/2011.
- Municipal Services. Approval Date: 06/23/2005.
- Municipal Services: Additional Financing. Approval Date: 05/06/2010.
- Istanbul Municipal Infrastructure Project. Approval Date: 06/28/2007.
- Land Registry and Cadastre Modernization Project. Approval Date: 05/01/2008.
- Agricultural Reform Implementation Project. Approval Date: 07/12/2001. Closing Date: 12/31/2008. ICR: 11/24/2009. IEG outcome rating: Moderately satisfactory
- Anatolia Watershed Rehabilitation Project. Approval Date: 06/01/2004. Closing Date: 06/30/2012. IEG outcome rating: Moderately satisfactory.
- Railways Restructuring Project. Approval Date: 06/09/2005.
- Avian Influenza and Human Pandemic Preparedness and Response. Approval Date: 04/24/2006.
- ODS Phase-out 2 Project under Montreal Protocol. 05/10/1995. Closing Date: 12/31/2007. ICR: 06/24/2008. IEG outcome rating: Satisfactory.

IBRD AAA & Knowledge Activities which contributed to this outcome:

- Sustainability Programmatic Technical Assistance/Environment and NRM Management. AIS sign off: 10/09/2009. Delivery to Client: 06/29/2010.
- Environmental Sustainability Programmatic Non-Lending Technical Assistance 2. AIS sign off: 09/09/2010. Delivery to Client: 06/29/2011.
- Programmatic Food Safety Technical Assistance. AIS sign off: 02/23/2009. Delivery to Client: 07/19/2010.
- Programmatic Food Safety Technical Assistance. AIS sign off: 09/02/2011. Delivery to Client: 06/30/2011.
- Water Dialogue: AIS sign off: 02/06/2009. Delivery to Client: 06/17/2009.
- Istanbul Finance Note. AIS sign off: 05/09/2005. Delivery to Client: 04/30/2008.
- Implementation of Safeguard Policies in Financial Intermediary and Programmatic Operations. AIS sign off: 09/27/2010. Delivery to Client: 06/30/2011.

IFC work which contributed to this outcome:

- Istanbul Metro investment; a flagship project as it is a first time sub-national level financing in Turkey without a sovereign guarantee.

Lessons Learnt and Suggestions for Next CPS:

The story of engagement on environment and climate change: step back, identify strategic entry points and seize opportunities that open as country priorities evolve. Turkey and the WBG agreed not to use environment as a pillar in CPS FY08-11, reflecting limited advancement of the environmental agenda during 2004-2007 and a decision to consider jointly a possible re-engagement, at Turkey's initiative, later during the 2008-11 CPS period. Turkey's accession to the Kyoto protocol and the opening of the Environmental Chapter of the EU Acquis in 2009 then provided the opportunity and strategic entry point for a new engagement on environment and climate change. The new engagement grew out of the Turkey-WBG partnership on energy. The electricity DPL series was broadened into the ESES DPL series, with three components: energy, climate change and environmental sustainability. This work led to collaboration in preparation for the 2012 UN Sustainable Development Conference (Rio+20). IFC used its support for Turkey's liberalization program to secure low carbon solutions to meet growing electricity demand.

Planned Lending Program and Actual Deliveries: FY08-11

CPS FY08-11 Plans			CPS FY08-11 Actuals	
FY	Project	US$(M) IBRD		US$(M) IBRD
FY08	*Development Policy Lending in one of three areas:*		*Development Policy Lending*	
	• Programmatic Public Sector Development (PPDPL)		• Second Programmatic Public Sector Development (PPDPL II)	400
	• Competitiveness and Employment (CEDPL)	500-800		
	• Energy			
	Investment Financing Options:		*Investment Financing*	
	• Land Registration and Cadastre Modernization	200	• Land Registration and Cadastre Modernization	203
	• Export Finance Intermediation Loan (EFIL)	300-500	• Fourth Export Finance Intermediation Additional Financing (EFIL IV)	600
	• Municipal Modernization II	300		
	Subtotal	*1,300-1800*	*Subtotal*	*1,203*
FY09	*Development Policy Lending in one of three areas:*		*Development Policy Lending*	
	• Programmatic Public Sector Development (PPDPL)			
	• Competitiveness and Employment (CEDPL)	600-900	• Second Competitiveness and Employment (CEDPL II)	500
	• Energy		• First Programmatic Electricity Sector (PEDPL)	800
	Investment Financing Options:		*Investment Financing*	
	• Private Sector Renewable Energy & Efficiency		• Private Sector Renewable Energy & Efficiency	500
	• Energy Investment			
	• Energy Supply Security Sector Investment	900-1,200		
	• Health Reform & Social Security II/ Health (UHI Implementation)		• Health Reform & Social Security II	75
			Additional Actual Projects:	
			• Access to Finance for Small & Medium Enterprises (Additional Financing)	200
	Subtotal	***1,500-2,000***	**Subtotal**	***2,075***
	Subtotal FY08-09	**2,800-3,900**	**Subtotal FY08-09**	**3,278**

CPS FY08-11 Plans			CPS FY08-11 Actuals	
FY	Project	US$(M) IBRD		US$(M) IBRD
FY10	*Development Policy Lending in 1 or both of 2 areas:*		*Development Policy Lending*	
	• Restoring Equitable Growth and Employment DPL	1,500-2,000	• Restoring Equitable Growth & Employment Programmatic DPL (REGE)	1,300
	• Environmental Sustainability & Energy Sector (ESES)		• Second Programmatic Environmental Sustainability & Energy Sector DPL (ESES II)	700
	Investment Financing Options:		*Investment Financing*	
	• Access to Finance for Small & Medium Enterprises (Additional Financing)	3,000	• Access to Finance for Small & Medium Enterprises (Additional Financing II)	250
	• Second Access to Finance for Small & Medium Enterprises		• Second Access to Finance for Small & Medium Enterprises	500
	• Municipal Services (Additional Financing)		• Municipal Services (Additional Financing)	240
	• Energy Supply Security Sector Investment			
	• Social Protection Human Capital			
	Subtotal	*2,000-5,000*	*Subtotal*	*2,990*
FY11	*Development Policy Lending in 1 or both of 2 areas:*		*Development Policy Lending*	
	• Restoring Equitable Growth and Employment Programmatic DPL	700	• Second Restoring Equitable Growth & Employment Programmatic DPL (REGE II)	700
	• Environmental Sustainability & Energy Sector (ESES) II			
	Investment Financing Options:		*Investment Financing*	
	• Fourth Export Finance Intermediation (EFIL IV) Additional Financing	722	• Fourth Export Finance Intermediation Project (EFIL IV) Additional Financing	300
	• Energy Community of South East Europe (ECSEE) APL 6 [Energy Supply Security Sector Investment]		• Energy Community of South East Europe (ECSEE) APL 6 [Energy Supply Security Sector Investment]	220
	• Municipal Services (Additional Financing)			
	• Social Protection Human Capital		*Additional Actual Projects:*	
			• Istanbul Seismic Risk Mitigation and Emergency Preparedness (ISMEP) Additional Financing	150
	Subtotal	*1,422*	*Subtotal*	*1,370*
	Subtotal FY10-11	**2,000-3,000**	**Subtotal FY10-11**	**4,360**
	Total FY08-11	**4,000-7,500**	**Total FY08-11**	**7,638**

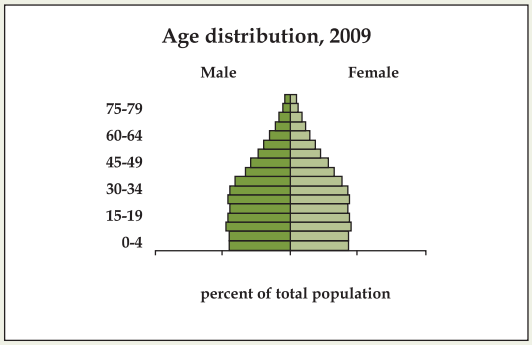
Planned Non lending Services and Actual Deliveries: FY08-11		
	CPS FY08-11 Plans	CPS FY08-11 Actuals
FY08	Country Economic Memorandum (CEM II): Sustaining High Growth	Country Economic Memorandum (CEM II): Sustaining High Growth
	Programmatic Country Economic Memorandum: International Experience with Informality	Programmatic Country Economic Memorandum: International Experience with Informality
	Investing in Turkey's Next Generation: The School-to-Work Transition and Turkey's Development (planned as Youth Employment –JOBS & Policy)	Investing in Turkey's Next Generation: The School-to-Work Transition and Turkey's Development
	Health Sector Integrated Fiduciary Assessment	Health Sector Integrated Fiduciary Assessment
	Innovation Note: Background Paper on National Innovation System (planned as Technology, adoption, research and development and innovation)	Innovation Note: Background Paper on National Innovation System
	Istanbul Municipal Development	Istanbul Financial Note
	Programmatic Energy Sector Work TA	Programmatic Energy Sector Work TA
	Programmatic Social Security and Labor TA (planned as (1) Programmatic Social Insurance and (2) Programmatic Welfare and Social Policy)	Programmatic Social Security and Labor TA
	Public Private Partnerships Advisory Work & TA	Public Private Partnerships Advisory Work & TA (Developing Policy Institutional and Legal Framework for Second Generation PPP)
	Policy Notes & Dialogue with Government TA	Policy Notes & Dialogue with Government TA (delivered but not recorded in SAP)
	Municipal Financing Management & Regional Development Workshop TA	Municipal Financing Management & Regional Development Workshop TA
	Investment Climate Assessment (delivered in FY10)	***Additional Actual Products:***
	Education Quality (delivered in FY10)	Estimating the Impact of Labor Taxes on Employment and Balance of the Social Insurance Funds in Turkey (planned as Labor Tax Study in previous CAS)
FY09	Country Economic Memorandum: Informality – Causes, Consequences and Policies	Country Economic Memorandum: Informality – Causes, Consequences and Policies
	Female Labor Force Participation in Turkey	Female Labor Force Participation in Turkey : Trends in Female Labor Force Participation in Turkey
	Reviews of the Health Systems in Turkey - joint with OECD (planned as Health Sector Assessment)	Reviews of the Health Systems in Turkey - joint with OECD
	National Innovation and Technology System: Recent Progress and Ongoing Challenges (planned as Programmatic Technology and Innovation)	National Innovation and Technology System: Recent Progress and Ongoing Challenges
	Programmatic Public Expenditure and Financial Management	Programmatic Public Expenditure and Financial Management
	Water Sector Dialogue/World Water Forum TA	Water Sector Dialogue/World Water Forum TA
	Programmatic Welfare & Social Policy TA	Programmatic Welfare & Social Policy TA
	Programmatic Energy Sector Work TA	Programmatic Energy Sector Work TA
	Judicial Reform TA	Judicial Reform TA
		Additional Actual Products:
		Life Chances in Turkey: Expanding Opportunities for the Next Generation
		Programmatic Social Security and Labor TA
		Programmatic Municipal Finance & Regional Development TA

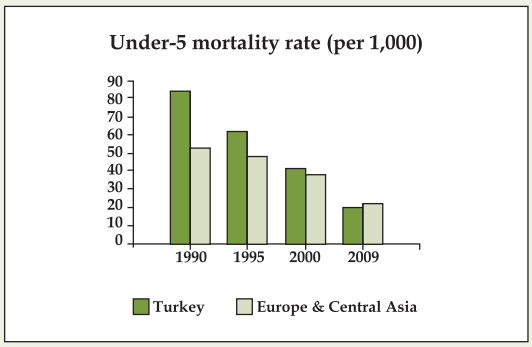
	CPS FY08-11 Plans	CPS FY08-11 Actuals
FY10	Growth CEM: Savings and Sustainable Growth I	Growth CEM: Savings and Sustainable Growth I
	Welfare Impact of the Economic Slowdown and Policy Options for Jobs	Welfare Impact of the Economic Slowdown and Policy Options for Jobs
	Investment Climate Assessment: From Crisis to Private Sector Lead Growth (planned as Investment Climate Work and Enterprise Survey)	Investment Climate Assessment: From Crisis to Private Sector Lead Growth
	Programmatic Technology and Innovation	Programmatic Technology and Innovation
	Programmatic Education: Education Quality	Improving the Quality and Equity of Basic Education in Turkey: Challenges and Options
	Programmatic Public Expenditure and Financial Management TA	Second Programmatic Public Expenditure and Financial Management Study (PPER2) TA and Financial Management TA to Parliament and Turkish Court of Accounts
	Judicial Reform TA	Judicial Reform TA
	Programmatic Human Development TA	Programmatic Human Development TA
	Vocational Training with ISKUR TA	Vocational Training with ISKUR TA
	Tapping the Potential for Energy Savings TA (planned as Energy Efficiency Assessment)	Tapping the Potential for Energy Savings TA
	Programmatic Energy Sector TA	Capacity Building for Electricity Markets TA
	Programmatic Food Safety TA	Programmatic Food Safety TA
	Corporate Restructuring /Insolvency Reform TA	Discussion Background Note: Corporate Restructuring / Insolvency Reform TA
	Environmental Sustainability Programmatic TA: (i) sector competitiveness and EU Aquis, (ii) National Watershed Management	Environmental Sustainability Programmatic TA: (i) sector competitiveness and EU Aquis, (ii) National Watershed Management
	Enterprise Survey to Assess the Impact of the Crisis TA	Impact of the Global Economic Crisis in Turkey's Corporate Sector TA
	Programmatic Municipal Finance TA (not delivered)	
	Promoting Small & Medium Enterprise Development (delivered in FY11)	***Additional Actual Products:***
		Assessing the Social Impact of the Economic Slowdown
FY11	Country Economic Work: Savings and Sustainable Growth II	Country Economic Work: Savings and Sustainable Growth II
	Programmatic Education	Programmatic Education: Early Childhood Development
	Promoting Small & Medium Enterprise Development	Promoting Small & Medium Enterprise Development
	Programmatic Public Expenditure & Financial Management	To be delivered in FY12
	Vocational Training with ISKUR TA	Vocational Training with ISKUR TA
	Programmatic Human Development TA	Programmatic Human Development TA
	Environmental Sustainability Programmatic TA: (i) sector competitiveness and EU Aquis, (ii) National Watershed Management	Environmental Sustainability Programmatic TA: (i) sector competitiveness and EU Aquis, (ii) National Watershed Management
	Programmatic Food Safety TA	Programmatic Food Safety TA
		Additional Actual Product:
		Corporate Bond Market Development – Priorities and Challenges
		Efficiency & Cost Constraint in Turkey's Health Sector
		Implementation of Safeguard Policies in Financial Intermediary and Programmatic Operations TA
		Investment Climate Assessment follow-up TA
		Promoting Gender Equity in Private Sector TA
		Credit Line Impact Assessment TA

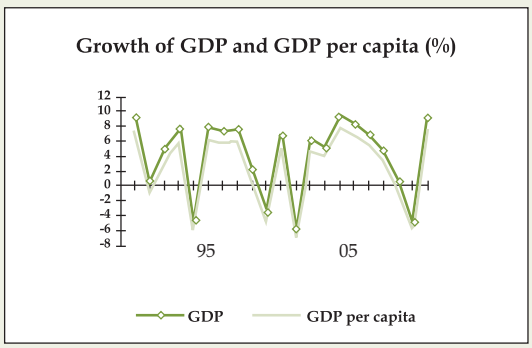
Turkey at a glance

2/7/12

Key Development Indicators	Turkey	Europe & Central Asia	Upper middle income
(2010)			
Population, mid-year (millions)	72.8	404	1.002
Surface area (thousand sq. km)	784	23,549	48,659
Population growth(%)	1.3	0.3	0.9
Urban population (% of total population)	69	64	75
GNI (Atlas method. US$ billions)	722.3	2,746	7,515
GNI per capita (Atlas method. US$)	9,930	6,793	7,502
GNI per capita (PPP. international $)	*13,500*	12,609	12,440
GDP growth (%)	9.0	-5.8	-2.6
GDP per capita growth (%)	7.6	-6.1	-3.4
(most recent estimate. 2004-2010)			
Poverty headcount ratio at $1.25 a day (PPP. %)	3	4	..
Poverty headcount ratio at $2.00 a day (PPP. %)	9	9	..
Life expectancy at birth (years)	72	70	72
Infant mortality (per 1.000 live births)	19	19	19
Child malnutrition (% of children under 5)	4	..	..
Adult literacy, male [% of ages 15 and older)	96	99	94
Adult literacy, female (% of ages 15 and older)	85	97	91
Gross primary enrollment, male (% of age group)	101	100	111
Gross primary enrollment, female (% of age group)	98	98	110
Access to an improved water source (% of population) Access to improved sanitation facilities (% of population)	**99** **90**	95 89	95 84







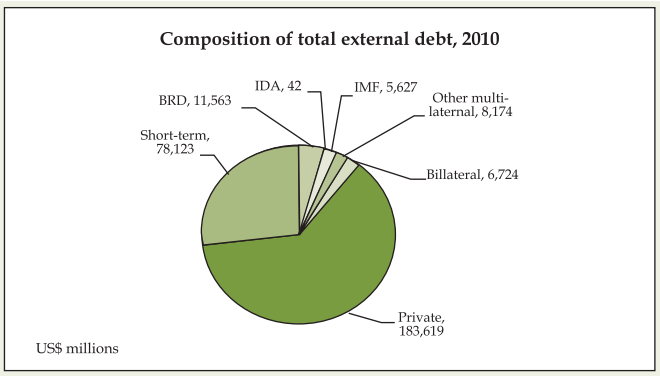
Net Aid Flows	1980	1990	2000	2010
(US$ millions)				
Net ODA and official aid	954	1,202	327	1,362
Top 3 donors (in 2008)				
European Union Institutions	-2	-24	187	787
Japan	5	324	144	211
France	33	65	8	155
Aid (%. of GNI)	1.4	0.8	0.1	0.2
Aid per capita (US$)	22	22	5	19

Long-Term Economic Trends					1980-1990	1990-2000	2000-2010
					(average annual growth %)		
Consumer prices (annual %. change)	..	60.3	54.9	8.6			
GDP implicit deflator (annual %. change)	93.0	58.2	49.2	6.3			
Exchange rate (annual average, local per US$)	0.0	0.0	0.6	1.5			
Terms of trade index (2000 = 100)	96	109	100	92			
Population, mid-year (millions)	44.1	54.1	63.6	72.8	2.0	1.6	1.3
GDP (US$ millions)	68,789	150,676	266,568	735,657	5.3	3.9	4.7
		(% of GDP)					
Agriculture	26.5	18.1	11.3	9.6	1.2	1.3	1.6
Industry	23.8	32.2	31.5	26.7	7.2	4.7	5.2
Manufacturing	17.3	22.7	22.5	17.7	7.3	4.7	5.1
Services	49.7	49.8	57.2	63.8	5.2	4.0	5.0
Household final consumption expenditure	77.0	68.7	70.5	71.3	..	3.5	5.0
General gov't final consumption expenditure	11.6	11.0	11.7	14.3	..	4.6	4.1
Gross capital formation	18.2	24.5	20.8	19.9	..	4.7	6.7
Exports of goods and services	5.2	13.4	20.1	21.1	..	11.1	5.8
Imports of goods and services	11.9	17.6	23.1	26.6	..	10.8	8.2
Gross savings	..	..	..	..	..	..	..

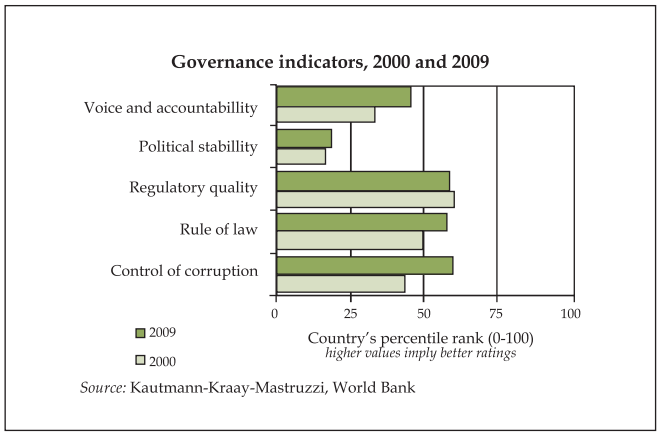
Note: Figures in italics are for years other than those specified. 2010 data are preliminary. Group data are for 2009. .. indicates data are not available
a. Aid data are for 2009.

Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade	2000	2010
(US$ millions)		
Total merchandise exports (fob)	27,775	113,883
Total merchandise imports (cif)	54,503	185,544
Net trade in goods and services	-10,682	-41,410
Current account balance	-9,823	-47,101
as a % of GDP	-3.7	-6.4
Workers' remittances and compensation of employees (receipts)	4,560	*948*
Reserves, including gold	26,106	85,961
Central Government Finance		
(% of GDP)		
Current revenue (including grants)	18.1	22.2
Tax revenue	15.9	19.1
Current expenditure	26.5	22.5
Overall surplus/deficit	-8.0	-3.2
Highest marginal tax rate (%)		
İnvidual	*45*	*35*
Corporate	33	*20*
External Dept and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	116,646	293,872
Total debt service	20,684	58,688
Debt relief (HIPC, MDRI)	-	-
Total debt (% of GDP)	43.8	39.9
Total debt service (% of exports)	39.0	36.6
Foreign direct investment (net inflows)	982	*7,955*
Portfolio equity (net inflows)	489	*2,827*



Private Sector Development	2000	2010
Time required to start a business (days)	-	6
Cost to start a business (% of GNI per capita)	-	17.2
Time required to register property (days)	-	6
Ranked as a major constraint to business (% of managers surveyed who agreed)	**2000**	**2010**
Tax rates	..	*37.6*
Economic and regulatory policy uncertainty	..	*31.1*
Stock market capitalization (% of GDP)	26.1	41.7
Bank capital to asset ratio (%)	6.1	13.4



Source: Kautmann-Kraay-Mastruzzi, World Bank

Technology and Infrastructure	2000	2009
Paved roads (% of total)	*34.0*	..
Fixed line and mobile phone subscribers (per 100 people)	52	106
High technology exports (% of manufactured exports)	4.9	1.9
Environment		
Agricultural land (% of land area)	53	*51*
Forest area (% of land area)	13.2	*14.7*
Terrestrial protected areas (% of land area)	..	..
Freshwater resources per capita (cu. meters)	*3,319*	*3,109*
Freshwater withdrawal (billion cubic meters)	42.0	..
CO2 emissions per capita (mt)	3.2	*4.0*
GDP per unit of energy use (2005 PPP $ per kg of oil equivalent)	8.2	9.1
Energy use per capita (kg of oil equivalent)	1,149	1,232

World Bank Group portfolio	2000	2009
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	3,634	9,769
Disbursements	1,291	2,281
Principal repayments	486	662
Interest payments	237	304
IDA		
Total debt outstanding and disbursed	101	48
Disbursements	0	0
Total debt service	7	6
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	1,089	1,914
of which IFC own account	619	1,305
Disbursements for IFC own account	110	140
Portfolio sales, prepayments and repaysments for IFC own account	96	107
MIGA		
Gross exposure	195	612
New guarantees	0	0

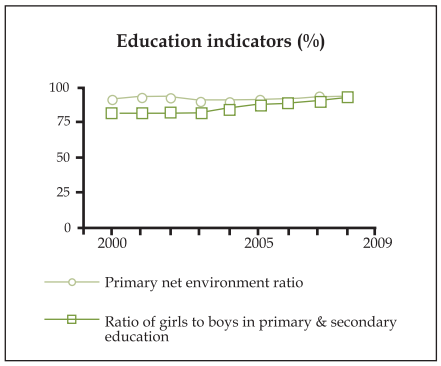
Note: Figures in italics are for years other than those specified. 2010 data are preliminary.
.. indicates data are not available. - indicates observation as not applicable.

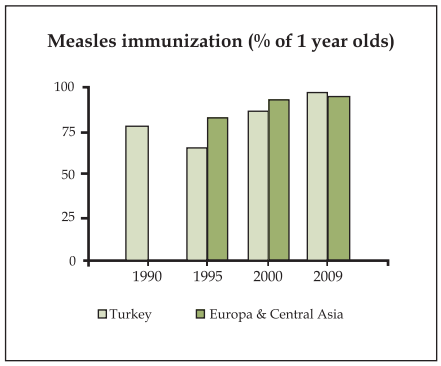
2/7/12

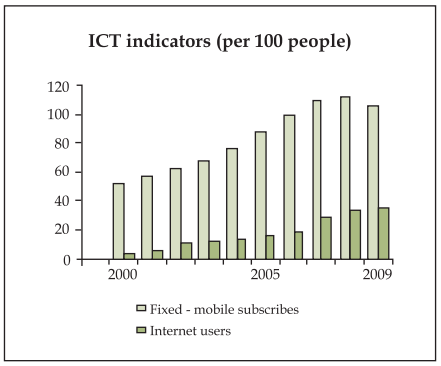
Development Economics, Development Data Group (DECDG).

Millennium Development Goals

With selected targets to achieve between 1990 and 2015 *(estimate closest to date shown -1-2 years)*	Turkey			
Goal 1: halve the rates for extreme poverty and malnutrition	**1990**	**1995**	**2000**	**2009**
Poverty headcount ratio at $1.25 a day (PPP, % of population)	..	2.1	<2	2,7
Poverty headcount ratio at national poverty line (% of population)	..	..	27,0	18,1
Share of income or consumption to the poorest qunitile (%)	..	5,8	5,6	5,7
Prevalence of malnutrition (% of children under 5)	..	9.0	7.0	..
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net,%)	90	89	92	95
Primary completion rate (% of relevant age group)	88	89	..	93
Secondary school enrollment (gross, %)	47	57	70	82
Youth literacy rate (% of people ages 15-24)	93	..	..	98
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	81	81	83	93
Women employed in the nonagricultural sector (% of nonagricultural employment)	16	17	19	22
Proportion of seats held by women in national parliament (%)	1	2	4	9
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	84	62	42	20
Infant mortality rate (per 1,000 live births)	69	52	36	19
Measles immunization (proportion of one-year olds immunized, %)	78	65	87	97
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100.000 live births)	68	51	39	23
Births attended by skilled health staff (% of total)	..	76	81	95
Contraceptive prevalence (% of women ages 15-49)	63	63	64	73
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	0.1	0.1	0.1	0.1
Incidence of tuberculosis (per 100,000 people)	58	58	46	29
Tuberculosis case detection rate (% all forms)	75	65	59	77
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	85	89	93	99
Access to improved sanitation facilities (% of population)	84	85	87	90
Forest area (% of land area)	12,6	..	13,2	14,7
Terrestrial protected areas (% of land area)	..	..	..	..
CO2 emissions (metric tons per capita)	2,7	2,9	3,2	4,0
GDP per unit of energy use (constant 2005 PPP $ per kg of oil equivalent)	8,3	8,3	8,2	9,1
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	12,2	21,4	27,7	22,1
Mobile phone subscribers (per 100 people)	0,1	0,7	24,3	83,9
Internet users (per 100 people)	0,0	0,1	3,8	35,3
Personal computers (per 100 people)	0,5	1,5	3,8	6,1







Note: Figures in italics are for years other than those specified. ..indicates data are not available.

Turkey - Selected Indicators* of Bank Portfolio Performance and Management

As of January 2012

Indicator	2009	2010	2011	2012 [f]
Portfolio Assessment				
Number of Projects Under Implementation [a]	21	18	16	14
Average Implementation Period (years) [b]	3.2	3.8	4.7	5.3
Percent of Problem Projects by Number [a, c]	23.8	16.7	6.3	7.1
Percent of Problem Projects by Amount [a, c]	21.8	13.3	5.9	1.9
Percent of Projects at Risk by Number [a, d]	23.8	16.7	6.3	7.1
Percent of Projects at Risk by Amount [a, d]	21.8	13.3	5.9	1.9
Disbursement Ratio (%) [e]	22.3	26.4	31.0	21.6
Portfolio Management				
JPPR during the year (yes/no)	Yes	Yes	Yes	Yes
Supervision Resources (total US$000)	2,485	2,627	2,336	508
Average Supervision (US$000/project)	92	109	117	32

Memorandum Item	Since FY 80	Last Five FYs
Projects Evaluated by IEG by Number	127	14
Projects Evaluated by IEG by Amt (US$M)	17,505.8	2,998.9
% of IEG Projects Rated U or HU by Number	25.8	7.7
% of IEG Projects Rated U or HU by Amt	23.1	9.4

Notes:

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's country portfolio

c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

d. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year:

Investment projects only.

e. As defined under the Portfolio Improvement Program

f. FY12 figures represent an incomplete fiscal year.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Turkey - Indicative IBRD Lending Program

As of February 2012

Strategic Objective	Project Title	IBRD US$M	Strategic Rewards (H/M/L)	Implementation Risks (H/M/L)
FY12 Projects		**1,100**		
SO1, SO3	Third Programmatic Environmental Sustainability and Energy Sector DPL	600	H	L
SO3	Private Sector Renewable Energy and Energy Efficiency Additional Financing	500	M	M
FY13 Projects		**1,300**		
SO1	Programmatic DPL - Growth, Competitiveness, and Employment	600	H	L
SO3	Private Sector Energy Efficiency	200	M	M
SO1	SME Access to Finance (Food Safety)	200	M	M
SO2	Project on Health	200	H	L
	Other (to be allocated)	100		
FY14-15 Themes for Projects		**2,050**		
SO1	DPL - to be determined	350	H	L
SO1	Area of Access to Finance: SME or Exporters		M	M
SO2	Areas of Education/Employment	1,700	H	L
SO3	Areas of Sustainable Cities/Disaster/Watershed/Energy		M	M

Notes:
For the outer years, the program will be defined through the CPS Progress Report.
Strategic Objectives (SO)
SO1 Enhanced Competitiveness and Employment
SO2 Improved Equity and Public Service Provision
SO3 Deepened Sustainable Development
Strategic Rewards and Implementation Risks
H: High; M: Moderate; L: Low

Turkey - IFC Investment Operations Program

As of January 2012

	2009	2010	2011	2012*
Original Commitments (US$m)				
IFC and Participants	351.7	437.4	1,246.4	227.2
IFC's own accounts only	351.7	427.4	459.1	227.2

Original Commitments by Sector (%) - IFC accounts only				
Accomodation and Tourism Services		3.9		
Agriculture and Forestry	2.8			
Collective Investment Vehicles		3.2		
Electric Power	20.3	17.5	35.9	
Finance & Insurance	4.0	64.8	55.1	100.0
Food & Beverages			3.6	
Health Care			5.4	
Industrial & Consumer Products		5.3		
Nonmetallic Mineral Product Manufacturing	16.5			
Primary Metals	8.5	0.6		
Pulp & Paper	11.4			
Transportation and Warehousing	22.2	4.7		
Utilities	14.2			
	100.0	100.0	100.0	100.0

Original Commitments by Investment Instrument (%) - IFC accounts only				
Equity	2.9	15.8	9.4	1.4
Guarantee	4.0	5.1	8.4	43.6
Loan	71.8	76.7	71.3	55.0
Quasi loan	21.3	2.3	10.9	0.0
	100.0	100.0	100.0	100.0

* Data as of January 01,2012

Turkey - Summary of Indicative Non-Lending Services

As of February 2012

Ongoing and Planned Activities	Completion FY	Audience	Objective
Economic and Sector Work (ESW)			
Country Economic Memorandum on Trade 1	FY12	G, B, P, O	KG, PD, PS
Programmatic Health 1: Family Medicine	FY12	G, D, B, P	KG, PD, PS
Programmatic Public Expenditure and Financial Management 3 - Transport PER	FY12	G, B, P, O	KG, PD
Programmatic Public Expenditure and Financial Management 4 - General PER	FY12	G, B, P, O	KG, PD
Programmatic Education: Financing and Accountability 1	FY12	GD, B, P	KG, PD, PS
Rio+20/Cleaner Production	FY12	G, D, B, P	KG, PD
Sustainable Cities 1	FY12	G, D, B, P	KG, PD, PS
Country Economic Memorandum on Trade 2	FY13	G, B, P, O	KG, PD, PS
New CEM (tbd)	FY13	G, B, P, O	KG, PD, PS
Programmatic Health 2: Pharmaceuticals	FY13	G,D, B, P	KG, PD, PS
Programmatic Public Expenditure and Financial Management 4 continued	FY13	G, B, P, O	KG, PD, PS
Programmatic Jobs 1: Managing Labor Markets through the Business Cycle	FY13	G, D, B, P	KG, PD, PS
Programmatic Jobs 2: Activation of Low Skilled Youth and Women	FY13	G, D, B, P	KG, PD, PS
Programmatic Education: Financing and Accountability 2	FY13	GD, B, P	KG, PD, PS
Sustainable Cities 2	FY13	G, D, B, P	KG, PD, PS
Programmatic Jobs 3: Labor Mobility	FY14	G, D, B, P	KG, PD, PS
Technical Assistance (TA)			
Programmatic Human Development 1	FY12	G	PS, KG
Financial Literacy	FY12	G, O	PS
Food Safety Programmatic TA	FY12	G	PS
National Watershed Management	FY12	G	PS
Financial Sector Development 1	FY12	G, O	PS
Investment Climate and Competitiveness including Regional ICAs	FY12	G	KG, PS
National Disaster Risk Mitigation	FY12	G	PS
Gender Equity in the Private Sector 1	FY12	O	PS
SOE Governance	FY12	G	KG
Gender Equity in the Private Sector 2	FY13	O	PS
Programmatic Human Development 2	FY13	G	PS, KG
Energy Efficiency and Renewable Energy	FY13	G, O	PS
Impact Evaluation			
Impact Evaluation of ISKUR's Vocational Training Programs	FY12	G	PS, KG
Regional AAA with Substantial Coverage of Turkey			
Assessment of Prospects and Road Map for Synchronization of Mashreq Electricity Networks	TBD	G, B, P	KG, PD, PS
Regional Trade - Economic Integration in Turkey, Caucasus, and the Mashreq Region	FY13	G, D, B, P	KG, PD, PS

Notes:
For the outer years, the program will be defined through the CPS Progress Report
For a list of recent completions, please see the CPS Completion Report (Annex 3)
Audience: Government (G); Donor (D); WBG (B); Public Dissemination (P); Other (O)
Objective: Knowledge Generation (KG); Public Debate (PD); Problem-Solving (PS)

Turkey Social Indicators

	Latest Single Year			Same region/income group	
	1980-85	1990-95	2003-10	Europe & Central Asia	Upper - Middle Income
POPULATION					
Total population, mid-year (millions)	50.7	61.2	73.7	404.2	1,001.7
Growth rate (% annual average for period)	2.5	1.7	1.3	0.2	0.9
Urban population (% of population)	53.0	62.1	76.3	64.0	74.9
Total fertility rate (births per woman)	3.6	2.7	2.1	1.8	2.0
POVERTY *(% of population)*					
National headcount index	..	..	18.1	..	..
Urban headcount index	..	..	8.9	..	..
Rural headcount index	..	..	38.7	..	..
INCOME					
GNI per capita (US$)	1,250	2,720	8,720	6,793	7,502
Consumer price index (2000=100)	0	2	141	141	127
Food price index (2000=100)	0	6	336	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	49.0	41.5	..	..
Lowest quintile (% of income or consumption)	..	4.9	5.6	..	..
Highest quintile (% of income or consumption)	..	54.9	47.6	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	1.8	6.1	3.9	3.8
Education (% of GDP)	1.8	2.3	4.0	4.1	4.3
Net primary school enrollment rate *(% of age group)*					
Total	85	89	98	92	93
Male	..	92	98	93	93
Female	..	86	98	92	92
Access to an improved water source *(% of population)*					
Total	..	89	99	95	95
Urban	..	95	100	98	98
Rural	..	79	96	89	86
Immunization rate *(% of children ages 12-23 months)*					
Measles	61	65	97	96	93
DPT	55	67	96	95	93
Child malnutrition (% under 5 years)	..	9	4	..	..
Life expectancy at birth *(years)*					
Total	62	68	74	70	72
Male	60	65	72	66	69
Female	64	70	77	75	75
Mortality					
Infant (per 1,000 live births)	85	52	19	19	19
Under 5 (per 1,000)	107	62	20	21	22
Adult (15-59)					
Male (per 1,000 population)	..	..	149	286	201
Female (per 1,000 population)	..	..	83	123	122
Maternal (modeled, per 100,000 live births)	..	70	23	32	82
Births attended by skilled health staff (%)	..	76	95	97	96

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey.

World Development Indicators database, World Bank - 15 April 2011.

Turkey - Key Economic Indicators

	Actual			Estimate			Projected		
Indicator	2005	2006	2007	2008	2009	2010	2011	2012	2013
National accounts (as % of GDP)									
Gross domestic product[a]	100	100	100	100	100	100	100	100	100
Agriculture	11	10	9	9	9	10	9	9	9
Industry	29	29	28	28	26	27	27	28	28
Services	61	62	63	64	65	64	64	63	63
Total Consumption	84	83	84	83	86	86	86	83	83
Gross domestic fixed investment	21	22	22	20	17	19	22	22	22
Government investment	3	3	3	3	3	4	2	2	2
Private investment	18	19	18	17	14	15	20	20	20
Exports (GNFS)[b]	22	23	22	24	23	21	22	24	25
Imports (GNFS)	25	28	27	28	24	27	31	30	30
Gross domestic savings	16	17	16	17	14	14	14	17	17
Gross national savings[c]	16	16	16	16	13	14	13	15	15
Memorandum items									
Gross domestic product	482,980	529,936	647,851	735,190	615,722	735,657	791,516	839,788	898,654
(US$ million at current prices)									
GNI per capita (US$, Atlas method)	6,480	7,460	8,440	9,280	9,050	9,990	10,470	11,016	11,511
Real annual growth rates (%, calculated from 87 prices)									
Gross domestic product at market prices	8,4	6,9	4,7	0,7	-4,8	9,0	8,0	2,9	4,0
Gross Domestic Income	8,3	5,7	5,1	-0,1	-4,3	8,3	6,6	2,3	4,4
Real annual per capita growth rates (%, calculated from 87 prices)									
Gross domestic product at market prices	7,0	5,5	3,3	-0,7	-6,0	7,6	6,7	2,3	3,0
Total consumption	5,7	3,7	4,2	-1,4	-2,3	4,7	6,0	1,9	2,8
Private consumption	6,4	3,3	4,1	-1,6	-3,5	5,4	5,9	1,8	2,6
Balance of Payments (US$ millions)									
Exports (GNFS)[b]	105,122	119,161	144,291	175,871	143,113	155,371	182,473	196,324	221,206
Merchandise FOB	78,365	93,612	115,361	140,800	109,647	120,902	143,491	147,301	162,433
Imports (GNFS)[b]	122,941	146,606	177,860	211,581	151,214	-196,781	253,638	250,135	271,702
Merchandise FOB	111,445	134,669	162,213	193,821	134,497	177,347	232,897	242,252	264,193
Resource balance	-17,819	-27,445	-33,569	-35,710	-8,101	-41,410	-71,165	-53,811	-50,496
Net current transfers	1,454	1,908	2,243	2,113	2,299	1,448	1,734	7,797	7,310
Current account balance	-22,204	-32,193	-38,434	-41,959	-13,991	-47,101	-77,157	-63,745	-65,992
Net private foreign direct investment	8,967	19,261	19,941	16,955	6,858	7,629	13,440	12,954	16,448
Long-term loans (net)	12,856	28,609	26,824	22,624	-10,302	11,226	2,839	25,515	26,644
Official	-652	705	1,445	2,274	3,123	3,832	782	386	-506
Private	13,507	27,903	25,379	20,350	-13,425	7,394	2,057	25,129	27,150
Other capital (net, incl. errors & ommissions)	18,228	-9,563	-299	1,323	17,546	42,225	59,089	25,735	25,822
Change in reserves[d]	-17,847	-6,114	-8,032	1,057	-111	-13,979	1,789	-459	-2,922
Memorandum items									
Resource balance (% of GDP)	-3,7	-5,2	-5,2	-4,9	-1,3	-5,6	-9,0	-6,4	-5,6
Real annual growth rates (YR87 prices)									
Merchandise exports (FOB)	9,7	12,4	11,3	6,6	-7,8	6,3	1,0	16,2	13,1
Primary	..	..	7,3	16,4	21,1	-4,8	-6,4	6,4	7,0
Manufactures	..	..	11,8	5,2	-12,1	8,6	3,2	18,1	14,3
Merchandise imports (CIF)	11,9	10,0	11,1	-1,0	-13,3	21,3	12,1	5,1	14,5

(Continued)

Turkey - Key Economic Indicators

	Actual			Estimate			Projected		
Indicator	2005	2006	2007	2008	2009	2010	2011	2012	2013
Public finance (as % of GDP at market prices)[e]									
Current revenues	32,9	34,8	33,6	32,9	34,6	35,4	36,9	36,4	36,5
Current expenditures	33,0	33,4	33,8	34,6	40,1	38,3	38,1	37,4	37,2
Current account surplus (+) or deficit (-)	-0,1	1,4	-0,2	-1,7	-5,5	-2,9	-1,2	-1,0	-0,7
Capital expenditure	2,2	2,4	2,0	2,5	2,7	3,4	3,6	3,6	3,5
Foreign financing	-0,3	-0,1	-0,3	0,4	0,6	0,7	3,2	2,9	3,3
Monetary indicators									
M2/GDP	41,1	43,3	45,6	49,9	56,4	57,8	57,8	57,8	57,8
Growth of M2 (%)	38,5	23,0	17,0	23,4	13,3	18,9	19,9	10,2	10,3
Private sector credit growth /	73,7	115,8	81,9	76,4	41,3	88,3	89,5	84,4	84,9
total credit growth (%)									
Price indices(YR87 =100)									
Merchandise export price index	123,6	128,0	144,3	166,6	139,8	146,6	170,0	162,0	156,9
Merchandise import price index	124,1	134,9	147,9	177,5	142,8	155,0	177,2	171,3	163,1
Merchandise terms of trade index	99,7	94,9	97,6	93,9	97,9	94,6	95,9	94,6	96,2
Real exchange rate (US$/LCU)	114,0	112,9	122,0	123,0	114,7	127,3	130,6	128,9	127,3
Real interest rates									
Consumer price index (% change)	8,2	9,6	8,7	10,4	6,3	8,6	12,4	7,0	5,2
GDP deflator (% change)	7,1	9,3	6,2	12,0	5,3	6,3	11,0	7,5	5,0

a. GDP at factor cost
b. "GNFS" denotes "goods and nonfactor services."
c. Includes net unrequited transfers excluding official capital grants.
d. Includes use of IMF resources.
e. Consolidated central government.
f. "LCU" denotes "local currency units." An increase in US$/LCU denotes appreciation.
Percentages may not add up to 100 due to rounding.

Turkey – Key Exposure Indicators

	Actual			Estimate			Projected		
Indicator	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total debt outstanding and disbursed (TDO) (US$m)[a]	169,919	207,736	249,478	280,367	268,374	289,387	327,140	356,286	383,932
Net disbursements (US$m)[a]	9,316	27,811	36,149	26,487	-10,408	-688	1,598	22,995	20,778
Total debt service (TDS) (US$m)[a]	36,803	40,070	48,685	53,798	58,789	55,703	48,212	45,110	33,357
Debt and debt service indicators %									
TDO/XGS[b]	155.0	166.6	164.2	152.2	179.9	180.4	180.6	177.7	169.1
TDO/GDP	35.2	39.2	38.5	38.1	43.6	39.3	41.3	42.8	43.1
TDS/XGS	33.6	32.1	32.0	29.2	39.4	34.7	26.6	22.5	14.7
Concessional/TDO	2.5	2.1	2.4	2.6	3.3	3.4	3.3	3.4	3.3
IBRD exposure indicators (%)									
IBRD DS/public DS	4.7	6.0	6.0	6.4	7.8	6.6	6.7	6.7	7.5
Preferred creditor DS/public DS (%)[c]	47.1	51.0	40.9	25.3	19.7	29.4	33.1	27.6	20.8
IBRD DS/XGS	0.9	0.9	0.7	0.5	0.6	0.5	0.5	0.5	0.5
IBRD TDO (US$m)[d]	5,829	6,854	7,541	8,046	9,769	11,563	11,835	12,259	12,891
Of which present value of guarantees (US$m)									
Share of IBRD portfolio (%)	5	6	7	7	9	11	12	12	12
IDA TDO (US$m)[d]	71	65	59	54	48	42	36	31	26
IFC (US$m)[f]	1,058	1,274	1,417	1,875	1,970	2,122	2,507	2,866	3,185
Loans	853	1,082	929	1,292	1,403	1,329	1,600	1,896	2,196
Equity and quasi-equity /c	205	192	488	584	567	793	907	969	989
MIGA									
MIGA guarantees (US$m)	135	135	135	672	612	667	953		

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital
b. "XGS" denotes exports of goods and services, including workers' remittances.
c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.
d. Includes present value of guarantees.
e. Includes equity and quasi-equity types of both loan and equity instruments
f. IFC Committed Portfolio adjusted for world and regional project allocations as of end FY

Turkey - Operations Portfolio (IBRD/IDA and Grants)

As of January 2012

Closed Projects 168

IBRD/IDA [a/]	US$ Millions
Total Disbursed (Active)	3,189.2
of which has been repaid	167.3
Total Disbursed (Closed)	10,718.2
of which has been repaid	6,151.3
Total Disbursed (Active + Closed)	13,907.4
of which has been repaid	6,318.6
Total Undisbursed (Active)	2,414.5
Total Undisbursed (Closed)	6.2
Total Undisbursed (Active + Closed)	2,420.7

Active Projects

		Last PSR Supervision Rating		Original Amount in US$ Millions					Difference Between Expected and Actual Disbursements[/b]		
Project ID	Project Name	Development Objectives	Implementation Progress	Fiscal Year	IBRD	IDA	GRANT	Cancel.	Undisb.	Orig.	Frm Rev'd
P070950	Anatolia Watershed Rehabilitation	S	S	2004	20.0			4.3	0.7	3.8	
P075094	Anatolia Watershed Rehabilitation (GEF)	S	S	2004			7.0		0.7	0.3	
P081880	Municipal Services	S	S	2005	515.0				257.9	-0.5	50.7
P077328	Railways Restructuring	MS	MS	2005	184.7				69.1	61.1	54.1
P066149	Secondary Education	MS	MU	2005	104.0				35.9	31.8	31.8
P078359	Istanbul Seismic Risk Mitigation and Emergency Preparednes	S	S	2005	550.0				188.6	6.7	20.3
P093765	Gas Sector Development	MS	MS	2006	325.0				243.0	206.3	
P082822	First Access to Finance for Small and Medium Enterprises	S	S	2006	696.9				9.1	-450.3	-311.6
P096801	Electricity Distribution Rehabilitation	MS	MS	2007	269.4				177.4	129.6	
P106284	Land Registration and Cadastre Modernization	MS	MS	2008	203.0				134.8	124.6	
P096858	Fourth Export Finance Intermediation Loan (EFIL IV)	S	S	2008	900.0				356.9	-94.9	
P102172	Health Transformation and Social Security Reform (APL2)	S	S	2009	75.1				50.4	5.2	
P112578	Private Sector Renewable Energy and Energy Efficiency	HS	S	2009	1,000.0				529.1	-221.9	
P118308	Second Access to Finance for Small and Medium Enterprises	S	S	2010	500.0				177.3	-214.4	
P110841	Energy Community for South East Europe (ECSEE) APL6	S	S	2011	220.0				184.3		
Overall Result					5,563.1		7.0	4.3	2,415.2	-412.6	-154.8

a/ Disbursement data is updated at the end of the first week of the month.
b/ Intended disbursements to date minus actual disbursements to date as projected at appraisal.

Turkey - IFC: Committed and Disbursed Outstanding Investment Portfolio

As of January 2012 (In US$ Millions)

Commitment	Institution	Committed					Disbursed Outstanding				
Fiscal Year	Short Name	Loan	Equity	**Quasi Equity	*GT/RM	Participant	Loan	Equity	**Quasi Equity	*GT/RM	Participant
2008	AKO	**19.0**					**19.0**				
2003/04/ 10/11	Akbank	**150.0**					**150.0**				
2010	Akenerji	**65.0**		10.0			**65.0**		10.0		
1999/2011/ 12	Alternatifbank	25.0		50.0			25.0		50.0		
2008	Arkas Group	**19.4**			1.5		**19.4**				
2009/10	Assan Aluminyum	**19.7**		24.3		10.0	**19.7**		24.3		10.0
2008	Atateks	25.0					25.0				
2006/07	Avea	**30.9**				60.4	**30.9**				60.4
2001/2007	Banvit	25.0					25.0				
2008	Delta Petroleum	**36.0**					**36.0**				
2011	DenizBank AS	65.9					65.9				
2008/2011	Enerjisa			293.8		1,146.4	0.0		206.1		514.5
2010	Eurasia Capital		13.2					1.9			
1997/98/2006/ 10	Finans Leasing	46.4					46.4				
11/12/2007	Finansbank A.S.		142.6					142.6			
2002	Gunkol	4.6		0.0			4.6		0.0		
2009	IZGAZ	43.5					43.5				
6/7/2005	Intercity		0.9					0.9			
2009	Istanbul MMI	56.3					56.3				
2007/ 08/ 09	Kucukcalik	17.3					17.3				
1991/1998/2006	Kula	5.2					5.2				
2009	May Seed			7.2					7.2		
2004	Meteksan Sistem			1.7					1.7		
1998/2002/06/09	Modern Karton	35		15.0		2.0	35		15.0		2.0
1992	NASCO		0.0					0.0			
2008	Posuda	**24.0**					**24.0**				
2009	Rotor Elektrik	63.6					63.6				
2011	SEDAS	**74.7**				74.7	**74.7**				74.7
2006/07	Sanko Group	50.0				36.4	50.0				36.4
2007/10	Sarten	20.2					20.2				
2008/09/10/11/12	Seker Bank	82.9	37.6		37.5		82.9	20.4		37.5	
1998/2002/08	Soktas	20.3					20.3				
2006/07	Standard Profil	**16.7**	3.8				**16.7**	3.8			
2010	TCE Ege	20.0					20.0				
1964/ 67/ 69/ 72/ 75/ 77/ 80/ 83/ 90/ 93/ 2005/ 12	TSKB			50.0					50		
2011	Tamek Gida	**14.1**					8.5				
1979/ 83/ 84/ 89/ 90/ 91/ 93/ 96/ 99/ 05/ 09	Trakya Cam	28.0		30.0			19.6		30.0		
1995/99/2003/05/08	Turk Ekon Bank			121.5		28.5			121.5		28.5
2002	Turkish PEF		0.4					0.1			
2007	Turkish PEF II		33.1					28.1			
2011/12	UHG		25.0					25.0			
2007	Unitim	**13.1**		12.0			**13.1**		12.0		
1999/2000	Uzel	**3.8**				1.6	**3.8**				1.6
2005	YUCE	**1.2**					**1.2**				
1997/98/2008/ 10/ 11	Yapi Kredi Lease	88.8					88.8				
2012	Yapi Kredi Bank	75.0			68.4		75.0			68.4	
World and Regional projects allocations:											
2004	BTC Pipeline	34.3					34.3				
2010	Eurasian		2.6					2.6			
2010	Kordsa Brasil	**12.5**					**12.5**				
2010	Russian Hotel		1.4								
2010	Rus Hotel Kali	**3.2**									
2010	Rus Hotel Samara	**4.1**									
2010	Rus Hotel Yaro	**3.0**									
2009	TAV Tuni. Equity		7.0					7.0			
Total Portfolio		1,342.6	267.7	615.5	107.4	1,360.0	1,318.2	232.5	527.8	105.9	728.1

* Denotes Guarantee and Risk Management Products.

** Quasi Equity includes both loan and equity types

TURKEY

PROVINCE CAPITALS*
NATIONAL CAPITAL
RIVERS
MAIN ROADS
RAILROADS
PROVINCE BOUNDARIES*
INTERNATIONAL BOUNDARIES

*Province names are the same as their capitals.

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