The Pioneer Program

After the devastating 1999 earthquake in Turkey, the World Bank extended an Emergency Earthquake Recovery Loan (EERL) of US$252 million. Initially, standard operating procedures were used: Bank loan proceeds providing general budget support for the central government were disbursed into a US$ special account (SA). But then, to ensure that the proceeds reached the intended beneficiaries quickly, the project was reconfigured to allow affected households to receive cash support from a local currency SA funded by transfers from the US$ SA.

Financial management arrangements

The Turkish Central Bank established a project coordination unit (PCU) for project financial management. Three pension agencies implemented the project along with the Turkish Social Solidarity Fund (SSF), a well-established organization working closely with local public administrations countrywide to provide relief for poor people.

Since the implementing agencies had satisfactory financial management regulations, only traditional internal control measures were used. However, the accounting and reporting requirements were expanded to track applications and payments to individual beneficiaries.

- One Central Bank account was opened for each of the four implementing agencies.
- Treasury and the PCU agreed on procedures to manage fund flows and internal reporting.
- The Central Bank established and maintained records, and it prepared quarterly project management and progress reports and reconciled them with the accounting records.

Innovations

The most significant innovation was the use of two new audits that complemented the Treasury’s mandatory annual audits of project financial statements. The first audit, an operational review by an international audit firm, assessed the extent to which SSF applied its own rules and regulations in daily operations. The second audit, undertaken by an independent university department, examined whether assistance reached intended beneficiaries. Both audits strengthened SSF’s control framework and assured the government and the World Bank that the systems were reliable.

Second-Generation Follow-Up

In 2001, the Bank approved a US$500 million Social Risk Mitigation hybrid loan to provide cash support to victims of the financial crisis. Strengthened by its EERL experience, SSF set up an in-house PCU and took charge of implementation and all fiduciary responsibilities. As under the EERL, local committees selected beneficiaries according to guidelines. The head office sent funds to designated local bank accounts, and then local offices distributed funds (or in-kind assistance) to beneficiaries. Financial management of the cash transfer system relied on the external and operational audits developed under the EERL, which confirmed that SSF provided timely assistance, funds reached the intended beneficiaries, and local offices complied with transfer, filing, and reporting mechanisms. These audits were supplemented by detailed project-specific internal control mechanisms and reinforcement of the accounting and reporting systems.

Internal controls

Bank financial management specialists (FMSs) helped SSF draft a circular for its 931 local offices, drawing on the Operations Manual and the Loan

Cash Transfer Schemes

Bank teams often avoid using cash transfer schemes that involve many small transfers because of the risk of mismanagement. In three recent projects in Turkey, however, innovative financial management helped such schemes succeed, and contributed significantly to project objectives, including sector policy reform.
Agreement, detailing financial procedures — for example, procedures to enable direct transfer to beneficiaries’ bank accounts. Bank staff also helped SSF develop a monitoring and tracking system and the associated control mechanisms for applications and payments.

**Accounting and reporting**

FMSs helped set up an Implementation Agreement for fund transfer and reporting obligations. Local offices and the central SSF/PCU accounted for expenditures, and obligations. The central PCU maintained all transfer records. The SSF/PCU accounted for expenditures, and obligations. Local offices and the central Agreement for fund transfer and reporting arrangements were strengthened.

**Taking Innovation to a Higher Level**

In the US$600 million Agricultural Reform Implementation Project, cash transfers promoted reform of Turkey’s agricultural sector. There were three farmer/worker cash transfer schemes: a direct income support (DIS) system that replaced input and produce subsidies; a farmer transition program (FTP) that provided cash grants for the one-time costs of shifting crops; and severance pay for retrenched agricultural workers.

Implementation and fiduciary responsibility was assigned to a PCU in Treasury. The central and local offices of the Ministry of Agriculture and Rural Affairs (MARA) identified the several hundred thousand beneficiaries, received applications, and made payments for DIS and FTP components. The agricultural sales cooperatives’ restructuring board handled the severance payments. As in earlier projects, an operational audit was used to assess effectiveness, and specific internal controls and accounting and reporting arrangements enhanced financial management.

**Internal controls**

For the DIS and FTP components, FMSs helped MARA develop eligibility criteria and design and implement procedures to (a) monitor applications and payments, (b) preaudit applications, (c) pay beneficiaries, and (d) handle complaints. For the severance pay component, FMSs helped design systems to review business plans and preaudit claims before transferring funds. In all components, payments went directly to beneficiaries’ bank accounts.

**Accounting and reporting**

The central PCU financial and accounting system was designed to report all assets, financial transactions, and procurement activity, and to provide reliable information for managing and monitoring. A simple Chart of Accounts facilitated preparation of the Project Management Reports and annual financial statements. Computerized accounting and reporting systems were implemented, financial management and operational manuals were prepared, and banking arrangements were strengthened.

**Lessons**

These three projects yielded useful experience.

- For a well-functioning cash transfer system, Bank FMSs must be on the project team during project design and project preparation. Collaboration among FM staff, other sector staff, and the implementing agency is particularly important for project-specific internal control mechanisms.

- Safeguard measures can focus on operational audits/reviews (including beneficiary assessments), preaudit procedures, and direct payments to beneficiaries’ bank accounts, especially when the project must be implemented quickly and there is limited knowledge about the agencies that are identifying beneficiaries and handling applications and payments. If time permits, it is advisable to strengthen financial management systems by developing up-front and project-specific internal controls and putting them in place before implementation.

- The quality of implementing agencies’ financial management can be assessed through mandatory audits and operational reviews carried out by private sector audit firms.

- An authoritative source (government legislation or regulation) should endorse and widely publicize clear and simple rules and eligibility criteria for beneficiaries.

- Good coordination among agencies and easy-to-follow procedures for benefit applications and payments — “one-stop-shops” — are vital.

- In emergencies, teachers and community leaders whose regular workplaces are closed may be available to help implement transfer schemes.

- To ensure that beneficiaries derive maximum benefit, cash transfers should be maintained to avoid secondary transactions of in-kind assistance.

- It is essential to provide grievance systems to address beneficiary complaints.

Projects: Turkey: Emergency Earthquake Recovery Loan (Project ID PO68394), Turkey: Social Risk Mitigation Project (Project ID PO74408), and Turkey: Agricultural Reform Implementation Project (Project ID PO70286)

World Bank FM staff who worked on the three projects: Robert Tarallo (EERL), Seda Aroymak (SRMP), and Sanjay Vani (ARIP)

Author: Anders Zeijlon (ECSIE), with input from FM staff and task teams who worked on these projects.