Report Number : ICRR0021225

1. Project Data

Operation ID	Operation Name
P146322	Turkey Sustaining Shared Growth DPL
Country	**Practice Area(Lead)**
Turkey	Macroeconomics, Trade and Investment

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IBRD-84120	30-Jun-2015	500,000,000.00
Bank Approval Date	**Closing Date (Actual)**	
24-Jul-2014	30-Jun-2015	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	500,000,000.00	0.00
Revised Commitment	500,000,000.00	0.00
Actual	462,464,750.00	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
Peter Nigel Freeman	Robert Mark Lacey	Malathi S. Jayawickrama	IEGEC (Unit 1)

2. Project Objectives and Policy Areas

a. Objectives

According to the Program Document, the objectives of the programmatic Sustaining Shared Growth development policy loan (DPL) series were to: a) improve the business climate and enhancing transparency; b) boost labor force participation and widen access to finance; and c) deepen Turkey's infrastructure reforms. The series, originally designed for two operations, consisted of only one. The second operation did not proceed due to the materialization of political risks that had been identified at appraisal.
The program objectives and key associated outcome targets were not revised during implementation.

b. Were the program objectives/key associated outcome targets revised during implementation of the series?

---

c. Pillars/Policy Areas

There were three pillars:

Pillar A. Improving the business climate and enhancing transparency:

The approach was to utilize a mix of integrated policies covering the introduction of a framework for commercial activity based on financial transparency and strong corporate governance. A simplified central registration system for establishing and operating businesses and the introduction of a Capital Markets Law to broaden domestic financing sources, together with a new patents law and intellectual property rights regime were central to this pillar.

Pillar B. Boosting labor force participation and widening access to finance:

The pillar was intended to increase labor force participation especially by women. This involved a new National Employment Strategy and a widening of women's access to finance. There were also measures to increase voluntary savings.

Pillar C. Deepening Turkey's infrastructure reforms:

The concept was to deepen infrastructure investments, particularly in the energy and transport markets. On the energy side this meant modernizing the regulatory frameworks for the electric power and natural gas sectors. In the railway transportation sector, it involved unbundling existing organizational frameworks to create an open access environment.

d. Comments on Program Cost, Financing, and Dates

Program Cost: The program was financed by an IBRD loan of US$500 million (EUR 367.4 million), which was fully disbursed. The program (first operation) was approved on July 24, 2014 and was completed by the originally scheduled date of June 30, 2015.

3. Relevance of Objectives & Design

a. Relevance of Objectives

The operation's objectives were highly relevant to the Government's development priorities and the Bank's Country Partnership Framework (CPF) as well as ongoing analytical work. At appraisal, the Government's development priorities were defined by the National Development Plan (NDP), 2014-2018, which diagnosed the key challenges that Turkey needed to overcome to escape the "middle income trap". (To sustain higher growth required higher investment rates, but tightening international liquidity set against high political risks locally made this difficult). The NDP objectives were aligned with the Bank's systematic country diagnostic (SCD) completed in March 2017. The Bank's Board of Directors endorsed a new Country Partnership

Framework (CPF) for FY18-21 in August 2017. The CPF used three filters to define the World Bank Group’s work program: (1) Alignment with the NDP; (2) Focus on SCD priority challenges; and (3) Focus on World Bank Group's comparative advantage. Based on these criteria, nine CPF objectives were defined under three pillars : (1) Growth (the CPF objectives under this pillar were increased fiscal space, enhanced access to finance for underserved markets, and enhanced competitiveness and employment in selected industries); (2) Inclusion (the CPF objectives under this pillar were increased effectiveness of social assistance, increased labor force participation of women and vulnerable groups, strengthened performance of education and health sectors); and (3) Sustainability (the CPF objectives under this pillar were improved reliability of energy supply and generation of green energy, improved sustainability and resilience of cities; and increased sustainability of infrastructure assets and natural capital).

Rating
High

b. Relevance of Design

The operation was based on ten prior actions and 13 indicative triggers, linked to eight key performance targets. The prior actions and targets were relevant to the PDO. However, the causal chain between the policy actions and performance targets was not strong in all cases, particularly considering the short implementation period and the relatively limited reach of the prior actions. For instance, Turkey’s informal economy was multi-dimensional and required an integrated policy response. Consequently, it was not possible to attribute marginal changes observed in a few years to a specific set of policy actions, particularly in the presence of other demand-and supply-side factors with potential effects on informality (ICR page 9).

The programmatic structure was sound given the Government’s commitment to the implementation of NDP at the time and the need for continuity in the implementation of key structural reforms in Turkey. However, after the decision not to proceed with the second loan, the remaining single operation was attempting to support 23 policy actions, 13 of them triggers for the second operation, including an income tax law, a natural gas law, (preceded by long discussions); implementation of two strategies; and liberalization of the railway transportation sector. This was over-ambitious. The program was further challenged by being spread across more than seven different ministries, which was particularly difficult at a time of political and economic uncertainty (ICR, p. 9).

Turkey's macroeconomic situation was fragile at the time of series preparation and approval. According to the International Monetary Fund (IMF) December 2014 Staff Report following the 2014 Article IV Consultation, Turkey's economy had grown on average by six percent annually since 2010, but this had come at the expense of a large external deficit, making the economy sensitive to changes in external financing conditions. "Macroeconomic policies have been too accommodative, inflation is too high and well above the authorities' target, real policy interest rates remain negative, and the exchange rate continues to be stronger than suggested by fundamentals. The main risk for Turkey remains a capital flows reversal, associated with monetary policy normalization in advance economies or changes in the country risk premium. Other risks center on slower European growth, geopolitical issues, and the strength of the policy framework."

Rating
Modest

4. Achievement of Objectives (Efficacy)

Objective 1

Objective
Improving the Business Climate and Enhancing Transparency

Rationale
Reduce non-agriculture labor informality
There were two prior actions related to this area: (a) the completion of the Central Trade Registration System (MERSIS), making company data accessible to Government and permitting companies to complete all registration procedures and transactions online; and (b) publication of the full set of Turkish auditing standards as foreseen in the Commercial Code in line with international auditing standards and of the March 2014 decree of the Council of Ministers reducing the threshold for, and hence increasing the number of companies subject to, independent audit.

By the end of 2013, data on capital companies, cooperatives, individual enterprises, branches of foreign companies, enterprises of associations and foundations had been compiled from 238 separate trade registries and transferred to MERSIS. By the beginning of 2015, MERSIS was fully operationalized with all company information accessible to various government institutions and other companies within a confidentiality framework in line with the European Union (EU) rules.

Full operationalization of MERSIS complemented other policy actions on informality by providing a single comprehensive electronic registry with information accessible to the auditing institutions. It also helped reduce barriers to establishing and operating a formal business, which was another driver of informality. Turkey made progress in simplifying business regulations as measured by the Bank's "Doing Business" indicators and became closer to best practice ("distance-to-frontier" increased from 64.8 in 2008/09 to 69.1 in 2016/17) even though new regulatory burdens were also introduced. MERSIS, by simplifying procedures to establish and operate a business, contributed to the improvements (ICR, p. 10).

The implementation of the Commercial Code that came into effect on July 1, 2012, was the cornerstone of the business climate reforms to address informality. The Code introduced greater transparency and accountability to the governance of private and state-owned enterprises as well as to the activities of the Public Oversight Authority (POA). The POA had been established in 2011 to deal with the implementation of the accounting and auditing provisions of the new Commercial Code. The operation supported the implementation of the Code through prior action (b) above. This led to a 58 percent increase in the number of enterprises that were subject to an audit increased from 3,396 in 2013 to 5,378 in 2016 (ICR, p. 11).

The prior actions were intended to be complemented by the enactment of a new income tax law (an indicative trigger for the second operation). Turkey's tax system is complex and costly to comply with, negatively impacting the business environment and raising the costs of formality. A new draft law, greatly simplifying procedures, was introduced in June 2013, but not approved by the National Assembly.

There were improvements in the external audit framework for public sector institutions (another indicative trigger for the second operation), although their link to the sub-objective of addressing informality is unclear.

There was one outcome target for this sub-objective - a steady decline in non-agriculture labor informality rates from 22.4 percent in 2013 to a target value of 21.0 percent. Between 2013 and 2015, the non-agriculture labor informality rate fell by 1.2 percentage points to 21.2 percent in 2015, just short of the target decline of 1.4 percentage points. The fall between 2013 and 2015 continued a trend which had become apparent after 2005. Labor informality rose slightly after 2015 as an increase in the minimum wage made hiring decisions costlier and an influx of foreigners continued to constrain formalization of employment.

In summary, the target reduction was not achieved, the causality between some prior actions and the DPO-supported policy actions was weak, and the observation period was short. Moreover, one of the principal anticipated actions in support of this sub-objective - the adoption of a law simplifying income tax - was not accomplished.

Increase domestic patent applications
This sub-objective was supported by one indicative DPO-2 trigger – approval of a patents law and finalization of an intellectual property rights strategy. The Government approved the strategy and the related action plan for 2015-18 in November 2014, which is gradually being implemented. The new Law was issued in the Official Gazette on January 10, 2017 after some delay. Before the new law, intellectual property rights were covered by a series of old decrees on patents, trademarks, industrial designs and geographical signs and laws on the functions of the Turkish Patent Institute and on the protection of integrated circuits. The new law combined and rationalized the legal framework for these issues, bringing them largely into line with EU standards. In addition, it made the legal framework more systemic, understandable, and user-friendly, and therefore, was expected to increase patent applications.

Between 2013 and 2016, the number of domestic patent applications rose from 4,528 to 6,445, an increase of 42 percent, compared with the single outcome target for this sub-objective of 20 percent. Although the target was exceeded, causality between the program-supported policy actions and the result was weakened by the fact that the new Industrial Property Law was only adopted in January 2017. This law is nonetheless key to building a fully functioning intellectual property rights system, and will therefore likely have an important impact over time.

Increase domestic bond issuance.
The Government adopted secondary legislation (a prior action) to implement the 2012 Capital Markets Law. The legislation covered the regulation of Mutual Funds, Pension Funds, Initial Public Offerings, Corporate Governance, Merging of Markets, Notification Requirements, Inspections of Information Misconduct and Market Fraud, Actions Creating Market Disruptions, and the Principles of Public Statements for Special Conditions. Building on this legislation, the Government established the Capital Markets Association of Turkey and liquidity arrangements for corporate bond markets (indicative trigger for DPO-2).

There was one outcome target for this sub-objective, TL 50 billion of corporate bond issues in 2015. In fact, bond issues increased only marginally to TL 44 billion in 2015 from TL 43 billion in 2014. However, the target was fully attained in 2016. There is other evidence of the positive impact of the reform package. By the end of 2017, the domestic yield curve spans up to ten years for both fixed-rate and inflation-linked instruments and the volume of corporate debt issuances has grown from an average of TL 160 million during 2006-09 to TL 50 billion in 2016. As of December 2016, the Borsa Istanbul Stock Exchange (BIST), which resulted from the merger of two former exchanges, listed 400 companies. According to the ICR (page 13), BIST played a proactive role in enhancing the infrastructure and implementing initiatives to develop the segment and enhance access to a wider group of firms.

In summary, there was limited success in reducing non-agriculture labor informality, and the links between the prior action and this sub-objective were unclear. There was a substantial increase in domestic patent applications, and the target increase for new corporate bond issuances was achieved after a one-year lag. The policy actions are expected to strengthen Turkey's financial sector and reduce the economy's dependence on foreign financing.

Rating
Modest

Objective 2

Objective
Boosting Labor Force Participation and Widening Access to Finance

Rationale
Increase female labor force participation rate.
A National Employment Strategy was adopted by the High Planning Council and published in May 2014 (a prior action). The strategy put in place a policy framework to address constraints to hiring and employment, especially for vulnerable groups. Implementation of the Strategy was an indicative trigger for the second operation. The Law built on the reforms introduced through Law No: 6663, issued in the same year, which contributed to increasing female labor force participation by enhancing the right to work. The reforms included promoting the involvement of both spouses in childcare, increasing paternity leave, introducing flexible working hours, and preventing employment termination or redundancy during paternity/maternity leave, and accessible and affordable childcare services.

Between 2013 and 2015, female labor force participation rate increased, although the related outcome target of a two-percentage point rise was not achieved. Between October 2013 and October 2015, the proportion of the female population active in the labor market rose by 1.2 percentage points from 30.6 percent to 31.8 percent, an increase of 1.2 percentage points. The ICR (page 14) states that the target of two percent was fully achieved in 2016.

Increase female depositors in financial institutions

The Government's efforts to increase women's access to finance focused, first, on four program-supported sets of policy measures. The Risk Center of the Banks Association of Turkey was fully operationalized in June 2013 (a prior action). The Center enhanced the availability of firms' and individuals' credit information and alleviated the information asymmetry between lenders and borrowers by providing cost effective and systematic information on the borrowers. The Center increased the number and types of financial institutions included in the system beyond banks. It also increased the coverage ratio to over 80 percent of adults. Available information was expanded beyond negative credit information to include payment patterns and Increased availability. Higher coverage of credit information was particularly beneficial for individuals and firms with a short or no credit history. The Center expanded the base of information providers. Protocols with seven telecommunication service providers and utility companies are expected to be signed (indicative trigger for the cancelled DPO-2) (ICR, p. 14).

Second, two new laws (the Consumer Protection Law and the new Law on Payment and Security Settlement Systems) were adopted and published in November and June 2013 respectively (prior action). The new Consumer Protection Law aimed to increase transparency and awareness of financial services, improve disclosure requirements, promote competition in the marketplace, prevent fraud, and eliminate unfair practices. Following enactment of the Law, secondary regulations were issued to define and limit the fees that banks could charge their customers, and strengthen disclosure requirements. The Law on Payment and Security Settlement Systems improved financial sector diversification by enabling greater competition, ensuring better quality in financial services, decreasing costs for the financial consumer and increasing access to financial services.

Third, regulations on the principles for establishing financial leasing, factoring and finance companies, as well as regulations governing accounting practices for such operations were published in the Official Gazette in June and December, 2013 (prior action).

Fourth, a financial inclusion strategy was formulated and implemented (indicative trigger for the second operation. The strategy includes action plans on consumer protection and financial education. Implementation was coordinated with the Banking Regulation and Supervision Agency and Capital Markets Board.

There was one outcome target for this sub-objective – the proportion of female adults saving at a financial institution was expected to rise from two percent in 2011 to 3.3 percent in 2015. The actual proportion in 2015 was 5.3 percent, well in excess of the target. This result can be explained to an important extent by the program-supported policy measures.

Increase auto-enrollment to private pensions

There was one program supported measure related to this sub-objective – the adoption of a pilot for auto-enrolment into the voluntary pension system (indicative trigger for the second operation. As the pilot was not adopted during the implementation of the series, the related outcome target of an increase from zero to five in the number of companies using auto enrollment into private pensions was not achieved. However, an amendment to the Private Pension Saving and Investment System Law was enacted and published in the Official Gazette on August 25, 2016. This amendment went beyond the pilot to initiate nationwide implementation of auto-enrollment to private pensions, which became effective on January 1, 2017. As of December 1, 2017, there were 3,405,229 workers enrolled in private pension schemes through auto-enrollment. The Bank supported Turkey's Treasury in creating the new system, together with an improved model for regulation and supervision of the private pension system.

Auto-enrollment was rolled out in stages, starting with the largest employers and continuing to cover all employers with more than five employees by January 2019. Regulations and guidelines on fees, investments, duties of employers and other issues were introduced. Auto-enrollment compels employers to automatically enroll employees into a pension saving scheme, leaving employees the choice to opt out. Because of inertia and because employees receive matches and incentives only if they stay, international experience confirms that higher coverage and increased contributions can be achieved (e.g. over seven million extra savers in the United Kingdom) (ICR, p. 15).

Although the formal outcome target was not met during the life of the program, measures supported by the DPO made a significant contribution to the introduction of auto-enrollment into private pensions. This constituted a major advance for the pension system, and has already resulted in a substantial increase in the coverage of private pensions. It can be expected to relieve fiscal pressure from a cash-negative public pension pillar, reduce costs, and assist in the development of capital markets.

Rating

Substantial

Objective 3

Objective

Deepening Turkey's Infrastructure Reforms

Rationale

Increase private sector investment in new generation capacity

The operation supported the Government's continued efforts to enhance competition and transparency in the energy sector through enactment of the Electricity Market Law (EML), establishment of the independent Emerging Market Operation Corporation (EPIAS) (both prior actions), and full operationalization of EPIAS (indicative trigger for the second operation)).

The EML aimed to establish a financially sound, stable and transparent electricity market operating in a competitive environment. The Energy Market Regulatory Authority (EMRA) starting from May 2013 issued secondary regulations to provide a modern legal framework for the electricity market.

The EML unbundled electricity market operations from electricity transmission. Previously, market operations were carried out by the Turkish Electricity Transmission Company (TEİAŞ). The new Law required these activities to be carried out under a market operations license and separated from TEİAŞ. Since EPIAS was established in March 2015 as a joint venture of TEİAŞ (30 percent), Borsa Istanbul (30 percent) and the private sector (40 percent), it has been responsible for carrying out market activities According to the ICR (page 17), the fully operational EPIAS has made a major contribution toward enhancing transparency, efficiency, and effectiveness in energy exchange. Almost 30 percent of total generated electricity was traded through EPIAS by late 2017. Electricity market operations have expanded significantly and had reached nearly 1,000 market participants by late 2017. A Transparency Platform, where market information, real-time generation and demand data, and transmission system constraints are shared with the public, was introduced by EPIAS in March 2016; with the aim of enhancing trust among market participants.

The outcome target was to increase generation capacity funded by new private sector investments from 57,058 MW 1n 2012 to 68,000 MW in 2015. The actual figure for 2015 was 74,636 MW, exceeding the target. Over 90 percent of the increase came from private sector investments.

The operation also aimed to support the Government's efforts to enhance competition and transparency in the natural gas market through a new Natural Gas Market Law (indicative trigger for the second operation). A 2015 Bank report, "*Turkey's Energy Transition – Milestones and Challenges*," provided an assessment of the gas sector reforms and emphasized the importance of adopting the Law. The Law was submitted to the Parliament in early 2014, but it was not approved.

License at least one private sector freight operator on the Turkish State Railways (TCDD) infrastructure: The operation aimed to support the efforts to liberalize the transport sector through adoption of a Law on Liberalization of Railway Transport, which became effective in May 2013 (a prior action). The endpoint of the reform, in compliance with EU Directive 91-440, was to separate the infrastructure, which will remain in the public domain, from operations, which would be opened to private operators. In 2015-2016, the Government issued secondary legislation (indicative trigger for the second operation) to define technical conditions and regulatory provisions for the reform to become operational. In June 2016, the public monopoly TCDD was unbundled into two separate legal entities, one for infrastructure and one for operations, with separate financial accounts (indicative trigger). The secondary legislation covered, inter alia, a network statement, the licensing of train operators, non-discriminatory access to infrastructure, and the registration of railway vehicles, safety, and public service obligations. The public operator (TCDD Transport) signed a licensing agreement in January 2017, becoming the first train operator of the new era. Unbundled legal entities for TCDD infrastructure and operation became fully operational.

However, as the implementation of the policy actions was delayed, the outcome target of at least one private sector freight operator licensed to operate on the TCDD infrastructure by 2015 was not met by closure. However, in July 2017 the first private sector operator signed a licensing agreement to start operations and a second operator was in negotiations at the end of 2017 when the ICR was under preparation.

Rating
Substantial

5. Outcome

The relevance of the objectives was high, and the relevance of design was modest. Under the first objective of improving the business climate and enhancing transparency, some achievements fell short. Under objective 3, the goal was met after project closure due to delays in implementation. There has been a substantial increase in domestic patent applications and corporate bond issuances. The number of female depositors in financial institutions has grown, and a basis has been created for increased auto enrolment in private pensions. Generation capacity has increased, mostly from private sector investments under conditions of greater transparency. The outcome is assessed as moderately satisfactory.

a. Outcome Rating

Moderately Satisfactory

6. Rationale for Risk to Development Outcome Rating

The reform agenda remains incomplete and the risk to the ultimate achievement of the outcomes is substantial.

Based on a set of standard indicators (*Worldwide Governance Indicators and Doing Business*), institutional quality in Turkey remains below the levels observed in countries with similar income levels. Since June 2014, a series of political challenges emerged. Significant turnover at the technical and political levels resulting from these political developments elevates reform implementation risks (ICR, p. 19 and 20).

External financing and the corporate sector's large foreign currency exposure were the main economic risks identified in the preparation of the DPO. As the political developments and global liquidity conditions reflected on the exchange rate, Turkey's private external debt has increased significantly since 2013. The current account balance, on the other hand, improved on the back of low commodity prices and the EU's economic recovery. Overall, Turkey has shown resilience to deteriorating conditions, supported by its strong fiscal position. However, going forward, "countercyclical fiscal policy space will be more limited as the impact of the recent measures kick in and contingent liabilities and quasi-fiscal activities continue to grow" (ICR page 20).

a. Risk to Development Outcome Rating

Substantial

7. Assessment of Bank Performance

a. Quality-at-Entry

The operation was prepared and approved by the Bank's Board of Directors in less than a year after the Bank committed, in early August 2013, to sharing with the Government a detailed note on the possible focus areas for a two-tranche programmatic DPO series (US$500 million each in FY14 and FY15). Between the sharing of the note and the approval, PDO and the policy actions were broadly maintained except that enhancing transparency gained more prominence within the program. The smooth preparation phase reflected the close cooperation between the Bank and the Authorities and the solid knowledge and experience gained through the preceding series of DPOs and extensive analytical work in areas covered by the operation.

A strong team based in the field, including the task team leader for the operation, ensured regular and active dialogue with the authorities during the preparation of the operation. In addition, there was strong cross-sectoral collaboration. The core team preparing the operation was the same team that had worked on the flagship "Turkey's Transitions: Integration, Inclusion, Institutions" report, other supporting analytical work, and the previous CS-DPO, thus allowing them to have a comprehensive overview of the achievements of the country and the main bottlenecks towards transitioning to high income in sustainable way (ICR, p. 20).

During preparation, the team addressed many comments that they received at different stages of the approval process and identified the risks including political risks to the achievement of the development outcomes. However, the proposed mitigating measures incorporated into the design of SSG-DPO were unable to reduce the impact of adverse political developments; and the second operation had to be dropped (ICR, p. 20).

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

During implementation, exogenous developments significantly affected the action plans developed by the Bank and the Authorities during preparation. On the Bank side, there was no evidence of formal systematic monitoring of program-level progress. However, there was active dialogue with the strong field-based team. Progress was also monitored at the sector level, which later supported the preparation of a subsequent DPF.

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

8. Assessment of Borrower Performance

a. Government Performance

The operation was to some extent a continuation of earlier policy-based lending, and relied on the already established institutional processes and infrastructure regarding the Government's interactions with the Bank. The Government had a clear and well-articulated agenda on the areas covered by the operation, as indicated in NDP. Importantly, through NDP, the authorities actively involved various stakeholders (non-bank financial institutions, various professional associations, businesses etc.) resulting in shared views on reform priorities and implementation arrangements. This said, the political uncertainty resulted in some legislation such as the new income tax law, not being enacted, while other legislation was delayed such as the finalization of an intellectual property rights strategy and approval of the patents law. The continuing deterioration in the political climate led to the full implementation of the program (i.e.DPO-2) being shelved.

Government Performance Rating

Moderately Satisfactory

b. Implementing Agency Performance

The Undersecretariat of Treasury was responsible for coordinating the activities on the part of the Government. The operation was an additional and welcome tool to establish dialogue with a broader number of agencies. The agencies in charge of implementation of the reforms were, at the beginning, generally well-equipped and resourced to undertake the tasks. However, during implementation, significant turnover at the technical and political levels along with external factors such as the unsuccessful coup attempt delayed the reform agenda and challenged inter-agency coordination. A stronger M&E framework could have helped to further guide the Authorities' reform efforts.

Implementing Agency Performance Rating

Moderately Satisfactory

Overall Borrower Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

Eight key indicators were identified to monitor the operation's progress in meeting its PDO. These indicators were grouped under the same three pillars used in the PDO, but there was only one indicator for each sub-objective. The indicators were easy to monitor and the data were publicly available through the statistical office and implementing agency websites.

The indicator, target impact and the observation period could have been more carefully selected to facilitate the attribution of the observed impact to policy actions. For instance, in labor informality, a very high-level indicator was defined with only marginal intended impact over a short observation period, which made attribution difficult.

As in the preceding operations, the Undersecretariat of Treasury was responsible for coordinating and managing actions among the agencies involved in the program

b. M&E Implementation

Although there was scope to further strengthen systematic monitoring of performance by ensuring there were feedback mechanisms on progress, there was no evidence of central collection of M&E data and there was also no systematic monitoring during implementation by the Undersecretariat of Treasury.

c. M&E Utilization

There was scope to enhance the utilization of the M&E data that were available to the individual ministries and institutions by ensuring its use in policy decision making. However, despite working closely with the Bank over an extended period, M&E systems in Turkey were still weak and the data collected were not necessarily always linked to the broader government policy agenda.

M&E Quality Rating

Modest

10. Other Issues

a. Environmental and Social Effects

While no safeguards were triggered, some of the activities supported strong social benefits such as greater consumer protections and increased female participation in the labor force.

b. Fiduciary Compliance

The measures taken increased the number of companies subject to independent audit, and set out principles and conditions for the establishment and operation of leasing, factoring, and financing companies. There were no issues of non-compliance.

c. Unintended impacts (Positive or Negative)

None identified.

d. Other

---

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	---
Risk to Development Outcome	Substantial	Substantial	---
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	---
Quality of ICR		Substantial	---

Note

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

The following lessons are from the ICR (p. 21-22):

- **A DPO engagement in an upper middle-income country like Turkey needs to be based on shared priorities and high quality analytical work.** The value proposition for the Government was less about the Bank's financial resources and more about the programming process, associated analytical support (including just-in-time technical assistance, evaluations, analytical notes etc.), and the overall signaling effect.

- **A programmatic structure helps to anchor policy actions to the overarching development priorities and ensure continuity through different operations.** Based on the experience of the operation, two factors appear to be of particular importance in ensuring successful implementation of a programmatic series: (1)

Identifying risks that might materialize over a longer time horizon relative to a standalone operation with well-developed mitigating measures; and (2) careful balancing of policy actions across successive operations with room for flexibility, avoiding being overly ambitious from the start.

- **Establishing clear linkages between the policy actions and indicators is essential to assess the performance of an operation.** To this end, the indicator, target impact and the observation period should be carefully selected to make the attribution of the observed impact to policy actions possible. For instance, in labor informality, a very high-level indicator was defined with only marginal intended impact over a short observation period, which made attribution difficult.

- **In programmatic development policy financing operations, regular monitoring of implementation status and performance would support and enhance the final reporting, particularly when the implementation period for the entire series is long and teams change**. In this case, there was not enough evidence of systematic monitoring of program-level progress. Even though the team was required to submit implementation status and results reports on a 12-month cycle and before the first operation was closed, none was prepared during the life of the operation.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR was well written in a frank and informative way. Although it was on the long side, this was inevitable with the large number of prior actions and indicative triggers. It was candid about the shortfalls in M&E, but could have provide more details on why there were shortfalls. There was a tendency to stretch some of the achievements of the operation to include some aspects such as legislation or achieving a target that were only achieved after the project officially closed.

a. Quality of ICR Rating
Substantial