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The World Bank in Turkey: 1993–2004

An IEG Country Assistance Evaluation

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Photo: Suspension bridge over the Bosphorus joining Europe and Asia (on the far side).
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Foreword

This Country Assistance Evaluation (CAE) assesses the outcomes of the World Bank's assistance to Turkey from July 1, 1993, to June 30, 2004. It focuses on the objectives of that assistance and the extent to which outcomes were consistent with those objectives.

It looks at the Bank's contribution to the achievement of those outcomes and the lessons for the Bank's future activities both in Turkey and more broadly. The evaluation included a review of relevant documents, complemented by interviews with the staff of the Bank and other key donors, as well as representatives of the Turkish government, nongovernmental organizations (NGOs), and civil society.

A contribution by the evaluation unit of the World Bank Group's Multilateral Investment Guarantee Agency (IEG-MIGA), prepared by Stephan Wegner, is included as Annex E. The Turkey Country Impact Review of IEG-IFC was prepared in parallel with this CAE.

The draft report was sent to the government for comments. The comments received from the government, and IEG's response, are included as attachments 1 and 2, respectively. Government comments have received full consideration.

Vinod Thomas

Vinod Thomas
Director-General, Evaluation

Executive Summary

Private investment and a surge of exports following trade liberalization helped Turkey grow rapidly during the 1980s. Yet a mix of public investments in infrastructure and populist policies, such as generous pensions for civil servants and large agricultural subsidies, gradually led to an imbalance in the public accounts and to high inflation.

Between 1993 and 2004 economic growth was highly volatile. A series of weak coalition governments failed to achieve the consensus to undertake the measures needed for growth and stability. Successive financial crises in 1994, 1999, and 2001 could only be stabilized with new taxes or expenditure cuts equivalent to 5 percent of gross national product (GNP). In 1999 an effort was made to tackle some of the underlying structural issues. While this effort was insufficient, additional reforms in 2001 tilted the balance and, together with the 2002 election of the first majority government in over a decade, appear to have set Turkey on track for greater economic stability.

The Bank program during the review period encompassed four broad strategic pillars: macroeconomic management; growth, competitiveness, and productivity, which included the financial sector and infrastructure; poverty reduction and social development; and natural resource management. Major aspects of the Bank's program were as follows:

a. Between 1993 and 2004 the Bank's main focus was to help Turkey undertake the structural reforms needed for macroeconomic sustainability. These reforms were seen as essential to restore sustained growth and to reduce poverty. The reforms covered four areas: first, reducing the large deficits of state-owned enterprises (SOEs); second, reducing or eliminating agricultural input subsidies and price supports; third, containing the rising pension system deficit; and fourth, ensuring the solvency of the state banks, which were used during most of the period to provide off-budget funding for government expenditures.
b. During the first half of the period, the Bank was unable to sustain a dialogue on these issues with successive coalition governments. Following the 1994 financial crisis, adjust-

ment lending was discussed briefly, but with rapid recovery, the government decided not to pursue it. The Bank continued to look for lending opportunities, but with the very weak performance of the ongoing portfolio, lending declined sharply until 1998. Very little formal economic and sector analysis was carried out, given the lack of interest on the part of the authorities and their hesitation about Bank analysis of topics that were viewed as politically sensitive, such as poverty and regional development.

c. The dialogue was much closer in the latter half of the period, with increased management focus on Turkey, including the decentralization of Bank decision making to the Country Office in Ankara, and the increased role of the Country Office in program monitoring and implementation.

   There was a sharp increase in Bank support in response to the financial crisis and earthquake of 1999, and especially in supporting the program of measures introduced following the crisis of 2001. The expansion of Bank support was associated with measures to address the structural imbalances through (1) bringing the off-budget expenditures back into the budget; (2) giving a new impetus to the privatization program and hardening the budget constraint on the SOEs; (3) sharply reducing agricultural price supports and input subsidies; and (4) recapitalizing the state banks.

   On pensions, while some measures were taken in 1999 to contain the deficit, these were insufficient, and the pension deficit has grown substantially since. This remains a central issue in the Bank's dialogue with the government on structural reforms.

d. In addition to the support for macroeconomic stabilization, the Bank also helped Turkey address broader issues of growth, productivity, and competitiveness. The focus was on deepening the financial sector; improving the efficiency of infrastructure in general, and the energy sector in particular; and, especially later in the period, with the growing prospect of entering into negotiations for European Union (EU) accession, helping Turkey both to develop the technological basis needed to compete effectively and to put in place governance and anti-corruption programs to improve the climate for both domestic and foreign direct investment.

e. The Bank also supported poverty reduction and social development in the latter part of the CAE period, through both the design of adjustment operations and specific projects and sector work. While Turkey had little extreme poverty, there was a sizeable category of broader poverty concentrated mainly in the east and among new migrants to the large cities. Bank-supported programs tried to improve the health standards, expand the educational opportunities of the poor, and provide cash assistance to the neediest families. In 1997 the Turkish Government took a major initiative in expanding compulsory education from five to eight years, and the Bank geared its program to support this change.

f. The Bank had only limited engagement with Turkey on some of its serious environmental issues, though it has helped strengthen the capacity to provide early warnings and manage the aftermath of the natural disasters to which Turkey is prone.

Program Outcomes

The Bretton Woods Institutions together played a key role in supporting the turnaround in Turkey's economy. Turkey's success in stabilizing the economy and attending to some long-standing structural problems was the major achievement during the CAE period. Inflation reached single-digit levels toward the end of 2004, and growth averaged about 7–8 percent between 2002 and 2004. When the political will to reform was finally there, in many cases the government built its programs around proposals the Bank had put on the table during earlier years—in SOEs, in agriculture, in the financial sector, in energy, and even in pensions (despite limited progress in that area).

The Bank's effort to support growth, productivity, and competitiveness had more mixed results. After many years of urging by the Bank, the government's eventual agreement to fully independent banking regulation, a regulatory framework for energy, and improvements in the infrastructure for technology development were important conditions for future growth. It is too soon for these to be reflected fully in major gains in efficiency, though there are positive trends in most areas. However, Turkey has not yet created the investment climate needed to attract the levels of foreign direct investment (FDI) typical of comparator countries. With the agreement on negotiation for EU accession, a sharp rise in FDI was projected for 2005, but it remains to be seen whether this can be sustained in the absence of supporting measures. In addition, much of the economy continues to be in the informal sector, which is unable to benefit from the financial flows needed for growth. The Bank could have done more to keep a focus on the business climate over the period.

Social achievements have also been mixed. Poverty declined only slightly up to 2002, but substantial consumption growth since then has probably translated into additional poverty reduction. While the benefits of expanding compulsory primary education coverage starting in 1997 have been substantial, quality needs to be improved. The main achievement in health was a halving of the infant mortality rate over the period. Other health indicators moved more slowly, though generally in the right direction, with the notable exception of slippage in the child immunization programs. Employment remains an important problem—only half of the working age population is employed, and women's participation in the labor force is among the lowest in the Organization for Economic Cooperation and Development (OECD). The Bank's contribution to Turkey's social programs has been modest. Some projects in these areas have been poorly implemented and, until the late 1990s, the Bank had under-invested in the analytic work needed to have an impact on social development. More recently, sector work has played an effective role in supporting dialogue and operations.

Except for improvements in air quality in Ankara and Istanbul, and the development of communal watershed management programs, these have been "lost years" for environmental management in Turkey. Neither the authorities nor the Bank focused on these issues. For example, the National Environmental Action Plan that was developed in the middle of the period has had little impact. The Bank placed increasing emphasis on disaster risk mitigation in its program after the 1999 Marmara earthquake, but the program has been slow to get off the ground.

The outcomes of the overall Bank program are rated moderately satisfactory, with substantial institutional development impact and likely sustainability.

In the coming years the Bank should continue a high level of support to Turkey, but some rethinking of its approach is needed. With the improvements in public sector management, the program should be rebalanced with greater support for private sector development (including its role in generating employment and reducing poverty) and environmental management, but without relinquishing the efforts to improve infrastructure management and support social development. Within these areas, greater attention needs to be given to developing the capacity of key agencies responsible for program implementation. Support for private sector development would benefit from a coordinated approach from the Bank, IFC, and MIGA, which has been lacking until now. Finally, improved environmental management will be an important area of Bank support to Turkey as it seeks to negotiate accession to the European Union.

Nils Fostvedt
Acting Director-General
Independent Evaluation Group

Turkey Country Assistance Evaluation Ratings Summary

Pillars/objectives	Outcome	Ratings
1. Macroeconomic stability		Moderately satisfactory
Improve public financial management	Substantial growth with declining inflation and rising primary surplus after 2001, following years of volatility and three financial crises. Most extra-budgetary funds eliminated and fiscal controls streamlined (chapter 3 and table 3.1).	
Implement key structural reforms	Large SOE losses converted to modest surpluses; agricultural subsidies substantially reduced and made less distorting; and scope for financing of off-budget subsidies by state-owned banks sharply curtailed, all contributing to sustainable fiscal improvement. But pension system deficits have risen rapidly, offsetting much of this gain (chapter 3 and table 3.1).	
2. Growth, competitiveness, & productivity		Moderately satisfactory
Strengthen banking system and deepen financial intermediation	Independent Banking Regulation and Supervision Authority created and regulatory and supervisory framework implemented to align more closely to EU standards. Banking system finances much stronger at end of period, but credit to private sector as a percent of GDP is low compared to OECD average, and little progress toward privatization of state-owned banks (chapter 4 and table 4.2).	
Improve management of infrastructure	Regulatory frameworks and institutions established or enhanced in energy, telecom, and railways. Growing private investment in power. Utilities are being run on increasingly commercial basis, but quantifiable efficiency gains have not yet emerged (chapter 4 and table 4.2).	
Enhance productivity	Agricultural reforms have reduced and rationalized subsidies and price supports, replaced state marketing agencies with private commodity exchanges, privatized agricultural SOEs, and reduced food costs to consumers. The institutional framework for research and development, intellectual property rights, and technological standards has been strengthened and made more self-sufficient financially. Governance improvements, including in public procurement, budget transparency, and energy and banking regulation have reduced scope for corruption, but have not yet translated into improved governance indicators or greater FDI (chapter 4 and table 4.2).	
3. Poverty reduction & social development		Moderately satisfactory
Promote equity, employment, and social protection	Poverty rate declined in line with growth in per capita GDP and consumption; poverty monitoring improved. Employment growth has been very slow, with a decline in employment rates, especially for women. A new, targeted social assistance program helps keep about 1.7 million poor children healthy and in school, with over 60 percent of benefits going to the two poorest regions. The pension system remains financially unsustainable. Regional income distribution does not appear to have deteriorated. Social sector spending protected during post 2001 fiscal contraction (chapter 5 and table 5.3).	

Turkey Country Assistance Evaluation Ratings Summary ***(continued)***

Pillars/objectives	Outcome	Ratings
Improve the health of the people	Sharp (45 percent) drop in infant mortality brings Turkey's mortality rate below the middle-income average. The much slower infant mortality rate declines in the eastern regions, along with lower immunization coverage and less focus on disease prevention, remain serious concerns (chapter 5 and table 5.3).	Moderately satisfactory
Improve education coverage and quality	Primary school enrollment rate rose rapidly after 1998 (from 84 percent to 98 percent in gross terms), and faster for girls; substantial increase in secondary enrollments. Quality, though low, did not deteriorate during expansion. Female literacy improved relative to male; literacy in poorest region rose faster than national average (chapter 5 and table 5.3).	
4. Environment & natural resource management		Moderately unsatisfactory
Reduce environmental degradation	Improved institutional framework, but no significant impact on pollution or natural resource management so far (chapter 6 and table 6.1).	
Support better disaster management	Response to 1999 earthquake disaster rapid and effective and institutions and systems to deal with disasters are developing, though slowly (chapter 6 and table 6.2).	
Overall rating		**Moderately satisfactory**

Note: SOE = state-owned enterprise.

ACRONYMS AND ABBREVIATIONS

APL	Adaptable Program Loan
ARIP	Agricultural Reform Implementation Program
ASCU	Agricultural Service Cooperative Union
BRSA	Banking Regulation & Supervision Agency
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CEM	Country Economic Memorandum
DIS	Direct income support
DSI	State Hydraulic Institute
EBFs	Extra-budgetary funds
ECA	Europe and Central Asia Region
EFIL	Export Finance Loan
EIA	Environmental Impact Assessment
EIB	European Investment Bank
ERL	Economic Reform Loan
ESMAP	Energy Sector Management Assistance Program
ESW	Economic and sector work
EU	European Union
FDI	Foreign direct investment
FSAL	Financial Sector Adjustment Loan
GDP	Gross domestic product
GNP	Gross national product
HTP	Health Transition Project
IEG	Independent Evaluation Group (formerly the Operations Evaluation Department)
IFC	International Finance Corporation
IMF	International Monetary Fund
ISMEP	Istanbul Seismic Risk Mitigation and Emergency Preparedness Project
KGM	General Directorate of Highways
MEER	Marmara Emergency Earthquake Reconstruction Project
MIC	Middle-income country
MIGA	Multilateral Investment Guarantee Agency
MoENR	Ministry of Environment and Natural Resources
MoH	Ministry of Health
MoNE	Ministry of National Education
NEAP	National Environmental Action Plan
NGO	Nongovernmental organization
NPL	Nonperforming loans

ODS	Ozone depleting substances
OECD	Organization for Economic Cooperation and Development
OED	Operations Evaluation Department (now IEG-World Bank)
PA	Poverty Assessment
PCU	Project Coordination Unit
PEIR	Public Expenditure and Institutional Review
PFMC	Public Finance Monitoring Centre
PFMP	Public Financial Management Project
PFPSAL	Programmatic Financial and Public Sector Adjustment Loan
PHRD	Policy and Human Resources Development
PIU	Project Implementation Units
PPAR	Project Performance Assessment Report
SAL	Structural Adjustment Loan
SOE	State-owned enterprise
SPO	State Planning Office
SRMP	Social Risk Mitigation Project
SSF	Social Solidarity Fund
SWAp	Sectorwide Approach
TCA	Turkish Court of Accounts
TCIP	Turkish Catastrophic Insurance Pool
TEK	Turkish Electricity Authority
TEMAD	Emergency Management Directorate of Turkey
TOOR	Transfer of operating rights
TTGV	Turkish Technology Development Foundation
UFW	Unaccounted for water
UME	Turkish Institute for Meteorology
UNDP	United Nations Development Programme
UNDPS	United Nations Project Service Facility
UNFPR	United Nations Population Fund
WDI	World Development Indicators
WSS	Water supply and sanitation

Note: OED has changed its official name to Independent Evaluation Group-World Bank (IEG-WB). The new designation "IEG" will be inserted in all IEG's publications, review forms, databases, and Web sites in the next few weeks.

Chapter 1: Evaluation Highlights

- For most of the CAE period Turkey's economy was volatile, and its government changed frequently.
- Fiscal deficits, largely off-budget, destabilized the economy.
- These deficits were driven by structural problems in state enterprises, pensions, and the banking, energy, and agriculture sectors.
- Stabilization and structural reforms in these areas set the economy back on a stable growth path, but only after crises in 1994, 1999, and early 2001.

Background: Crisis, Change, and Reform

Before Fiscal 1994

In the early 1980s, Prime Minister Turgut Ozal sought to dismantle state controls and liberalize the Turkish economy. For the first time in modern Turkey, government was perceived as strongly supportive of private sector development. The private sector responded quickly, and gross domestic product (GDP), exports, and employment grew rapidly.

Public investment in infrastructure also grew quickly. To circumvent the rigidities of the public expenditure system, much of this investment was channeled through hundreds of new extrabudgetary funds. The consequence was a loss of fiscal discipline and inflation running at 50–60 percent a year.

In the late 1980s the economy began to slow. It proved difficult to put in place the fiscal discipline and the second-generation reforms needed to sustain growth, because the public sector was a major source of rents and political patronage. The government failed to follow through on privatization of state enterprises and was unable to reduce the overall deficit.

Fiscal 1994–98

After Ozal's death in 1993, Prime Minister Demirel became president and Tansu Ciller took over as Turkey's first woman prime minister. A period of unstable coalition governments followed, with frequent changes among ministers and senior officials.

Economic liberalization accelerated growth in the 1980s, but fiscal indiscipline generated high inflation.

In 1994 a long-predicted financial crisis struck. During the crisis, the government requested support from both the International Monetary Fund (IMF) and the World Bank. But the economy proved more resilient than had been expected. The flexible exchange rate allowed for a sizable real devaluation, and with low levels of domestic debt the government was able to spend its way out of the crisis. Once the economy had recovered, the government lost interest in taking politically sensitive measures and did not proceed with either an IMF program or a Bank adjustment loan.

The 1994 financial crisis proved temporary, so needed structural reforms were not pursued.

From 1995 to 1997, growth averaged over 7 percent. The buoyancy of growth was driven by expansion of private investment and output. Such vibrancy in the private sector might seem surprising in a

But the underlying structural problems still had not been corrected.

country with a weak coalition government, major internal security issues, widely acknowledged structural imbalances, and inflation approaching three-digit levels. But for several reasons it was not. First, relatively high growth rates in the richer economies spurred rapid growth of exports, demand for Turkish workers, and the flow of remittances. Second, it is estimated that the "suitcase trade" with the former Soviet Union yielded as much as $6–8 billion a year of informal exports. Third, investments in tourism in the 1980s paid off in the 1990s with a very large increase in earnings in that sector. Finally, the Customs Union with the European Union (EU) in early 1996, which was controversial in Turkey at the time, provided both an opportunity for exporters and an incentive for investors.

At the same time, little progress was made in areas where restructuring was needed—banking, energy, agricultural subsidies, and the pension system. Problems were building in the banking sector, where commercial banks, both state and private, were borrowing abroad to purchase government securities and to lend locally. In the power sector, lucrative build-operate-transfer contracts were awarded without open bidding. Electricity tariffs for many of these contracts were set at more than double comparable rates in other countries. In agriculture, crop, input, and credit subsidies, which went disproportionately to larger and wealthier farmers, remained an important instrument of political patronage. And although the pension deficit was small in 1994, projections suggested that it would become a serious problem by the late 1990s.

Financial crisis in 1999 led to IMF-sponsored structural reforms and a stabilization program.

Fiscal 1999–2004

In 1998, following the Asian and Russian financial crises, the Turkish economy began to slow, again causing predictions of crisis. An IMF-monitored program was put in place as a precautionary measure. In spring 1999 a newly elected government approached the IMF to discuss a stabilization program. The main features of the program, which took effect on January 1, 2000, were a preannounced crawling peg and a matching fiscal deficit. These features were designed to reduce inflationary expectations, and thereby lower real interest rates and make it easier for the government to meet interest payments on its debt. The

Table 1.1: Key Macroeconomic Indicators, 1993–2003

Indicator	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
GDP growth (%)	8.0	–5.6	7.2	7.0	7.5	3.1	–4.7	7.4	–7.5	7.8	5.8	8.9
Exports (% of GDP)	13.7	21.4	19.9	21.5	24.6	24.3	23.2	24.1	33.7	29.2	27.7	28.9
Current account balance (% GDP)	–3.6	2.0	–1.4	–1.4	–1.4	1.0	–0.7	–4.9	2.3	–0.8	–3.3	–5.1
Public sector borrowing requirement (% of GDP)[a]	12.1	7.9	5	13.1	13.1	15.8	24.7	11.8	16.4	12.8	8.7	5.8
Primary balance (% of GNP)	(0.9)	3.8	3.3	1.7	0.1	4.6	2.1	2.3	6.0	7.1	6.0	6.9
Inflation, CPI (%)	66.1	106.3	88.1	80.4	85.7	84.6	64.9	54.9	54.4	45.0	25.3	10.6
Interest rate, interbank overnight (%)	69.9	92.1	106.3	74.3	77.9	79.0	69.9	199.0	59.0	44.0	26.0	19.1
Exchange rate, thousand lira/$	11	30	46	81	152	261	419	625	1,226	1,507	1,501	1,422

Sources: IMF, State Planning Organization (SPO), World Development Indicators, and Country Office database.

a. Combines IMF and SPO data.

program included a number of structural measures aimed at sustainable deficit reduction. In particular, major reductions in agricultural subsidies were initiated. The short-term effects were positive, and a rapid recovery followed in 2000.

The economic recovery of 2000 proved short-lived, partly a victim of its own success. During the recovery, nominal interest rates fell to levels not seen in Turkey for years, and the real exchange rate appreciated. The result was a boom in consumer spending and rapid growth in imports. Consensus on reform measures within the coalition government was difficult to sustain during the apparent economic boom, and the government delayed too long on the kind of further fiscal tightening that might have given the markets confidence in the sustainability of the program. Late in 2000 a private commercial bank faced serious liquidity problems, and its foreign lenders called their outstanding loans. In February 2001 a public dispute between the president and prime minister sent the markets into free fall, and the crawling peg became untenable.

In 2000 the economy overheated—financial crisis recurred in 2001.

In March 2001 a major stabilization and structural reform program was put in place, including the floating of the exchange rate, a recapitalization of the banking system, and a resumption of privatization. These steps were supported by a $16.2 billion IMF program—the largest up to that time. This package steadied the economy. Recovery and rapid growth followed from 2002 to 2004, combined with declining inflation, which reached single-digit levels by the end of 2004. A new government, elected in the fall of 2002, kept the key elements of the reform package in place, and in December 2004 a critical milestone was achieved—an agreement to commence negotiations on EU membership.

A new reform package with a floating exchange rate has lowered inflation and sustained growth.

Chapter 2: Evaluation Highlights

- Bank lending mirrored the volatility of Turkey's economy.
- Concern about structural problems led the Bank to withdraw from adjustment lending in the late 1980s; dialogue deteriorated in the 1990s.
- The economic crises of 1999 and 2001 forced structural reforms, and the Bank reengaged.
- The Bank under-invested in analytic work, in part because of Turkish sensitivities, which still limit distribution of Bank work.
- The Bank has not done enough to help enhance the capacities of Turkey's small but growing NGO community.

The Bank in Turkey

The Policy Dialogue

The World Bank's engagement in Turkey dates back to 1950, when it made its first loan to the then-new member. Through 1980 the Bank made investment loans to most of the key economic sectors. Despite this consistent support, there was a sense of growing disappointment in the 1970s at the country's sluggish growth rate and the persistence of an etatist model of economic management.

The Bank responded to Ozal's reforms of the 1980s with a sharp increase in the level of lending. Turkey received one of the Bank's first Structural Adjustment Loans (SALs) in 1981, and there were four additional SALs during the following years. Total commitments exceeded a billion dollars a year during fiscal 1986 through 1988. With the acceleration of growth, Turkey was once again viewed as a success story—in the words of one staff member of that period, "*the darling of the Bank*." By 1988 the Turkish portfolio was the fifth-largest in the Bank.

During the mid-1980s, however, the Bank became increasingly concerned that the failure to get the macroeconomy under control and to build on the earlier policy changes was likely to lead to a crisis. In 1989 the Bank decided not to provide additional adjustment loans until Turkey could demonstrate progress on the structural problems destabilizing its economy. The consequence was a decline in the aggregate level of lending to about $600 million a year in the early 1990s.

The Bank was looking for opportunities to provide investment loans to meet the Turkish government's concern about negative net transfers. Between 1988 and 1993, the Bank made 22 loans to Turkey, covering a wide range of sectors—water, health, education, social protection, energy, transport, finance, agriculture, and rural development. But by 1993, with limited ownership by the counterpart agencies, the Turkey portfolio was considered one of the weakest in the Bank.

> *From the late 1980s, Bank concern about the failure to undertake structural reforms grew, and it ceased new adjustment lending.*

Fiscal 1994–98

At the beginning of this period, the Bank saw a new opportunity to rebuild its relationship with Turkey, which had been in decline since 1988. In practice, however, the government remained highly constrained by the difficulties of securing a consensus on policy measures among coalition partners. When crisis struck in 1994, the Bank prepared a long list of conditions for an adjustment loan that was intended to test the government's commitment. Later, as the economy rebounded, the window of opportunity closed rather firmly.

With no adjustment lending and poor performance on the investment portfolio, the Bank-Turkey relationship was at a low ebb.

Although Turkey continued to be interested in borrowing from the Bank, both sides were aware that the weak governing coalition was unable to meet the policy conditionality that adjustment lending required. While investment lending continued, poor portfolio performance made it difficult to fund new projects. Rapid growth in the mid-1990s, a buoyant private sector, sharply declining Bank lending, and limited analytic work (because of sensitivities concerning poverty and regional issues) all pointed to a diminishing role for the Bank in Turkey.

Fiscal 1999–2004

Toward the end of the 1990s, the dialogue was gradually rebuilt. In fiscal 1997 and 1998, a major portfolio restructuring had created space for new lending in some sectors. The decentralization of the Bank's decision making and the expanded analytic capacity of the Country Office made it easier to build relationships at the senior level. In fiscal 1998, when the government passed legislation to extend the coverage of compulsory primary education from five to eight years, the Bank responded quickly to the government's request for support with an Adaptable Program Loan (APL).

A turning point in the relationship came when the Marmara earthquake struck in the summer of 1999. The Bank moved rapidly to provide emergency relief and also to propose working with the government on measures to mitigate the impact of future disasters. This quick and effective response helped to reestablish the Bank's credentials with the Turkish government and public.

The Bank's decentralization and a rapid response to the 1999 earthquake helped reestablish dialogue.

During the economic crisis of fiscal 1999, the Bank worked closely with the IMF, helping to define the structural elements of the stabilization program and supporting it with a $760 million Economic Reform Loan (ERL). The economy responded with a rapid resumption of growth and declining inflation and interest rates. The 2000 Country Assistance Strategy (CAS) reported on the arrival of the long-awaited second-generation reforms and indicated that Turkey was being put into a high-case lending program, with $5 billion planned for a three-year period.

Although the IMF-supported program collapsed in early 2001, the Bank continued to help define the further steps needed on structural reform. Following the reform measures implemented in March 2001, the Bank supported the Turkish program with $3.5 billion of new commitments in fiscal 2002—an increase of $2 billion over the high case, and the largest lending by the Bank to any country that year. The large lending levels confirmed both the Bank's commitment to support sustainable change in Turkey and the value that the Turkish authorities placed on that support.

The elections of November 2002 produced Turkey's first majority government since 1991. The new government and senior administration focused initially on sorting out the priorities for the program to be supported by the IMF. For more than a year the Bank had no lending other than the second tranche of the education Adaptable Program Loan (APL) that had been agreed upon with the previous government.

At that time the government had not fully complied with the conditionality of the second tranche of the 2000 ERL. There seemed to be little interest in moving forward with privatization in telecommunications and energy. With the stabilization program in place, however, the government focused its attention on the structural areas covered by the program for Bank support. Privatization received a new boost, and agreement was reached that allowed the Bank to release the second tranche of the ERL and proceed with approval of the third Programmatic Financial and Public Sector Adjustment Loan (PFPSAL III) and a number of other lending operations.

The Bank's Country Assistance Objectives

In the 1990s two Country Assistance Strategies were prepared, followed by two others in 2000 and

2003, and a CAS progress report in 2001, since the 2000 CAS was overtaken by the crisis. The Bank's strategy in Turkey throughout the period was dominated by the view that macroeconomic stability was a necessary precondition for growth and poverty reduction. Sustainable fiscal adjustment was key, which meant resolving such structural issues as the state-owned enterprise deficits, including the state banks, agricultural subsidies, and the growing deficit of the pension system. Over the period, the Bank's strategy broadened to reflect the enhanced dialogue. In the mid-1990s, the Bank affirmed its corporate mission as sustainable poverty reduction. Accordingly, the strategy prepared in the late 1990s proposed a strategic shift toward greater emphasis on poverty reduction, and noted agreement with the government on conducting a poverty assessment.

The Bank's assistance strategy in Turkey is founded on four pillars:

- Macroeconomic stability
- Growth, competitiveness, and productivity
- Poverty reduction and social development
- Environment and natural resource management.

Within these 4 pillars, 10 objectives can be discerned. These objectives represent outcomes that the Bank program was designed to support and against which it can be evaluated. Table 2.1 identifies each objective and its rationale.

The Bank strategy appears broadly relevant to Turkey's needs over the period. The consistent assignment of the largest weight in the program to macroeconomic stability was appropriate, since it was a necessary condition for progress in other areas.

Considerable weight was also attached to a range of activities that have been brought together under the rubric of growth, competitiveness, and productivity. These objectives assumed increased importance toward the end of the 1990s, when it appeared that Turkey would begin negotiations on EU accession and would need to ensure that it raised productivity levels and had access to the technology and markets needed for competitiveness.

The programs in this area were often opportunistic, reflecting in part investment lending potentials, and would have benefited from a more thorough consideration of their conceptual underpinnings. This would have been of particular help in centering the strategic approach more clearly on private sector development, instead of treating it as a peripheral topic, as merely an externality of the focus on improved public sector institutional development, banking, and infrastructure.

Turkey's current government has welcomed continued Bank support for its programs.

Poverty reduction and social development received increased weight in the Bank program starting in 1997. This shift was appropriate given the government's agreement, after protracted discussions with the Bank, to cooperate on a poverty assessment, its request for assistance in implementing its 1998 education reform, and the need for emergency relief following the Marmara earthquake in 1999 and the fiscal crises in 1999 and 2000.

The need for sustainable fiscal adjustment dominated Bank strategy over the past decade.

But it took time to implement this shift in emphasis. It was first necessary to build the analytic base for interventions; overcome the security issues limiting operations in the eastern region of the country, where much of the poverty was concentrated; and resolve macro-structural issues that threatened growth and the fiscal sustainability of social programs. By the end of the period, however, there had been substantial progress in the dialogue between the Bank and the government on poverty reduction and social development, and a marked shift in investment lending (see table 2.2).

Finally, the area of environment and natural resources was consistently cited in each CAS, although clearly assigned a lower weight than the other pillars. The two Country Assistance Strategies prepared in the 1990s reflected the emphasis in that period on international conventions for environmental management and the weight attached to the preparation of National Environmental Action Plans (NEAPs). The earthquakes and floods of 1999 produced a

The emphasis on growth, competitiveness, and productivity would have benefited from a clearer strategic focus on the private sector.

Table 2.1: Country Performance Can Be Measured against 10 Objectives

Strategy element	Rationale
First Pillar: Macroeconomic Stability	
1. Improve public financial management	The lack of transparency of the budget, and particularly the handling of subsidies and duty losses through off-budget funding, was a major constraint on better fiscal management.
2. Support key structural reforms:	Tax collections were commensurate with countries at its income level. The problem was overspending on subsidy and entitlement programs, which led to structural imbalance.
a. Reduce the budgetary drain from state-owned enterprises (SOEs)	SOE losses were a direct fiscal drain; in addition, their monopolies in some important sectors limited investment in new infrastructure.
b. Reduce agricultural subsidies	Large subsidies were being channeled through the state banks via the agricultural SOEs. The benefits went disproportionately to larger farmers. Input subsidies and price supports reduced economic efficiency and imposed burdens on the poor. Coalition governments used the system as an instrument of patronage.
c. Reduce the deficit in the pension system	While the deficit was still small at the beginning of the period, it was projected to increase rapidly, given the generous benefits awarded by the government in 1992. The pension system mainly covered civil servants and formal sector employees, and did not reach the poorest groups.
d. Ensure the solvency of state banks	The government was using the state banks as a funding mechanism for unbudgeted subsidy programs. The "duty losses" incurred by these banks represented a major contingent liability for the government.
Second Pillar: Growth, Competitiveness, and Productivity	
3. Strengthen the banking system and deepen financial intermediation	The banking system was borrowing abroad to purchase government paper, a highly risky activity. The regulatory framework and banking supervision were inadequate for the risks this represented. Banks had no incentive to lend to the private sector except via connected lending to the large industrial groups associated with them. Small and medium-size enterprises (SMEs) in particular had limited access to term funds.
4. Improve management of infrastructure	Public infrastructure management was on a fiscally unsustainable path. State-run utilities were not generating the resources needed for investment, nor did they have the managerial capacity for efficiency. Utility prices and system losses were high, collections were low.
5. Enhance productivity	The private sector was well developed but hindered by structural deficiencies such as dominance of large family-owned groups and by a large informal sector estimated at 30–50 percent of the economy. The competitive base needed adjustments to integrate it into the knowledge economy, but this was impeded by lack of institutional support for technology upgrades. Foreign direct investment was much lower than in comparable countries, due in part to perceptions of serious problems of governance and corruption.
Third Pillar: Poverty Reduction and Social Development	
6. Promote equity, employment, and social protection	While extreme poverty was low, nearly 30 percent of the population fell into the category of broad poverty—defined to include both food and nonfood items. Employment rates overall, and female participation rates in the labor force in particular, were the lowest in the OECD. Social protection was not oriented to the poorest groups.
7. Improve health standards	Health indicators were below those of comparator countries, and particularly low in the poorer eastern areas. Primary health services needed to expand, and maternal and child health care needed attention in the underserved parts of the country.
8. Improve education coverage and quality	Coverage and quality of basic and secondary education were low relative to Turkey's income level, especially for girls, and especially in the poorer regions. Policy makers had focused on the need for vocational education to produce trained manpower, at the expense of the coverage and quality of general education.
Fourth Pillar: Environment and Natural Resource Management	
9. Reduce environmental degradation	Turkey's resources were at high risk of degradation (soil erosion, water and wastewater quality, air and industrial pollution). At the beginning of the period, the Ministry of Environment had been newly created, and tracking systems were not yet in place. In addition, capacity needed strengthening to meet Turkey's obligations to international and regional agreements.
10. Support better disaster management	Turkey is highly prone to earthquakes and floods. Following the disasters of 1999 it became clear that relief alone was not enough; early warning and disaster response systems needed to be improved.

Table 2.2: Summary of Bank Lending to Turkey by Major CAS Objectives (US$ million)

CAS pillar	CAS 1 (1993–96)	CAS 2 (1997–2000)	CAS 3+4 (2001–4)	Total
Adjustment lending				
Macro-management	0	760	4,428	5,188 (49%)
Investment lending				
Macro-management	62			62 (1%)
Growth & PSD	580	720	905	2,205 (21%)
Social sector & poverty	217	315	1,111	1,643 (15%)
Environment & disaster management	362	1,127	20	1,509 (14%)
Total	1,221	2,922	6,464	10,607 (100%)

Source: World Bank internal database, at end-2004.

new emphasis on disaster relief and management in the 2000 and 2003 assistance strategy documents. As discussed in chapter 6, however, the follow-up in implementing this pillar was uneven, and the impact limited.

The Lending Program

Bank loans

From fiscal 1994 to 1997 the Bank made only one or two loans a year to Turkey. The portfolio remained large, because some projects from the previous period were being implemented slowly and were carried over. From fiscal 1998 onward, lending levels increased substantially. The Bank supported the expansion of the education system and made large loans for emergency relief projects following the floods in 1998 and the earthquake in the summer of 1999. Most important, the conclusion of an agreement with the IMF permitted the resumption of adjustment lending, and a $760 million ERL became the centerpiece of the Bank's support for structural reform.

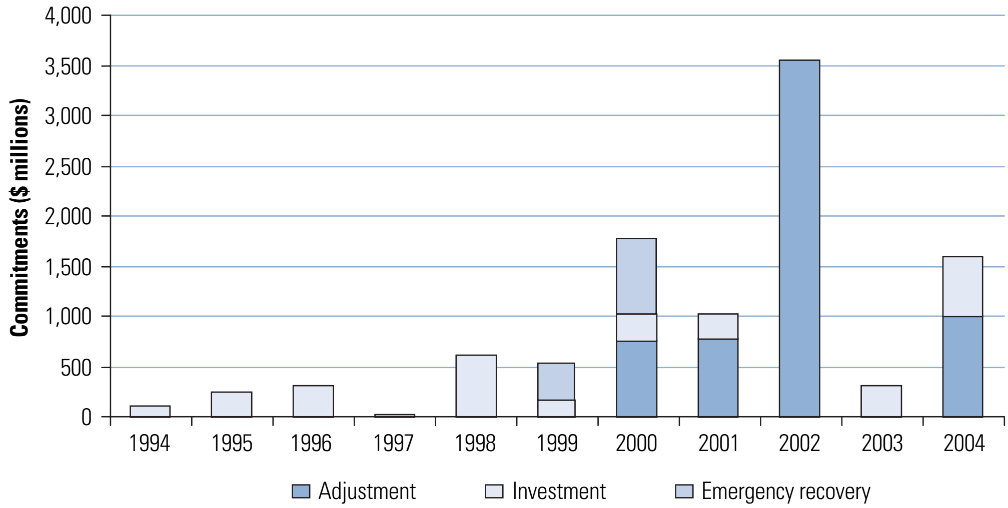
With the rapid deterioration of events at the beginning of 2001 and agreement on the new stabilization package in May of that year, the Bank committed the Programmatic Financial and Public Sector Adjustment Loan I (PFPSAL I) at the beginning of fiscal 2002 and PFPSAL II late in the same year. In addition, approval of the Agricultural Reform Implementation Program (ARIP) and the Social Risk Mitigation Project (SRMP) raised total lending to $3.55 billion that year—by far the highest level of lending ever for Turkey in one year, and the highest for any country in the Bank that year. After the second installment of the education APL in July 2002, there was no Bank lending for almost 18 months during the elections and change of government. Only in 2004 did lending resume, with $1.6 billion in the remaining months of the fiscal year. In fiscal 2005, $1.8 billion was lent, all for investment projects.

In 1997 the Bank increased its focus on poverty reduction, but the strategy gave relatively less emphasis to environment and natural resources.

During the period, the Bank's lending consisted of 34 loans for $10.6 billion, of which 27 were investment or technical assistance loans, 5 were adjustment loans, and 2 were hybrids. Table 2.2 summarizes the lending within each of the four pillars. Most of the adjustment loans addressed issues in several sectors but were primarily directed at improving public sector and financial management, and are grouped under the first pillar. Adjustment lending, all of which occurred after 1999, accounted for almost half of total lending.

Bank lending has mirrored the volatility of Turkey's economy—counter-cyclical peaks responded to the crises of 1999 and 2001.

Figure 2.1: Bank Lending to Turkey, 1994–2004



Source: World Bank internal database, as of end-2004.

As shown in table 2.2, lending was spread fairly evenly among the remaining three CAS pillars.

Non-Bank grants

In addition to Bank loans, the program also benefited from more than 40 donor-funded grants from various partner agencies, which together amounted to about $78 million. These grants were administered by the Bank, and, except for two grants (over $30 million in total) for reduction of ozone-depleting substances, were made in conjunction with Bank loans. These grants generally funded technical assistance or advisory services to bolster the Turkish institutions implementing or benefiting from Bank lending.

Less than 60 percent of operations in the CAS materialized, reflecting Turkey's volatility, but also a lack of realism in Bank strategies.

The various CAS documents over the period show 59 operations planned but only 34 loans (58 percent) approved. The volatility of Turkey's economy and the need for substantial unforeseen adjustment lending, combined with the major earthquake of 1999, are partly responsible for this difference between the CAS lending programs and the actual loans. When the 2000 CAS was overtaken by events, a CAS Update was prepared, which indicated that three loans were to be cut from the investment program to support the government focus on macroeconomic adjustment and structural reform. Other operations were victims of the slow implementation of the existing program, which delayed the preparation of new activities. A number of projects were dropped after sizable expenditure on preparation. Overall, the large number of dropped projects suggests that the CAS documents were not realistic about the pace at which new investment loans could be prepared and implemented.

Quality of Bank Lending

In 1996 the Turkey portfolio was rated among the 10 worst in the Bank. Of 28 projects in the portfolio, 18 were problem projects with disbursement ratios of less than 10 percent. To correct this problem, in 1997 Bank management and the senior management of the Turkish Treasury put in place a joint remedial action program. The measures included canceling a series of projects to reduce the portfolio to projects that were being effectively implemented; tightening of procurement and disbursement procedures; and delegating the task management of ongoing projects largely to the field office, including sign-off authority for procurement and disbursement.

Table 2.3: IEG Ratings of Operations Closed, Fiscal 1994–2004

Country/group	Number closed	Outcomes (% satisfactory)	Institutional development (% substantial impact)	Sustainability (% likely)
Turkey	46	76	36	53
Europe and Central Asia	459	80	51	75
Bankwide	2,805	72	41	60

Source: Annex B, table B.5b; percentages are by number of operations.

These steps dramatically improved portfolio quality. The number of problem projects was reduced to two, procurement procedures were streamlined, and disbursement ratios improved to around 20 percent. By early 1998, the quality of the Turkey portfolio was the second-highest (based on the percentage of projects at risk) in the Europe and Central Asia Region. Since then, the outcomes of investment lending have been generally satisfactory.

The heavy weight of unsatisfactory projects earlier in the CAE period means that the overall results for the period fall somewhat below the Europe and Central Asia Region average (see table 2.3). Perhaps the most striking rating is for institutional development impact: only 36 percent of the projects were judged to have had a substantial impact, reflecting the difficulty of implementing the technical assistance components of projects.

At the end of fiscal 2005, the Turkey portfolio compared well with those of other middle-income countries in the percentage of projects at risk (see table 2.4). These comparisons are volatile, however, as nearly 29 percent of the operations were at risk at the end of 2004.

Table 2.4: Turkey Has a Lower Percentage of Projects at Risk than Do Comparators

Country	Number of projects	Net commitment ($ millions)	Percent at risk
Turkey	19	5,929.9	5.3
Algeria	9	337.0	22.2
Romania	19	1,395.9	0.0
Brazil	49	4,948.4	18.4
Colombia	18	1,151.4	11.1
Thailand	1	84.3	0.0

Source: World Bank internal database, as of end-June 2005.

In 1996 the Turkish portfolio was among the worst-performing, but an effective clean-up in 1997 brought improvement.

A number of persistent issues remain. Most critically, line ministries lack the capacity needed to implement projects smoothly, formulate sector policies, or prepare for EU accession. Rapid turnover in leadership has disrupted implementation and hindered sustained institution building efforts. The Bank has tried to help build capacity, but usually through a project implementation unit (PIU), which has sometimes diverted attention from opportunities to build capacity within the line ministries. The emphasis on PIUs reflects problems with procurement, particularly with respect to the use of consultants and information technology. Generally, the Turkish government is reluctant to hire consultants for projects, whether Turkish or foreign. The divided responsibilities for important implementation decisions in investment lending continue to be a problem, especially the lack of clarity about the State Planning Organization's involvement in project implementation.

Portfolio problems persist for lack of implementation capacity in line ministries. The Bank has relied on PIUs for implementation.

Knowledge Services

From fiscal 1994 to 1997 the Bank produced fewer formal economic and sector reports than would be expected for a country of Turkey's size and portfolio. Just before the period under review, the Bank completed studies of state-owned

The Bank under-invested in formal analytic work for much of the period, partly because of the sensitivity of the Turkish authorities.

enterprises (SOEs) and of women in development. At the end of 1993 an analytic review of the country's economy was completed. The next formal analytic report on Turkey was the Country Economic Memorandum (CEM) of April 1996. Two factors account for this lapse of nearly three years. First, political instability prevented the Turkish authorities from mustering the internal consensus needed for wide distribution of Bank analysis on sensitive topics such as poverty and regional development. Second, even in sectors that were open to Bank analytic work, the Bank was unwilling to spend resources on work that it judged would have little impact.

The Bank prepared several informal studies during this earlier CAE period. There were studies on the energy sector, for example, done as part of project preparation through the Policy and Human Resources Development (PHRD) financing; on agricultural subsidy and trade issues; and, later in the period, on the financial sector. However, the failure to carry out in-depth analyses in the social sectors, on employment, and on infrastructure was a factor in the often unsatisfactory development outcomes of the Bank's investment portfolio at that time, as cited in subsequent chapters and in annex A.

From fiscal 1998 on, a more normal pattern of analytic work evolved. Three reports—the CEM, a Living Standards Assessment, and the Public Expenditure and Institutional Review—became the basis for the adjustment loans between 2000 and 2002. Subsequent reports on health, agriculture, education, labor markets (these three distributed after the review period), and the municipal and water supply sectors are helping to provide the context and direction for the Bank's lending in these areas—correcting a major failure in the earlier program.

Continuing sensitivity among Turkish authorities limits the distribution of reports, except where the Bank has worked to build joint ownership.

While the number of sensitive topics has narrowed over the years and the Bank now has a substantial program of work on poverty-related issues, the government is still at times unable to reach closure on the views of different ministries and agencies and is therefore unwilling to permit release of formal reports. In the past year, for example, the Bank was asked not to issue a report on gender after Bank staff had spent considerable effort in revising it in response to the government's comments. The key seems to be to identify and agree on topics well in advance and to carry out the studies collaboratively, with government involvement. The Public Expenditure and Institutional Review (PEIR) is an excellent example of building ownership and consensus in support of a difficult set of reform issues. The health sector report, the poverty assessments, and the forthcoming Education Sector Study (ESS) also reflect good practice in collaborative preparatory work.

Despite limited dissemination of some Bank economic and sector reports, it is evident that the Bank's major contribution to Turkey has been as a source of knowledge. Turkish officials and ac-

Box 2.1: Perceptions of Bank Impact Differ between Bank Staff and Turkish Authorities

Until the late 1990s, the slow-disbursing portfolio led many in the Bank to conclude that the Bank was achieving very little in Turkey. By contrast, many current and former government officials expressed the view that the Bank was having a valuable impact. In their view, while the succession of weak coalition governments in the 1990s made it virtually impossible to get consensus on significant structural changes, the dialogue and continuous engagement of the Bank helped lay the foundation for subsequent progress. Many of the Turkish officials the mission met with indicated that the Bank underestimates the impact of the project preparation and implementation process on the attitudes and approach of development agencies and officials. They attributed many of the project implementation problems to lack of counterpart funding due to the large deficits of the period.

Source: CAE team interviews.

ademics generally assess the quality of Bank analytic work as high. A small number of reports have been reviewed by the Quality Assurance Group (QAG), and all were rated satisfactory.

On balance, and despite the thinness of the analytic work program in the early part of the review period, the Bank's analytic work has been important both in creating a knowledge base inside the Bank to inform Bank lending and in building a consensus in the Bank and among officials in the core ministries. The Bank made effective use of adjustment lending as an instrument for supporting the key structural reforms it had identified and analyzed. This has helped to shape Turkey's policies. A similar approach is now being applied more broadly to issues in infrastructure and the social sectors. This bundling of knowledge and lending has been the critical operational vehicle for the Bank in Turkey, and maintaining the right balance between the two will remain key to the Bank's effectiveness in the future.

Partnerships

The International Monetary Fund

During fiscal 1993–97 there was limited interaction between the Bank and the IMF on Turkey. The IMF focused on tax issues, the Bank on public expenditures. Starting with financial sector work in 1997, a closer collaboration evolved. During the 1999 crisis, the IMF took the lead in negotiating a program based on exchange-rate stabilization with the Turkish authorities. There were differences of view within the Bank about the viability of this program, despite public statements of support and the resumption of Bank adjustment lending.

Under the program adopted in 2001, the Bank and IMF worked closely with one another, and the institutions have continued working together. In many respects, Turkey is an example of highly effective Bank-Fund coordination. The scale of the Fund's financial support has helped it secure movement on structural reform. The Bank has been able to steer Fund programs toward priority structural reforms and provide the technical back-up to support their design. The Bank's work on public expenditure management, energy pricing, agricultural pricing and subsidies, and financial sector reform has been reflected in the structural benchmarks for the IMF program.

The Bank has been effective in using the Fund's programs to support a wider agenda of structural reforms.

International Finance Corporation

The World Bank's Country Office is located in Ankara, while the International Finance Corporation (IFC) has a regional office in Istanbul. There is little interaction between the two institutions, and coordination of programs is more by accident than by design. Preparation of joint CAS documents has not led to better coordination.

The IFC has maintained good relations with the business community in Turkey, but this does not feed into World Bank programs. Perhaps not coincidentally, Bank programs have been relatively light in their focus on constraints to private sector development, except insofar as these constraints affected the overall macro-stability and the financial sector.

With the move of the country director to the field, the Bank has stepped up its contacts with the private sector substantially, and the country director is a regular speaker at the various events sponsored by chambers of commerce and industry. But no Bank staff member in Ankara has been assigned to cover private sector development, and no structure for coordinating with IFC has been defined. A country review for Turkey has been prepared by IFC's Independent Evaluation Group in parallel with this CAE.

Despite joint CAS documents there has not been active coordination of Bank and IFC programs.

European Union

Throughout the period, the Bank factored Turkey's EU aspirations into its programs and analytic work, and there are specific instances of cooperation—in the recent education and health projects, for example, and in the implementation of the PEIR recommendations. The Bank has been careful to ensure that when it advised on legislative or administrative changes, these changes were compatible with EU accession, and has brought experts from EU countries to Ankara to

The Bank is moving from a program consistent with EU accession to one that supports accession.

review proposals before they are sent forward.

The Bank and the EU met recently in Brussels to discuss the coverage of a Bank CEM that would look at EU accession in the context of Turkey's macro and structural adjustment. It is likely that EU-related work will become a central feature of the Bank's strategy as the program goes forward. The European Commission has expressed an interest in having Bank support along these lines.

Other donors

The most substantive involvement of the Bank with other donors occurred after the earthquake and flood disasters of the 1990s, when agencies from Spain, Japan, Switzerland, the Islamic Development Bank, the European Investment Bank (EIB), United Nations Development Program (UNDP), and United Nations Population Fund (UNPFR) were engaged with the Bank in relief and rehabilitation efforts.

The Bank has good contacts with academia, but has not done enough to build the capacities of Turkey's fledgling NGO community.

Civil society and NGOs

The Bank has worked closely with some segments of Turkish civil society. For example, the Bank has had good relationships with academia in Turkey. Turkish academics have served as consultants on many Bank programs and as discussants at Bank-sponsored seminars and consultations.

Contacts with the private sector, which were very good in the 1980s, declined in frequency during the period before fiscal 1997, but have been stepped up in recent years. Contacts with the media increased exponentially with the Bank's decentralization, and the coverage of the Bank in the local press seems extensive by comparison with other middle-income borrowers. On the other hand, the Bank is not engaging systematically with parliamentarians in Turkey.

The most significant shortfall, however, is with the nongovernmental organization (NGO) community. The NGO sector in Turkey is relatively underdeveloped in comparison with European countries (including the new EU accession countries), although it has been growing in recent years. Compared with NGOs in other countries that borrow from the Bank, Turkish NGOs have had little involvement in Bank-supported programs. Particularly in the earlier years, there was little attempt by the Bank to reach out to and foster the NGO community. There are some important exceptions, however. In anti-corruption work, a partner NGO is conducting surveys of civil society, while in education a partner NGO is organizing contacts with civil society stakeholders in the ongoing study of the education sector.

Assessing Program Outcomes

During the period under review, the Bank did not always define the outcomes it was supporting in quantitative terms or with targets that could be monitored. Chapters 3–6 look at the actual outcomes in fiscal 2004 for each of the four pillars of Bank strategy compared with the baseline of fiscal 1994, and make a qualitative assessment of how satisfactory the outcomes are, how substantial the institutional development is, whether the outcomes are sustainable, and what contribution the Bank made to the achievement of those outcomes.

Chapter 3: Evaluation Highlights

- The need for structural reform that would lead to sustainable deficit reduction was central to the Bank's dialogue with Turkey during the CAE period.
- Weak coalition governments were unable to address off-budget funding, financing through state banks, and deficits.
- Financial crises in 1999 and 2001 finally led to effective actions, with off-budget funding virtually eliminated and steps taken to reduce deficits.
- Inflation has come down sharply and high growth rates have been sustained for four consecutive years, but there is still an unfinished agenda in privatizing state enterprises and banks and reducing pension system deficits.

First Pillar: Macroeconomic Stability

The striking feature of Turkey's economy during the period under review was its volatility. On three separate occasions—in 1994, 1999, and 2001—the foreign exchange markets lost confidence in the capacity or willingness of the government to take measures to stabilize the economy.

The currency was sharply devalued, and very high overnight interest rates were required to stem the outflows and meet the government's financing needs. The financial crises translated into declines in the real economy of 5–7 percent in each of the three crisis years (see figure 3.1). The underlying problem was fiscal imbalance, which required borrowing by the government equivalent to an annual average of about 12 percent of GDP throughout the period. In all three crises the government was required to introduce additional taxes or expenditure cuts equal to about 5 percent of GDP.

Improve Public Sector Financial Management

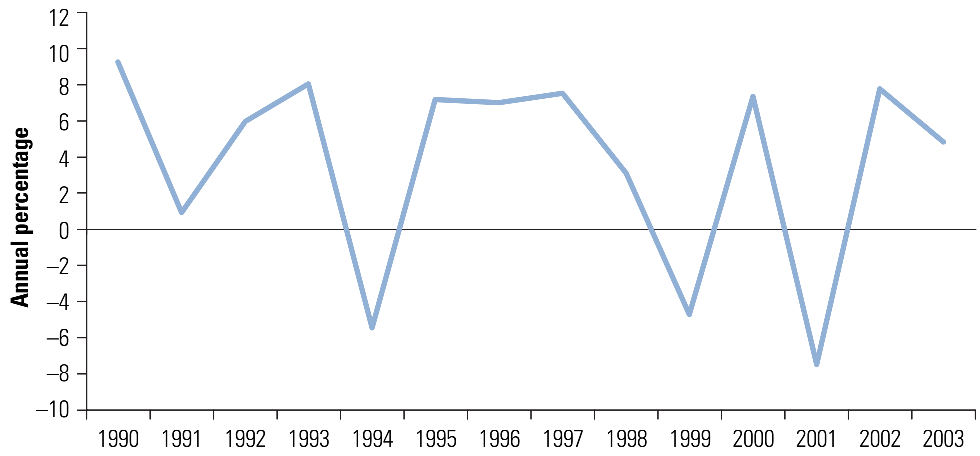
Outcome. The fiscal problem in Turkey during the 1990s did not lie with the formal budget deficit, but in the large number of extra-budgetary funds (EBFs) and the use of state banks to finance unbudgeted public transfers. The problem deteriorated steadily until the 1999 crisis.

After the 1999 crisis, the government's first task was to bring transparency into the budget process by bringing the EBFs back onto the budget and subjecting those expenditures to parliamentary scrutiny. In 2000 a first group of EBFs were closed; the 2001 package of reforms included legislation to bring almost all the remaining EBFs into the budget framework. The second task was to dismantle the rigid control systems that had led to the establishment of the EBFs. This process is still in its early days, though there was progress toward the end of the CAE period with an agreement to shift the function of the Court of Accounts to one of ex post audit rather than approval of individual expenditures.

From 1994 to 2004, three crises resulting from fiscal imbalances wiped out much of the gain of economic growth in the period.

The Bank's contribution. The Bank had little success in the fiscal 1994–98 period in getting the policy makers to listen to the message on the need for structural reform. The CEMs were the most important instrument available and one of the few widely circulated documents to provide a comprehensive picture of public sector financial operations, including the EBFs. Without the option of adjustment lending to get some

Figure 3.1: Turkey Slipped into Financial Crisis Three Times (annual percentage of GDP growth)



Source: Country Office database.

Until fiscal 1998 the Bank had little impact on the fiscal problem.

movement on these issues, the Bank turned to technical assistance, with a wide-ranging Public Financial Management Project (PFMP) in 1995. The PFMP made a limited contribution. The IEG assessment indicates that it was overly ambitious and that there was insufficient ownership among the key ministries. The only component that was viewed as satisfactory was the support for customs administration.

It was not until the crises of 1999 and 2001 that the Bank began to make progress on these issues. The ERL and the Programmatic Financial and Public Sector Adjustment Loans (PFPSALs) supported the critical reform—the integration of extra-budgetary funds into the budget framework. The 2000 CEM and the Public Expenditure and Institutional Review (PEIR) that was begun in 2001 provided an important underpinning for the adjustment loans by creating the basis for institutional reform and sustainability of the changes.

Bank adjustment operations and analytic work helped re-integrate the funds into the budget and addressed the expenditure rigidities that led to the creation of these funds.

The PEIR was particularly important, for it set in motion ongoing reform of budget and expenditure processes. First, a joint working group of the Bank and the core ministries recognized the need for reform of the rigid budget-control regime that had led to the creation of extra-budgetary arrangements in line ministries. The government launched six pilot cases where greater managerial discretion was allowed in the reallocation of budget resources across a few categories of expenditure. These cases helped convince the Ministry of Finance that a broader reform of the control regime was required.

Second, the PEIR helped strengthen the external audit capability of the Turkish Court of Accounts (TCA) and eliminate its participation in budget execution via issue of visas for expenditure in 2004. The TCA law has been submitted to parliament. It proposes major improvements in its audit function, including more comprehensive coverage.

Third, the Bank supported efforts to create a medium-term fiscal framework, which is now required by law. The Bank is providing assistance to the government, together with EU technical support.

Support Structural Reforms

Reduce the deficit of the state-owned enterprises

Outcome. At the beginning of the review period, state-owned enterprises (SOEs) accounted for about half of Turkey's public sector borrowing requirement. The budgetary burden of the SOE sector was around 5 percent of GDP. The output of SOEs represented roughly 10 percent of GNP, and their employment was 6 percent of total nonagricultural employment. Initially, reform efforts focused on privatization of SOEs, which promised a double benefit: expenditures could be reduced by lower transfers, and revenues would be increased by the proceeds of privatization.

The privatizations were challenged in the Turkish courts and also met with parliamentary opposition, and the program proceeded slowly during the 1990s. After the 1999 and 2001 crises, the budget constraint on SOEs, including municipal enterprises, was stiffened, with close monitoring of their employment levels and pricing decisions. A number of SOEs closed unprofitable plants and reduced employment. The consequence of these steps has been a turn-around in aggregate SOE financial results, and there is now a modest operating surplus. In recent years new impetus has been given to the privatization program, and in 2004 the revenues from sales of enterprise shares were the highest ever.

The Bank's contribution. Just before the review period, the Bank released a study of SOEs that proposed a range of options for improving their performance. During discussion of a possible adjustment loan in 1994, the Bank prepared a long list of conditions, among which privatization figured prominently. When the Turkish authorities decided not to proceed with adjustment lending, the fallback position was a Privatization Implementation Support Loan that provided $100 million, mainly as technical assistance, to help prepare public companies for privatization. The loan disbursed very slowly, and large amounts were cancelled on its closing at the end of the decade. It was rated unsatisfactory by IEG.

The Bank resumed its push toward privatization with specific conditionality on infrastructure privatization in the adjustment loans and with support for stronger social safety nets for retrenched SOE employees through a Privatization Social Support project in fiscal 2001 (and a follow-up in fiscal 2005). Banking and infrastructure privatization were probably the least successful parts of the program, with very slow progress and a need to waive conditions in order to proceed.

The deficit of SOEs has been substantially reduced, but privatization has been a less important part of this than envisioned.

Reduce agricultural subsidies

Outcome. Agricultural subsidies were among the most serious budgetary drains during this period. Despite analytic work demonstrating that these subsidies were inefficient and probably increased income inequality, the close links between subsidies and political patronage kept the system in place for much of the period.

In 2000 input subsidies were substantially reduced and a new regime was put in place to provide direct income support (DIS) payments to farmers. A recent Bank analysis suggests that the resulting net reduction in fiscal costs was over $4 billion. The transfers to farmers were better targeted than before, since direct income support was capped at 50 hectares per farmer; farms above that size did not get more subsidy, as had occurred under the crop and input-related subsidy programs. The same study suggests that with reduced intervention purchases, food prices in Turkey fell in relation to world market levels in 2001, and, despite increases in 2002, were still below the levels of 2000—a significant benefit for the poor.

The reduction of the large agricultural subsidy burden is a signal achievement . . .

The Bank's contribution. In 1996 the Bank started a program of in-depth analytic work on agricultural subsidies that focused initially on trade, and then broadened to include a wide range of sector issues. This work was embodied in confidential studies presented to the government, which appear to have made a major contribution to the decision to proceed with the change of the subsidy regime. This analysis became part of the agreements for the Economic Reform Loan, the ARIP loan, and the PFPSALs. Subsidy reform has had a huge fiscal impact and has led to large gains in efficiency and equity. It is one of the central achievements of the Bank in Turkey, and its

One to which the Bank made a significant contribution.

Populist measures resulted in a very generous pension system by international standards, and reforms did not do enough to correct this.

implementation and impact should continue to be monitored to ensure its benefits are sustained.

Lower the deficit of the pension system

Outcome. In 1992 the government, in a populist measure before the elections, increased civil service pensions and eliminated the minimum retirement age. Successive Turkish governments have struggled with the fiscal consequences of these measures. Out of growing concern about the rising deficit of the pension system, reform measures were put in place in 1999. These reforms included the reestablishment and gradual increase of the minimum retirement age, reductions in benefits, increases in contributions, and the adoption of a "depoliticized" formula for pension adjustments. The viability of these measures depended on an "everything goes right" scenario, especially an increase in the number of contributors, which did not materialize. The consequence was a sizable and increasing deficit. In addition, a Turkish court ruled that some of the changes could not be applied to current participants in the pension system.

The 2001 reforms did not revisit the pension issue, perhaps because of concern that this might push the civil service to oppose the entire reform package. As a result, the system deficit is rising rapidly. Contributor coverage has been stagnant, reflecting both much slower growth in formal employment than anticipated at the time of the 1999 reforms, and low contribution compliance. Even with the 1999 changes, the benefits are very generous: replacement rates (65–75 percent) are high, and minimum contribution periods (19.4 years) are low, in contrast to a target replacement rate of 40 percent of gross wages after 30 years of contributions recommended by the International Labor Organization. Finally, the minimum retirement age is so low (43 for women and 46 for men) that the benefits stream persists over many years. On top of this, government decisions in 2003 and 2004 to make ad hoc increases in the benefit levels and changes in the indexing mechanism have further added to the deficit.

The pension deficit is growing and is a major risk to fiscal stability.

The Bank's contribution. Although the burgeoning deficit of the pension system must be counted among the failures of structural reform in Turkey, the Bank made a positive contribution in ensuring the inclusion of measures in the ERL which if not enacted would have meant a still larger deficit today. Steps to reduce the pension deficit were not included as part of the PFPSALs, apparently reflecting the view that their agenda was already large and the political balance so delicate that to do so might have put the whole package at risk. However, the Bank has continued to work with the government to build analytic capacity to evaluate pension outcomes and reform options, including a major set of reforms being considered by the government since early 2005.

Improve the functioning and financial viability of the state banks

Outcome. For most of the 1990s, the state banks were used to fund off-budget subsidies and therefore were a major contingent liability for the government. In 2001 the liabilities of the state banks were refinanced by the budget. The management of these banks has been professionalized, and substantial efforts made to lower costs. The number of employees in state banks has been reduced by more than 30,000 since 2001, and the number of branches has been reduced by 820.

The role of the state banks remains unclear, however, and the business model on which they should operate remains elusive. In the past it was profitable simply to invest in government paper, but with returns on these securities having fallen toward levels comparable to earnings on deposits, it is no longer an attractive investment. The state banks will therefore need to compete with private banks in the market for private credit.

The Bank's contribution. The Bank has consistently pushed for privatization of the state banks. The Bank was rightly concerned about the huge contingent liabilities the government would face in the event of a crisis, a concern that proved well-founded in 2001 when the costs of recapitalizing the state banks amounted to $22 billion, or 14.7 percent of GDP. The Bank's analytic work through the CAE period had resulted in a number of informal studies on the potential restructuring of the state banks, and analysis became part of the agreements on the PFPSALs. As part of the reform program supported by the PFPSALs, one state bank, Emlak, was closed through merger with Ziraat, the main state bank; legislation was put in place to prevent unfunded "duty-losses" (that is, losses incurred due to the state banks being required to fund government social programs or subsidies); and two public banks, Ziraat and Halk, restructured by laying off half of their employees and closing branches. Yet the ultimate goal of privatization of all state banks is far from being achieved, despite agreement in principle to move in that direction.

Assessing First Pillar Outcomes

While the rating of moderately satisfactory for the Bank's programs throughout the full period reflects the unsatisfactory outcome in the early years, and shortfalls in pensions and state bank privatization, the steps taken toward stabilization in Turkey in 1999 and 2001 represent one of the success stories of economic policy at the international level during the past decade. The evidence thus far suggests that Turkey has taken advantage of the reform opportunities afforded by the 1999 and 2001 crises.

Institutional development has been substantial. Budget transparency has increased, and a start has been made on dismantling the rigid and counterproductive control systems in the Ministry of Finance that led to the expansion of off-budget funding. The move to more commercial-style management of the SOEs and state banks is also an important institutional reform.

The sustainability of these outcomes is rated as likely. There are a number of positive factors in the short term. First, the key macro-variables (primary surplus, public sector borrowing, public debt) have been held for four years in a range the IMF regards as fundamental for sustainability. Second, there is a majority government that is in a better position to take corrective action if needed. Third, inflation has come down to single-digit levels for the first time in decades, and real interest rates are moving rapidly downward. Fourth, exports remain buoyant.

There are also significant long-term factors. First, the goal of EU accession provides an anchor for retaining the reforms. Second, the political incentives for current and future governments appear to lie in not putting past achievements at risk. Nevertheless, it is too soon to declare victory. The pension deficit remains a major risk factor, and the real exchange rate appreciated substantially in 2003 and 2004. Sustainability will require a continued commitment to careful macroeconomic management.

The Bank correctly diagnosed the risks posed by the state banks, but its push for privatization has yet to yield results.

Steps taken toward stabilization in Turkey in 1999 and 2001 represent one of the success stories of economic policy at the international level during the past decade.

The Bank's Contribution to First Pillar Outcomes

The need for macroeconomic stabilization and structural reform was central to the policy dialogue throughout the period. The timing and political economy context of these reforms were a function of the crises and the ability of the government to assemble a temporary coalition to support the necessary changes. But the Bank did make an important contribution to the design of the reforms. The CEMs, which provided an overarching framework, and the work that the Bank supported in each of the above areas, fed into the strategies and blueprints developed by the Turkish authorities to reshape the economy after the crisis.

The Bank contributed significantly to the design of programs for the first pillar and to the eventual outcomes.

The Bank's large financial package in support of the changes was also well-judged. One senior government member expressed his view this way: "Could we have managed without the money? Yes, probably. But did it make a differ-

Table 3.1: First Pillar: Macroeconomic Stability Outcomes

Indicator	Baseline	Outcome	Comments
Primary surplus as percentage of GNP	2.3 (1993)	6.9 (2004)	Considerable achievement, but will need to be sustained, given high debt levels
Inflation, consumer prices (annual %)	66.1 (1993)	10.6 (2004)	Inflation reached single digits at end-2004; the lowest level in 35 years
PSBR/GDP	12.1 (1993)	6.2 (2004)	Impressive progress, but remains high by international standards
Total debt as percentage of GNP	35.1 (1993)	63.5 (2004)	Although figure is double starting point, there has been a sharp reduction from nearly 100% in 2001
Extra-budgetary funds as percentage of GNP	5.3 (1993)	1.1 (2003)	Major achievement; most extra-budgetary funds incorporated in budget
Number of employees in state enterprises	434,655 (2000)	330,450 (2004)	Reflects effects of both privatizations and retrenchments
SOEs' operating surplus/loss after tax, in US$ millions	(5,928) (1993)	998 (2004)	Substantial improvement, but given capital intensity of many undertakings, still represents a low return on investment
Total number of state enterprises	50 (1994)	40 (2004)	Privatization program has been steady for non-infrastructure enterprises, but not as rapid as planned for infrastructure
Total agricultural subsidies as percentage of GDP	1.7 (1993)	0.8 (2004)	During the course of the period subsidies reached as high as 5% of GDP. Subsidies in 2004 consist mainly of Direct Income Support payments
Consumer transfers to agriculture (in trillions of TL at 2001 prices)	7,751 (1998)	1871 (2001)	Reduced price supports have meant substantial gains for food consumers
Social security transfers from consolidated budget/ GDP (%)	1.0 (1994)	4.5 (2004)	Increased transfers reflect inadequacy of 1999 measures and steps in 2003 that have somewhat worsened the situation
Number of employees in state-owned banks	76,553 (1993)	32,317 (2004)	Despite substantial cuts, banks are still over-staffed, given the nature of their business, which is closer to bond trading houses than retail banking

Source: World Development Indicators and Country Office database.

ence to the acceptability of the Bank's advice? Definitely. It made the Bank a player in the eyes of the government and the Turkish public."

This is an area where the whole of the Bank's contribution is more than the sum of the parts. While there is major unfinished business with regard to SOEs, the pension system, and the state banks, the Bank contributed through its dialogue, its lending, and its analytic work to a fundamental change in the understanding of the Turkish bureaucracy and public of the relationship between such reform and macroeconomic stability.

Chapter 4: Evaluation Highlights

- The Bank focused on establishing the institutional framework for efficient operation of the financial sector and infrastructure.
- The Bank's program was effective in creating legislative frameworks and supporting institutions charged with financial and infrastructure regulation.
- Although new private investment in energy has increased private provision of infrastructure, privatization has lagged, and better institutions have not yet translated into efficiency and productivity gains.
- Despite a vibrant private sector, significant challenges remain: governance needs to improve, and the financial sector needs to be deepened to promote foreign investment and expansion of small and medium-size enterprises.

Second Pillar: Growth, Competitiveness, and Productivity

Despite periodic financial crises as well as several natural disasters that had a serious impact on the economy, Turkey was able to achieve an average real GDP growth of 3.3 percent for the CAE period as a whole. Growth depended on the expansion of private sector production, and support for this was an important part of the Bank's strategy in the earlier years of the program.

But by the 1990s the Bank's focus had shifted to public sector reform. The hypothesis appears to have been that Turkey's private sector had shown it could compete in international markets and that there was little value to be added by Bank support. Indeed, the effective response of Turkish exporters to the Customs Union with the EU in 1996 seemed to support this view.

While the performance of Turkey's private sector has been impressive, especially in export growth, Bank analytic work has noted a number of fundamental weaknesses over the CAE period. For example, Turkey's private sector has developed few joint ventures with foreign companies that could provide access to new technologies and markets. Foreign direct investment in Turkey has consistently remained below the levels of comparator Eastern European and other middle-income countries.

The Turkish private sector is dominated by large, family-based groups that are highly entrepreneurial and aggressive. While small and medium enterprises have grown rapidly, there is a wide gulf between them and the large industrial groups—a "missing middle" in the Turkish private sector. A large proportion of Turkey's private production (an estimated 30–50 percent) takes place in the informal sector, largely to avoid taxes. This in turn has constrained financial sector growth. The big industrial groups can borrow from their associated banks or abroad, while the small and medium-size enterprises can only borrow on the basis of the part of their balance sheets that is on the books. Under such conditions, the entire Turkish commercial banking system is only the size of a medium-size bank in Western Europe.

The private sector has grown vigorously, but has important weaknesses.

Strengthen the Banking System and Deepen Financial Intermediation

Outcome. In the early and mid-1990s, Turkey's financial sector was a crisis waiting to happen. As explained earlier, the fiscal imbalances had led to

The government used the financial sector to fund its growing deficit.

the use of the four state-owned banks as a conduit for off-budget expenditures hidden under the umbrella of illiquid government "duty losses," which accounted for 13 percent of banking system assets. The government had dramatically influenced financial markets through its high domestic borrowing requirements. Regulation and supervision were fragmented and ineffective. Lax regulations led to excessively large loans to insiders. Furthermore, a full guarantee of depositors' funds, introduced after the 1994 banking crisis, encouraged indifference by depositors to the risks the banks were taking. Many private sector banks turned to arbitrage activities to generate a large share of their profits. Earnings depended on the spread between deposit rates and the high real interest rates on government securities. Half of the balance sheet was in foreign exchange-denominated items.

After the crisis of 2001, a costly recapitalization of the banking system was required.

The first sign of an impending crisis occurred in November 2000, when a private bank (Demirbank) was unable to refinance its stock of government securities. The dispute between the president and prime minister in February 2001 triggered a full-blown crisis. Investors liquidated positions in Turkish lira in expectation of political disarray, resulting in a spike of interest rates as high as 6,200 percent on an annual basis and depletion of the Central Bank's foreign currency reserves.

The authorities were forced to float the lira and abandon the exchange rate peg. Banks with net foreign currency positions suffered an immediate loss. Declines in the value of government bonds depleted bank capital. The recession that followed aggravated the problem through an increase in the nonperforming loans of the corporate sector. As part of the reform package, the authorities had to recapitalize both the state banks and some of the private banks by issuing $23.5 billion worth of government bonds.

Reforms in 2000 and 2001 have brought banking regulation and supervision to near international norms, but the financial sector remains shallow.

In response to the crisis, the authorities undertook a number of reforms. An independent Banking Regulation and Supervision Authority was created in 2000 and took over supervision of the banking sector from the Treasury and Central Bank, thus eliminating the unclear division of responsibilities between these two agencies. Reporting, auditing, and transparency were upgraded, and the regulatory and supervisory framework overhauled. Most bank regulations are now in line with EU standards, and the financial sector is now the area where Turkey is judged by the EU to need the least additional effort to align with EU requirements.

While this represents a quantum improvement in the governance and financial situation of the banking system in Turkey, there is still some way to go. The Turkish financial sector remains shallow for an economy of its size and complexity, with limited financial products available. On the liabilities side, the maturity structure of liabilities (deposits) is still short, although the share of time deposits has increased in recent years from a very low base. On the assets side, credit to the private sector has declined (as a percent of GDP) to only 15–20 percent of the OECD average. The share of government securities is still high, at 37 percent of total assets.

But there are also positive trends: the share of loans in the total assets of the private banks increased by one-third between 2002 and 2004; and banks are looking to expand their business in profitable areas like consumer credit and credit cards. Low inflation and economic expansion are likely to support further development of the sector.

The Bank's contribution. The Bank has been involved in Turkey's financial sector since the early 1980s through the series of SALs during 1980–85 and two Financial Sector Adjustment Loan (FSALs) during the late 1980s. The dialogue between the Bank and the government was interrupted for almost five years until the government requested help from the Bank and IMF for the banking sector in the aftermath of the Asian financial crisis. A joint Bank-IMF mission visited Turkey in October 1997 to review selected issues in the financial sector. The mission's assessment was that the macroeconomic situation posed significant risks for the banking sector, and that serious instability could be triggered if there were no stabilization or a failed stabilization program. In the following years, Bank staff produced two confidential banking sector notes identifying major weaknesses in the sector and urging the authorities to take action.

In 2000 the government requested a large amount of financial support for banking reforms, a sum outside the parameters of the Bank program at that time. Instead, the Bank offered support through a new $750 million FSAL designed to reduce the vulnerability of the banking system and improve its ability to withstand external shocks. Disagreements between the government and the Bank led to delays, and the approval in December 2000 of the FSAL and an IMF standby arrangement were not sufficient to reassure the markets, given the relatively low levels of funding, the overvalued exchange rate, and the evident political disarray in Turkey.

After the crisis, the government accelerated and broadened reforms. With the Bank substantially increasing its support, it was agreed to cancel the undisbursed second tranche of the FSAL and fold it into the PFPSALs. Even though the measures taken under the FSAL were not sufficient to prevent the crisis, the analytic work leading up to it laid a foundation for the post-crisis program and allowed the Bank to react quickly and help design the conditions needed for further reforms in the financial sector.

Significant contributions have also come in the export finance sector. A well-designed Export Finance Loan (EFIL I) eased the credit crunch for exporters by providing medium-term financing during the pre- and post-crisis period. EFIL II, in addition to the credit line, included leasing companies as financial intermediaries. Using leasing companies helped reach small and medium-size exporters who have often had difficulty in obtaining credit from the banking system.

Improve the Management of Infrastructure

Outcome. The Bank's strategy was to support improved investment and operational efficiency of the infrastructure sectors. The Bank's support included three elements: sector transformation (deregulation and competitive liberalization); disengaging the state (reducing or removing subsidies and other financial supports, and professionalizing management); and, where relevant, private entry (through both privatization and encouragement of greenfield entry by private owners and operators).

Turkey turned to the Bank and Fund for assistance with the sector after the Asian crisis.

Subsequent Bank support was too modest to prevent the situation from deteriorating.

Support sector transformation. Major advances have taken place in infrastructure management in Turkey during the period under review. New laws have been passed, new regulatory agencies established, and competitive practices adopted. Most of these changes were made after 2000 (see table 4.1).

Assist in disengaging the state. Disengagement implies the introduction of more rigorous, market-based, competitive management of infrastructure. One measure of this trend is in actual payments made by the Treasury for its contingent liabilities from borrowings by state enterprises or municipal authorities. These payments declined from over $1.7 billion in 1997 to $443 million by 2004. The decline is part of the overall effort to instill fiscal discipline and reduce state participation in infrastructure management.

Encourage private entry. The privatization program proceeded much slower than planned. A number of proposed privatizations were held up by successful court challenges, and others by lack of parliamentary approval. It was expected that eight state enterprises would be in private hands through privatization by 2002. But the only sales by 2004 were two gas distribution companies and one mobile license—actually bought by Turk Telecom, not yet private itself. There were, however, significant gains in private entry into the electric power generation sector through greenfield investments.

The Bank responded quickly to the 2001 crisis with policy and financial support.

Table 4.1: Regulatory Frameworks Created or Enhanced during 1993–2004

Sector and agency	Date created	Role
Infrastructure sectors		
Energy: New energy law and regulatory agency	2001	Full regulatory authority for power, oil and gas, and LPG
Telecommunications: New law to privatize TurkTelecom	2001	Regulation of fixed line, wireless, and value added services
Regulatory authority: TA		
Other sectors		
Banking: new banking law Regulatory Agency: BRSA	2000	Creates fully independent regulatory agency and takes supervision functions out of CB and Treasury
Public Procurement: New PP Law Regulatory agency: PPA	2001	Regulates procurement in all public agencies
Industry technology: new law Regulatory agencies	2000	Regulate, ensure standards for MSTQ Secure IPR
Disaster management:		
Turkey Emergency Management Agency	2000	Information and first responders
Turkish Catastrophic Insurance Pool	2000	Mandatory private home insurance

While privatization has not progressed, new private investment in electricity generation has taken place, yet efficiency of the power system remains disappointing.

If sector regulatory frameworks have been transformed, and if private entry, at least to some degree, has been achieved, what outcomes can be reported on the improvements to efficiency in the infrastructure sectors? In *the power sector*, the growing share of private ownership of power generation (41 percent in 2004), and the increasing importance of more competitive types of ownership—autogeneration and build-own-operate contracts (39 percent of the total) rather than the less competitive build-own-transfer contracts—has meant that more competition in the sector, which is increasingly moving toward a market-based system. However, Turkey still has among the highest power tariffs in the OECD. Further, distribution companies have average loss rates in the range of 18–20 percent and collection rates no greater than 91 percent. This implies that only about 75 percent of all power sold is effectively tariffed, so the distribution companies need higher wholesale tariffs to maintain their viability. Despite much progress in private entry and increased competition, therefore, physical inefficiencies in the system remain unacceptably high.

In water supply, collections are low and system losses high.

The situation in the *water supply and sanitation sector* is similar to that of the power sector. Progress has been made, but high tariffs still penalize consumers and finance internal inefficiencies. The combination of low collection rates and high unaccounted-for water (UFW) amount to a low rate of effective tariffs. Taking the average of 40 percent UFW and collections running at around 70 percent, this implies that effective tariffs in the sector cover only 42 percent of water use. In most OECD countries, effective tariffs are expected to cover around 80 percent of water.

In the *transport sector*, the Bank's main focus during the CAE period was on road improvement and safety. Here the indicators suggest some progress. The roads sector is managed by the General Directorate of Highways (KGM), which is executing a very large investment program. Until recently, the program had so many projects that the average completion time per project was over 22 years. In recent years, more than 130 projects were removed from the program, bringing the completion average to around 13 years. Further, in the period since 1994, overall employment in the agency has been gradually reduced, as a large share of contracting for works was shifted from force account to open bidding. Employment fell from around 35,000 in the early 1990s to around 24,000 in 2004, and in that same year force account represented about 30 percent of contracts, and open bidding accounted for some 70 percent.

In the area of road safety there are some data—covering accident reductions in over 300 "black spots"—that show dramatic improvements. Accidents in these black spots in 1994 totaled about 7,000, resulting in more than 900 deaths. In 2004 there were fewer than 2,000 accidents and only 54 deaths. These are important outcomes in themselves, but they also have positive side effects on, for example, tourism.

The Bank's contribution. During the early and mid-1990s, when the dialogue and the appetite for economic and sector work (ESW) were weak, the Bank pursued its reform agenda almost exclusively through individual investment loans to sector agencies. The preparatory process for these loans was used to deepen the Bank's knowledge and understanding of the power sector, rather than carrying out formal analytic work, which could have been disseminated more broadly.

This approach was well demonstrated in the power sector, where there had been a long lending relationship and excellent dialogue between Bank technical staff and senior officials from TEK, the national power monopoly. While the Bank itself had supported the consolidation of TEK into a single entity during the 1970s, it was later able to influence the government to unbundle TEK into several generation, transmission, distribution, and trading companies and to prepare its various components for selective privatization. The Bank successfully assisted this process with two investment loans, the TEK Restructuring Project (1991) and the National Transmission Grid Project (1998).

When the proposals for build-operate-transfer generating facilities were launched, the Bank was ambivalent. On the one hand, the decision to open the power sector to private investment, even for a limited time, was welcomed as bringing new financing and managerial capacity into the sector. On the other hand, the Bank was concerned about the lack of transparency in the bidding process, the absence of proper regulation, and the fact that the approach, which involved handing back the assets to the government after 20 years, did not encourage proper maintenance of capital. These concerns proved to be well founded. Later the Bank supported the alternative build, own, and operate approach and assisted the government in adopting more transparent bidding procedures for these contracts.

In transport, project implementation efficiency has improved modestly.

In power, the Bank has had a long and close relationship and numerous projects.

In the new climate of reform after 1999, the Bank was able to use the ERL to support agreements on reforms of *sector frameworks*, including, but going beyond, electric power: the new Energy Law and the establishment of EMRA, the energy regulatory agency; the new telecom regulatory body (TRA); and the accelerated privatization program of energy, telecommunications, and other entities. This period also saw the re-emergence of sector studies as a tool of Bank assistance: studies were prepared on energy and environment, the gas sector, municipal finances and water supplies, and railways.

The Bank's impact on reform in the water supply and transport sectors was much less pronounced than in the power sector. The Bank had intervened in the water supply and sanitation (WSS) sector with separate investment projects in four cities: Ankara, Bursa, Antalya, and Cesme. While all were rated satisfactory or moderately satisfactory overall, three were rated as having a modest institutional impact. Moreover, there has been little demonstrated effect from these projects in other cities, which was an important objective. In

Lack of regulation and opaque bidding processes marred an attempt to open the power sector to private investment.

Subsequently, Bank adjustment lending and analytic work laid the basis for regulatory reform.

addition, very little impact seems to have been imparted on central agencies like the State Hydraulic Institute (DSI) or Illerbank, the state bank for financing municipal projects. The Bank did not succeed in creating new mechanisms for handling WSS finances. Following completion of two recent analytic studies, the Bank is now addressing this in a Municipal Services Project.

The Bank was not very active in the transport sector in Turkey, despite the potential role of transport in the economy due to Turkey's unique location on the major transit routes between the Middle East and Europe. In the roads sector, the Bank supported modest gains in efficiency through reductions in the number of employees in KGM (the Highway Agency) and an increase in the share of open bidding as against force account contracting. The most dramatic outcome in this sector—the sharp decline in "black spot" accident rates—has to be attributed to KGM, the agency that designed the strategy and action plan, although the Bank did finance the works.

The Bank's relationship with KGM has been a difficult one. The Bank failed to build a collaborative relationship during the preparation and implementation of the project, and a decision by the Bank in 2002 not to extend the project to allow for completion of certain road, information, and safety components produced a strong reaction from KGM. The Bank's decision was understandable in the context of Turkey's fiscal crisis and the earlier poor performance of the investment portfolio, but in practice it hindered the Bank's capacity to support a critical sector for Turkish development. This said, the project contributed to improved interdepartmental cooperation, and the Traffic Information Center established under the project is a major success.

The framework of public support for Turkish agriculture has undergone major changes.

Enhance Productivity

The Bank's strategy was focused on three areas: productivity in agriculture; development of institutions for technology transfer; and better governance to improve the investment climate.

Help transform agriculture

Outcome. By the end of the period under review, efforts to transform the agriculture sector and support private farming activity had begun to pay off. The irrigation sub-sector had been transformed earlier by the creation of private water user associations and a change to a supporting role for the state water supply agency. In recent years private commodity exchanges have been created, based on a new law to legalize warehouse receipts as tradable tender, and in the grains sector the Turkish Grain Board has virtually stopped buying grains and is now being transformed into a payment agency for the Direct Income Support program. The state agency for providing inputs was liquidated, and privatizations have been accomplished or are under way in some other agricultural SOEs (the alcohol section of TEKEL has been privatized, and the process is under way in the tobacco section; the Kutahya sugar factory has been privatized).

Since most of these changes took place after 2000, it is still early to measure their impact on production and total factor productivity. One evident outcome was that in 2001 and 2002 Turkish prices of agricultural commodities fell relative to world market levels, partly as a result of withdrawal of price supports. A real price index for all farm crops (based on 1997) showed a level of 87.3 for 2001. While studies are still under way to determine the long-term impact on prices and production patterns, in the short term the reforms have had a positive social impact, particularly for the urban poor.

The Bank's contribution. In the early 1990s the Bank supported two projects that straddled the agriculture and environment sectors—the Privatization of Irrigation Project and the East Anatolia Watershed Project. The former contributed substantially to the breakthrough in privatizing irrigation and support for water user associations, while the latter developed a model for watershed management that has been widely replicated. Both projects were rated satisfactory by IEG, although questions were raised about the sustainability and replicability of the East Anatolia project as an environment-focused project because of the high cost per hectare of its forestation component.

However, the Bank did not succeed in supporting the reforms of state institutions in the sector until 2000–2001 when the ERL and the ARIP set in place the reform platform built by the Bank's analytic work. These loans helped change the policy framework to reduce or eliminate product- and input-based subsidy programs. In addition, the ERL supported legislation for validating the status of warehouse receipts as legal tender, and the ARIP helped bring about autonomy for the Agricultural Service Cooperative Unions (ASCUs). The Bank's failure to help the Ministry of Agriculture develop the kind of policymaking capacity that will be needed to deal with the complex issues related to the Common Agricultural Policy of the EU remains an important gap, despite funding technical assistance for that purpose.

Develop institutional support for technology

Outcome. At the start of the period the Turkish private sector was poorly served by the institutional framework to encourage research and development, to protect international property rights, to certify and calibrate products and technology, and to assist local firms to introduce competitive technologies. In an increasingly open economy, and with the long-term prospect of EU accession where strict product certification will be demanded, weakness in these areas would have penalized Turkish products, both at home and abroad.

There have been significant developments over the period. A new law for national product accreditation has been passed, and a new agency now certifies products for export markets, for IS9000, and for other purposes. The Turkish institute for Metrology (UME) has been separated from TUBITAK, the national research institute, and made financially more self-sufficient. It now handles 90 percent of Turkish industry's needs for metrology, against some 10 percent at the start of the decade. This saves Turkish companies time and money, for they previously had to obtain these services abroad. In addition, UME is beginning to export these services to neighboring countries.

The Turkish Standards Institute has been strengthened, as has the Turkish Patents Office. In the early 1990s a trademark application in Turkey took more than 14 months to process; it now takes no more than 6 months. In 2004 Turkey had some 900 trademark attorneys and 685 patent attorneys, compared to 430 and 267, respectively, in 1994—a measure of how the focus on technology protection has grown in the past decade. The Turkish Technology Development Foundation (TTGV), a private agency, has been established to fund technology adaptation to local companies. It has provided $140 million in soft loans to SMEs and other companies, and has made more than 1,400 technology support service (TSS) matching grants. It has also established a venture capital fund. Over time, these developments should be useful in expanding the base of the knowledge economy.

Bank support has been key to achieving these institutional changes but it has not yet succeeded in enhancing the capacity of the ministry.

The Bank's contribution. The development of technology infrastructure was supported by two Bank projects. In building momentum for change and reforming the state agencies involved, the Bank drew on the experience of work in this area in other countries, specifically India and Mexico. By supporting the creation of private agencies as part of its projects, the Bank has helped create potential champions for technology development that did not exist previously.

A series of useful steps have provided Turkish manufacturers with improved technological support.

Better governance to improve the investment climate

Outcome. Resistance to dealing with many of Turkey's structural problems came from the corruption implicit in the functioning of the state banks, the energy sector, and the system of public tendering. The large industrial groups learned to profit from this corruption, but for small and medium-sized enterprises and for potential foreign investors, it has been a major constraint to investment in Turkey. The 2002

Investment Climate Survey reported that, while 28 percent of small enterprises regarded corruption as a major or severe problem, only 8 percent of large enterprises expressed this view. With the increase in budget transparency and the introduction of regulatory frameworks for energy and banking, Turkey took two important steps over the CAE period to tackle corruption at its source.

A further important step was taken after the crisis of 2001 with enactment of a new public procurement law and the reform of the state tendering system. In the previous system bids were kept low initially; after contracts were awarded, cost escalations were approved and paid, with kickbacks to politicians. The new law introduced more transparent bidding procedures with the winning bids made public. This said, the World Bank Institute (WBI) governance indicators suggest deterioration in perceptions of many aspects of Turkey's governance and anti-corruption efforts between 1996 and 2002, with a slight improvement from 2002 to 2004.

Turkey's climate of tolerance for corruption has changed and some important actions have been taken on public contracting.

The Bank has been an important source of support for better governance in recent years.

The Bank's contribution. The Bank provided support for efforts to improve governance, focusing specifically on corruption. The Bank worked closely with TESEV, a Turkish think tank that conducted a series of surveys of corruption that were widely disseminated and created substantial public awareness of corruption. Many of the programs the Bank was supporting in other areas were geared to eliminating sources of potential patronage and rents that had often been misused in the past. These programs included the work done on the state banks, on the energy sector, and particularly the support for reforming the system of state tenders, which was addressed by the new public procurement law.

Ratings reflect progress on institutional development in addition to the quantitative outcomes.

Assessing Second Pillar Outcomes

The overall progress of outcomes for the second pillar is rated moderately satisfactory. The rating reflects the fact that institution building was at the core of the Bank strategy and that the period saw substantial efforts at building institutional and regulatory frameworks. The legal framework has been adapted to the needs of a modern economy: banking regulation and supervision are independent, and the agency has continued to perform effectively in the post-crisis years; the state banks are being managed as commercial entities; there has been a major development in regulatory frameworks for infrastructure operations; the power distribution sector has been restructured in preparation for privatization; and the institutional bases for agricultural growth and technology transfer have been improved. As the quantitative indicators in table 4.2 and box 4.1 show, in many areas these institutional improvements have not yet been translated into efficiency gains. It will be important to monitor progress in these areas closely to ensure that the potential benefits are realized.

Institutional development is rated substantial

As indicated above, regulatory capacity and new legal frameworks have been developed for managing the various sectors, and for this aspect the rating is high. The disappointing feature is that the ministries responsible for programs in the infrastructure sectors, including agriculture, have not developed the capacity to analyze and design the policies and programs needed to achieve outcomes.

Sustainability is rated likely

The lessons of lax management in the financial sector have been learned, and the privatization program is back on track and seems to have genuine political commitment behind it. One worrying dimension is the structure of Turkey's private sector, with the dominance of large family-owned groups and a substantial informal sector. Long-term success is likely to depend on the extent to which the country is able to bridge this divide through the development of medium-

Table 4.2: Second Pillar: Growth, Competitiveness, and Productivity Outcomes

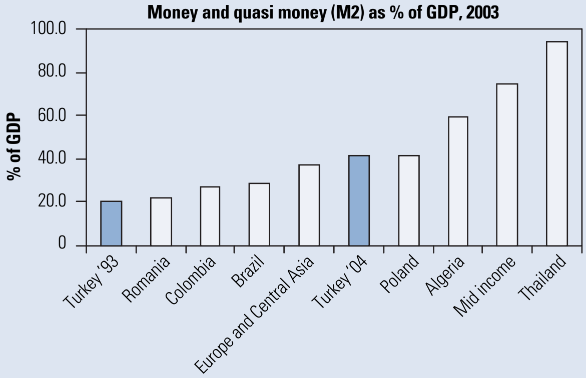
Indicator	Baseline 1993	Outcomes 2004	Comments
GNP growth	3.3 (average 1993–95)	7.6 (average 2002–04)	Although growth was high in final years, the period average was disappointing.
Foreign direct investment, net inflows (percent of GDP)	0.35 (1993)	0.9 (2004)	Increase is from a very low base. Still well below most comparable middle-income countries.
Exports of goods and services (percent of GDP)	13.7 (1993)	28.9 (2004)	Major expansion of textiles, white consumer goods, automobile parts, and the like.
M2/GDP	20	41	Improved significantly but still half the OECD average.
Private sector credit/GDP	18	16	Credit is very small, one-sixth of OECD average.
Time deposits/GDP	8	19	Public confidence improving but still share of long-term deposits of total deposits is very low.
Share of government securities in total assets, percent	11.3	24.3	This remains at a high level.
State-owned banking assets/total assets	37	35	None of 3 State Banks has been privatized.
Nonperforming loans/total loans	3.1	12 (2003)	Higher numbers are positive since they reflect greater realism in loan classification and supervision.
Risk-weighted capital ratio of private banks (percent)	8	26	This ratio is higher than required by international standards.
EIU banking sector risk (0 least risky–100 most risky)	56 (1Q 1997)	63 (Dec 2004)	State ownership and possibility of government crowding out private sector viewed as imposing high risks.
Treasury payment of guarantees ($b)	1.74	0.44	Reflects progress in commercializing state enterprise operations.
Infrastructure SOEs privatized	0	3	Although privatizations were few, a number of useful preparatory steps were taken.
Employment in SOEs	440,110	320,466	A mix of privatizations and retrenchment of excess labor from enterprises.
Power sector:	1994	2004	Progress is mainly in the regulatory and institutional framework. Implementation of changes needed for efficiency remains slow.
Losses (percent)	15	19	
Collections (percent)	n.a.	79	
WSS sector: Unaccounted-for water in four major cities (percent)	48 (1991)	40 1999/2000	Still very high by comparison with OECD averages.
Transport (roads):	1994	2004	Although progress is substantial it still takes far too long to complete projects. The record on road safety is very impressive.
Investment completion (years)	24	13	
Employment in KGM	35,000	24,000	
"Black spot" accidents/deaths	900	54	
WBI Governance Indicator: Control of corruption (Percentile rank – 0–100)	1996 61.3	2004 50.7	Turkey's rankings on this indicator have deteriorated relative to other countries, but the ranking has improved from the 2002 level.

Sources: World Development Indicators, Turkish Banking Association, Ministry of Energy, and World Bank sector and project reports.

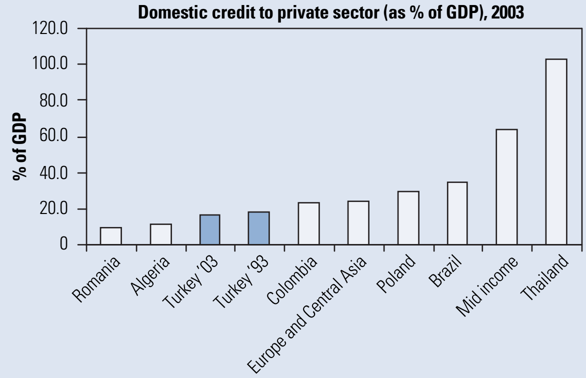
Box 4.1: Pillar Two Outcomes: Mixed Results

The charts below show how several Pillar 2 indicators changed over the CAE period, and how they now compare with those of other countries, and with Regional and middle-income averages. They provide a mixed picture. In the financial sector, there has been substantial financial deepening, with M2 growing as a percent of GDP, but credit to the private sector declined as a percent of GDP, and both indicators are well below the middle-income country (MIC) average. Exports have grown substantially, indicating some competitiveness gains, but foreign direct investment, while higher, is still a small fraction of the MIC average. The relatively poor and falling governance indicators may be a factor here. In the power sector, despite growing private sector participation, the already-high losses are growing.

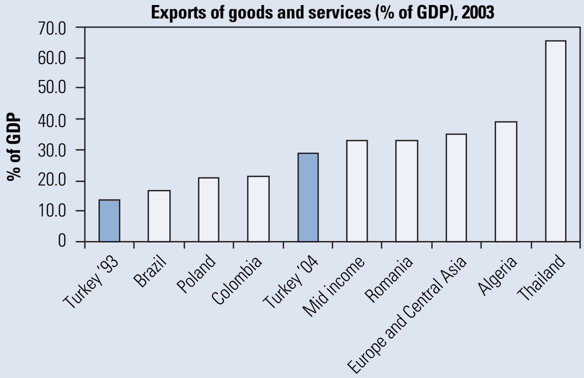
Money and quasi money (M2) as % of GDP, 2003



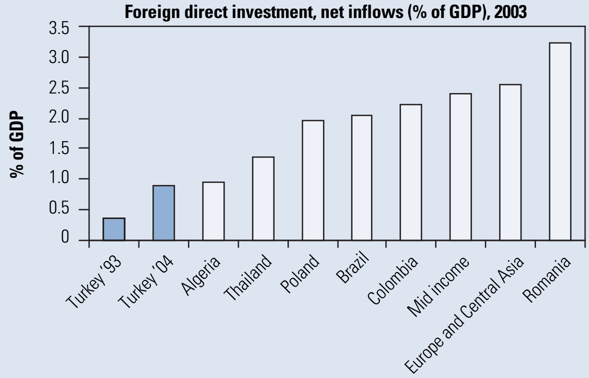
Domestic credit to private sector (as % of GDP), 2003



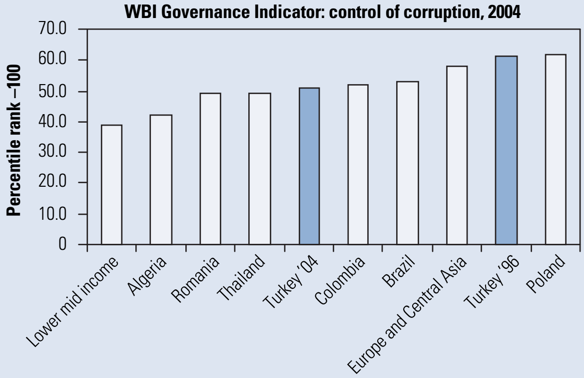
Exports of goods and services (% of GDP), 2003



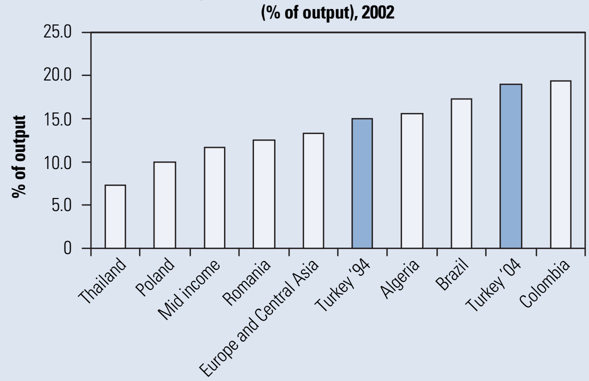
Foreign direct investment, net inflows (% of GDP), 2003



WBI Governance Indicator: control of corruption, 2004



Electric power transmission and distribution losses (% of output), 2002



Source: Table 4.2 and WDI database. Comparator country data are for year indicated in table title. Turkish data are for years indicated by respective data labels.

scale enterprises that draw on small suppliers and in turn provide inputs to the larger groups.

The Bank's Contribution to Second Pillar Outcomes

From fiscal 1994 to 1998, the Bank had little impact. Many of the achievements after 1998 rested on work the Bank had done before 1994. The failure to undertake a serious program of analytic work during this phase was a major lapse and is not fully explained by the lack of receptiveness of the Turkish authorities. The government was open to Bank sector work in infrastructure, technology, agriculture, and private sector development. The Bank was able to advance the reform agenda through its lending activities in power and transport, but overall it seems simply to have ignored the broader growth agenda during this period.

From fiscal 1999 to 2004, the Bank's contribution was more substantial. Adjustment lending operations helped to foster major institutional changes in the financial sector and in agriculture, and promoted some restructuring in power, telecoms, and the state banks, though short of the Bank's goal of privatization. A broader program of analytic work was also undertaken. Sector reports were prepared on the agriculture sector and some of the energy-related sub-sectors. Analyses of the problems of the financial sector were incorporated in the 2000 and 2003 CEMs as well as a number of informal studies.

Limited analytic work constrained Bank impact earlier in the period, but later adjustment loans helped support better regulatory frameworks.

Chapter 5: Evaluation Highlights

- Overall outcomes are uneven, with good results in education and infant mortality, protection of expenditure levels, and modest poverty reduction, but slow in job growth, especially for women, and little progress in reducing regional disparities.
- Low levels of analytic work on poverty and social development left a large "analysis gap" before fiscal 1999, but the gap has narrowed sharply since then.
- Bank operations were also uneven. Some were plagued by implementation problems, while some more recent operations to target social assistance and reform the health sector are highly promising.
- The recent increased focus on collaborative analytic work and building institutional capacities holds promise for a more effective program.

Third Pillar: Poverty Reduction and Social Development

Turkey's efforts to reduce poverty and improve the health and education of its people have taken place against a complex background of initial conditions and underlying trends that combined to make Turkey's agenda for social development extremely challenging:

- While extreme poverty (based on food consumption alone) was quite low in 1994, over 28 percent of households fell below what is now the official poverty line (based on total food and nonfood consumption).
- There were large regional disparities, with per capita incomes in the poorer eastern regions less than half the national average.
- Turkey's health and education indicators were low compared with many other middle-income countries, and lower still in the poorer eastern regions.
- There were also substantial gender disparities: women were much less likely to attend school or find employment, and their labor force participation rate was below 27 percent in 1993, about one-third the level of men's.

Economic growth for most of the review period was slow and erratic, producing little increase in per capita consumption and relatively few jobs. With the working age population growing unusually fast, employment rates dropped.

The benefits of economic growth were not evenly spread across the country. Security problems in large parts of the poorer eastern region undermined investment and growth opportunities there until the late 1990s. In addition, large portions of the workforce shifted out of agriculture and rural areas, with shares of both falling by about 13 percentage points after 1990.

The large loss of rural and agricultural jobs, combined with SOE and public sector downsizing, made it difficult for the rest of the economy to generate enough net new jobs to absorb the growing labor force. Moreover, since female employment was concentrated in agriculture and rural areas, the impact on women's employment was particularly negative.

> *In 1994, 28 percent of households fell below what is now the official poverty line, social indicators were relatively poor, and regional and gender disparities were large.*

Equity, Employment, and Social Protection

Outcome. In terms of ***equitable growth and poverty reduction,*** outcomes have been modest. Poverty declined slightly between 1994 and

2002, with extreme poverty falling from 2.9 percent to 1.4 percent, and total poverty falling from 28.3 percent to 27 percent. This modest decline is consistent with the slow and erratic GDP growth up to 2002 (the year of the most recent available household survey). Turkey's relatively high population growth (1.75 percent per annum, over twice the OECD average) resulted in slow per capita GDP growth, with almost no growth in real per capita consumption.

There was a slight, but statistically insignificant, increase in the already relatively high inequality of consumption. Some observers had anticipated a more significant rise in inequality due to increases in indirect taxes (which can affect the poor adversely) and in interest income (which accrued largely to the rich). The reduction in food costs resulting from removal of agricultural price supports may have helped prevent a significant worsening in consumption distribution in 2001 and 2002. The rapid growth in GDP and consumption since 2002 should have brought a further reduction in poverty by 2004, assuming no offsetting rise in inequality.

Slow growth meant that poverty fell only slightly by 2002, but rapid recovery in consumption since then has probably reduced poverty further.

In ***employment,*** Turkey's growth has not been fast enough, or sufficiently labor-intensive, to absorb the growing working-age population, let alone make inroads into the already significant backlog of unemployment at the beginning of the CAE period. The unusually fast growth in the working-age population, combined with the loss of jobs in agriculture, put large numbers of job seekers into the labor market at a time when growth was slow and volatile. Moreover, the growth that did occur was relatively "jobless," as the volatility of the economy made employers less likely to hire new workers than to extend work hours of existing employees. Also, during much of this period the government sought to reduce public sector employment.

Migration may have prevented regional income disparities from widening.

As a result of these factors, since 1993 the net increase in jobs was about 3.1 million (about 1.5 percent per year), while the working age population grew by over 10 million (about 2.3 percent per year). Thus the employment rate fell fairly steadily over the period, reaching 43.6 percent in 2004, the lowest among OECD countries. Also alarming is the continuing drop in women's participation in the labor force, now down to about 25 percent—the lowest among OECD members and more than 40 percentage points below the OECD average. This figure is partly explained by the decline in agricultural and rural employment. Estimates suggest that 1.1 million new jobs were created in 2004, which supports the hypothesis that sustained growth is the key to generating significant employment gains.

Narrowing the gap between the poorer and the richer regions continues to be a major challenge, with per capita income in the poorest region (Eastern Anatolia) still less than half the national average. During much of the review period, private investment and growth have been concentrated in the western part of the country, while major security problems undermined economic activity in the east. To a large extent, however, the labor shifts described above appear to have prevented a worsening of the regional income disparity, with significant population migration from

Table 5.1: Slow GDP and Job Growth Meant a Declining Employment Rate

Indicator	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Per capita GDP (1987 TL '000)	1624	1507	1586	1666	1759	1782	1669	1762	1603	1701	1772	1916
Employment (m.)	18.5	20.0	20.6	21.2	21.2	21.8	22.0	21.6	21.5	21.4	21.1	21.6
Employment rate (%)	47.5	50.0	50.0	50.2	49.0	49.2	48.7	45.6	46.7	44.5	43.2	43.6

Source: State Planning Office, Government of Turkey, and World Bank Country Office database.

the poorest regions (where population shares declined by about 2 percentage points), into the richest. The net result between 1990 and 2001 was a marginal improvement in the regional distribution of GDP, though the absolute gaps remain large.

The ***social protection*** system, which provides benefits to over 80 percent of the population, faces serious problems. Because most of its benefits go to the middle class, it is not appropriately focused on the most vulnerable populations. Moreover, the pension system, which absorbs over 90 percent of spending on social protection, is running rapidly rising deficits, and the generosity and cost of its benefits may reduce the employment impact of growth. Its growing deficits drain resources that could be used to fund a larger, better-targeted social assistance program. Although it was anticipated that the generous system of severance payments would be phased out or reduced as unemployment insurance was introduced, these payments remain substantial for formal sector employees, particularly those from the public sector. Social assistance needs to be better targeted and better financed, despite the conditional cash transfer program discussed below.

On the positive side, the government has now developed a more systematic capacity to analyze both the broad issues of poverty reduction and social protection, as well as the specific issues of pension reform. One important outcome is a proposal for major reform of the pension system, which has been prepared and submitted to parliament for approval. Although the coverage of unemployment insurance is still limited, it can provide a relatively cost-effective and nondistorting tool for assisting workers to cope with job loss, thus easing the way for future labor market reforms.

The program of direct income support for farmers replaced expensive, nontransparent subsidies with a better-targeted, lower-cost system. Most promising, the social assistance system has been strengthened by a system of conditional cash transfers to support schooling, health services for the poorest six percent of the population, and a system of small grants targeted to raise incomes for the poor. The conditional cash transfers are reaching some 1.7 million beneficiaries, with 60 percent of the beneficiaries in the two poorest regions (East and Southeast Anatolia), which contain 20 percent of the population.

The social protection system is not well focused on the most vulnerable and generates large deficits.

The Bank's contribution. The Bank's main contributions to ***equitable growth with poverty reduction*** came after 1999, through the series of adjustment loans, the ARIP, and three poverty assessments. These actions helped restore the economy to a sustainable path of growth and identify and support policies that could make growth more equitable. The most important of these policies was the removal of agricultural price supports (by the ERL and the ARIP), thereby reducing distortions and lowering food costs to consumers in the short run, and the protection of social spending under the PFPSALs. The Poverty Assessments were particularly important in establishing a framework for analyzing the impact of Turkey's growth strategy on the poor and in identifying ways to reduce poverty more effectively, such as using the conditional cash transfer program mentioned above.

The government has improved its capacity to analyze social issues, and a new component of its social assistance program is well-targeted.

Bank activities made important contributions to poverty reduction by supporting growth and more equitable policies.

The Bank had less impact on ***employment and labor market reforms***, although the low level of employment generation was a matter of serious concern, reflected in analyses in CEMs and Poverty Assessments from 2000 on. A labor market study was under way during the review period, but its interim findings have not yet led to a consensus on an approach to Turkey's labor market issues and priorities. These issues include the slow pace of employment growth; exceptionally low employment rates for women; the impact of pensions, payroll taxes, and severance pay on incentives to hire; and the implications of Turkey's large informal sector for private sector job growth.

Analytic work and lending for employment and labor market reform have not yet had much impact.

Most of the Bank's interventions in this area involved active labor market policies. These had some success, but did not measurably increase employment opportunities or reduce labor market rigidities. While the Employment and Training Project trained and found jobs for more people than originally expected, it is not clear that this caused a net increase in employment, and in any case the numbers trained were a small fraction of the increase in unemployment during the period.

The Privatization Social Support Project seems to have smoothed the SOE privatization process by funding legally mandated severance payments and additional benefits to laid-off workers. But it is less clear that it moved these workers permanently off the government payroll into productive private sector jobs. Reports suggest that the generosity of the benefits and the continuing, though uncertain, prospect of rehiring by the public sector caused large numbers of these workers to reject job offers from new private owners.

One element missing from the Bank's assistance program was microcredit, which has worked in some economies to generate substantial additional jobs in a sustainable way. The Local Initiatives component of the SRMP, which provides repayable grants for small local projects, has some similarities to a microcredit operation and may ultimately have a significant employment impact, but it reached full-scale operations only in 2004, and its impact and sustainability will have to be evaluated in the future.

Bank support for ***social protection*** included both social insurance (unemployment insurance and pensions) and social assistance. The establishment of unemployment insurance (agreed to in the ERL) was a potentially important step, but to date its coverage is limited, and further reforms in its benefit structure and contribution rates are needed for it to fulfill its potential.

The Bank has helped the government build capacity to deal with pension issues, but pensions still need major reforms.

On pensions, the Bank assisted the government in designing the 1999 reforms and supported them under the ERL, generating initial reductions in the fiscal deficit. However, these reforms were not deep enough, and the deficits again began to rise. Since 2002, pension reform has been a consistent component of the dialogue of the Bank and IMF with the government, helping to build an awareness of the seriousness of the problem and a capacity to analyze the options. The government's new round of parametric reforms to correct the underlying imbalances was being considered by the parliament when this review was finalized.

In the area of social assistance, the Bank played a major role through the Emergency Earthquake Recovery Loan and the Social Solidarity Fund (SSF) in getting emergency cash assistance to earthquake victims quickly (IEG 2005b). The Social Risk Mitigation Project (SRMP), including its innovative program of conditional cash transfers, built on the successful experience of the SSF and on the analytical work of the findings of one of the poverty reports mentioned above.

These transfers target assistance to the poorest 6 percent of families in ways that both provide immediate assistance and help lift the next generation out of poverty in a sustainable way: the transfers, made to the mothers, are conditional on children attending school and visiting health clinics to receive inoculations and other basic health care. Thus they also reinforce the health and education operations that are part of Pillar 3. Initial reports of the program's impact are promising. In addition, through the PFPSALs the Bank has helped to protect funding for social assistance programs during the post-2001 fiscal adjustment.

Improving the Health of the People

Outcome. Over the past decade, Turkey's health indicators have improved in some areas, notably in infant mortality, which fell by over 45 percent (see table 5.2). Though still high by OECD standards, Turkey's infant mortality rate is at the Europe and Central Asia Region average and slightly below the average for middle-income countries. Life expectancy has also shown some gains, bringing Turkey slightly above the Europe and Central Asia Region average of 68 years. Life expectancy improved for males and females at about the same rate, with females living about

Table 5.2: Regional Differences in Health Outcomes

Indicator	1993	1998	2003
Births with skilled delivery assistance			
National average (%)	75.90	80.6	84.0
Eastern region (%)	50.30	52.3	59.7
Eastern/national ratio	0.66	0.65	0.71
Infant mortality (per 1,000 live births)			
National average	53	43	29
Eastern region	60	61	41
Eastern/national ratio	1.14	1.42	1.41
Child immunization, % fully vaccinated			
National average (%)	64.70	45.7	54.2
Eastern region (%)	40.60	22.9	34.8
Eastern/national ratio	0.63	0.50	0.64
Contraceptive use, all methods			
National average (%)	62.60	63.9	71.0
Eastern region (%)	42.30	42.0	57.9
Eastern/national ratio	0.68	0.66	0.82

Source: Turkish Demographic and Health Survey, 1993, 1998, and 2003.

7 percent longer than males. Contraceptive use and the percentage of births assisted by trained health personnel have both increased. Public spending on health grew to levels similar to those of the Central and Eastern European countries in the latter part of the 1990s, and those expenditures were protected throughout the post-2001 fiscal adjustment.

These good results are undermined, however, by their uneven distribution across regions (see table 5.2) and income groups and by an inadequate focus on prevention of disease and sickness. Urban areas and much of the western part of Turkey have substantially greater numbers of health care professionals and facilities, as well as better health outcomes, than the rest of the country. Part of the improvement in national averages reflects net migration to these better-off and better-served areas.

In addition, the poorest 20 percent of the population are about half as likely as the richest 20 percent to have any kind of insurance coverage, and are thus less likely to seek health care, even in life-threatening situations. The impact of these factors can be seen in the slower decline in infant mortality in the east (33 percent) than in the nation as a whole (45 percent), even though one might have expected a more rapid decline in the east, where the initial infant mortality rate was much higher (hence offering more scope for rapid gains). The reduction in infant mortality in the east came only after 1998, as security improved and it became easier to implement effective health programs. For some indicators the eastern part of the country improved more rapidly than the national average, but even for these indicators, large gaps remain.

Urban areas and much of the western part of Turkey have substantially better health outcomes than the rest of the country.

The other weakness shown in the indicators is the declining share of public spending on preventive care, despite the substantial rise in total public spending on health. Most of the increase in health spending has gone toward curative care, a shift in the expenditure mix toward less cost-effective interventions. This is reflected in the decline in child immunization: between 1993 and 1998, the percentage of children fully immunized fell by about 20 percentage points. While half of that lost ground was recovered by 2003, DPT (diphtheria, pertussis, and tetanus) coverage, at 68 percent in 2003, is 22 percentage points below the Europe and Central Asia Region average, and even below the world average of 74 percent.

The Bank's contribution. The Bank's two Basic Health Projects sought to improve access to health services by providing additional facilities, training service delivery staff, and improving the management and policy-making capacities of the Ministry of Health (MoH). The first project covered eight under-served provinces in different parts of the country, while the second focused on 23 provinces in the east and southeast where health indicators were the worst.

The assumption was that improved access would result in improved health outcomes. The IEG's review of the first project, which closed in 1999, rated outcomes as marginally satisfactory, noting that although baseline access and utilization data were not available, it was reasonable to assume that access increased where new facilities were operating. The IEG also found that the project contributed to improvements in MoH's capacity by training large numbers of staff and installing a Management Information System, though it noted that policy reform objectives were not achieved due to the unstable political situation. The second project, closed in December 2004, is more problematic. The planned facilities were either not yet complete or, if built, were not yet being used due to lack of staff. The project was given unsatisfactory ratings by IEG in its final project status report.

Both Basic Health Projects experienced major implementation problems, with long delays and large cost overruns. This reflects the political and economic turmoil that prevailed during much of the period: the first project was implemented under nine ministers of health and six undersecretaries; austerity programs at times delayed counterpart funding; and serious security problems in much of the eastern part of the country also delayed implementation.

The Bank's contribution to the health care sector was much more successful after 2001.

The Bank sought to establish a strong Project Coordination Unit (PCU), backed by a Management Services Agreement with UNDP/UNOPS, to improve implementation, but these approaches did not produce good results, apparently undermining the MoH rather than strengthening it. Despite these problems, one constructive critic of the Bank's assistance in health nevertheless argued that the Bank had been valuable, even in these operations, as it "opened our eyes to international thinking and to assessing health interventions in terms of outcomes and improvements in health indicators." Still, the Bank's contribution to outcomes during the period up to 2001 was negligible, especially given the scale of the effort.

In contrast, the Bank's contribution after 2001 was more positive, with the in-depth health sector analysis begun in 2001, the subsequent dialogue with the government, and the resulting Health Transition Project. The sector review, the first since 1986, was of a high technical standard, identifying key issues in Turkey's system and a comprehensive, phased strategy to resolve them. The impact of the review was enhanced by being conducted in a collaborative way, involving the government, the medical profession, academics, and other civil society stakeholders, that helped build public support for, and the government's ownership of, the reform program.

The dialogue following the sector review led to the development of the Health Transition Project (HTP), which is focused entirely on building the systems and capacities needed to implement the first phase of comprehensive health-system reform. The project was designed to restructure the MoH so it can exercise its strategic policy and regulatory roles more effectively, introduce a family medicine model for primary health care, build the capacities to implement universal health insurance, and strengthen the school of public health—all of which should increase the focus on preventive care. Unlike previous operations, the HTP appears to be fully embraced by the government, which adopted the main HTP components as its own reform program in 2002.

Moreover, the government now has the solid majority needed to implement this complex and ambitious set of reforms, and the parliament has already approved legislation to pilot the family medicine approach and adopt more flexible hiring and pay policies. While it will take years for much of the work in these areas to have an impact, some aspects, such as the change in staff pay structures, can bring near-term benefits by attracting staff to more remote facilities. But the reform program is ambitious and controversial, and will need sustained effort and monitoring to achieve success.

The conditional cash transfers discussed earlier should also help support better health outcomes by encouraging the poor, who are least likely to use medical services, to seek prenatal care and routine child immunizations. Finally, the provisions of the PFPSALs helped prevent a decline in spending on preventive care as a share of GDP (even though it declined as a share of total health spending).

Improving Education Access and Quality

Outcome. Over the past decade, Turkey has made substantial gains in school enrollments, especially among girls in primary schools (See table 5.3). These gains followed the 1997 reform of basic education, which extended compulsory primary education from 5 years to 8 years, and launched a major effort to enforce the requirement and ensure that adequate facilities and teachers were available. The increased enrollment was concentrated in children from the poorest 20 percent of households. Secondary school enrollments have also grown rapidly, as the higher numbers of eighth-grade graduates seek further education. The increase in female enrollments at the secondary level kept pace with male enrollments, but there is no sign yet of the gender gap narrowing at this level.

The proportion of the population with tertiary education, while still the lowest among OECD members, also rose significantly (by nearly 30 percent between 1994 and 2002). Adult literacy also registered modest improvement, along with some narrowing of the gender gap. Literacy rates should start improving more rapidly as the much larger numbers of primary school graduates work their way into the adult population.

It was a major achievement that school quality, measured by learning assessment tests, did not decline during this rapid enrollment expansion. Moreover, girls' test scores are not significantly different from boys'. Turkey's establishment of systematic learning assessments and its participation in international assessments are also positive outcomes, giving the country tools to chart future system improvements. However, these assessments give no scope for complacency, as they demonstrate that learning levels are well below what Turkey wants and needs: scores on the national tests average below 50 percent among OECD countries, and only one country scored lower in recent international assessments. Moreover, Turkey's average scores conceal wide variations, with small numbers of high-performing students from elite schools raising the average of the bulk of the students that achieved only the lowest proficiency level.

Spending on education rose over the decade and stayed at fairly high rates even during periods of fiscal contraction. Public spending as a percent of GDP is in the range of a number of comparator countries. As the need for subsidies at the primary level subsides (as the enrollment rates reach 100 percent and as the primary school cohort begins to shrink), resources should become available for qualitative improvements and for selective expansion at other levels. There is also scope for efficiency gains, with better completion rates and some shifts out of forms of education with high unit costs (such as vocational education), and for greater reliance on tuition at the university level to ration demand and finance expansion.

Over the past decade, Turkey made substantial gains in school enrollments, especially among girls in primary schools.

Quality has remained even, despite the enrollment increases, but student achievement is still far below the levels Turkey wants and needs.

The Bank's contribution. At the beginning of the review period, the Bank's education portfolio consisted mainly of a set of operations focused on vocational education that had begun in the 1980s and continued to be implemented in the late 1990s. These projects reflected a view prevalent in Turkey (and in the Bank in the 1980s) that the country's education priorities were vocational and technical training to produce a labor force that would enable the economy to grow and compete in world markets. It was not generally understood that large numbers of children did not complete primary school and therefore lacked the basic skills to learn and adapt on the job to meet the changing needs of the labor market.

The initial portfolio also included the National Education Development Project, which reflected Bank efforts to increase its focus on primary and secondary education and teacher training, and on the managerial capacity of the Ministry of National Education (MoNE). Although the operation was

Bank operations suffered from implementation problems and dialogue was limited.

Table 5.3: Third Pillar: Poverty Reduction and Social Development Outcomes

Indicator	Baseline (1993)	Achievement (2004)	Comment
Poverty rate			
a) Extreme	2.9% ['94]	1.4% ['02]	Poverty now projected in 21–25% range given growth since
b) Total	28.3% ['94]	27.0% ['02]	2002, provided inequality did not worsen significantly.
Per capita GDP, 1987 TL '000	TL 1624	TL 1916	Modest rise over period. After narrowing, regional differ-
Regional difference	.44 ['92-95]	.47 ['99-01]	ences may have widened since 2001.
a) Employment rate	47.5%	43.6%	Large bulge in growth of working-age population and shifts
b) Participation rate			out of agriculture during this period, but also a marked de-
Total	52.1%	48.4%	celeration in job growth.
Female	26.8%	25.3%	
Spending on social protection/GNP	6.08% ['98]	9.03% ['03]	Total social protection spending levels remained well above agreed floor (7% of GDP) during fiscal contraction, but over-spending on pensions indicates serious problem and urgent need for reforms.
Infant mortality (per 1,000 live births)	53	29 ['03]	Substantial (45%) drop: brings Turkey slightly below middle-income average. Decline slower in east.
Life expectancy at birth (years)			
Total population	66.8	68.6 ['03]	Moderate gain and no change in gender differential, which
Female population	69.1	71.0 ['03]	is in line with middle-income country and OECD averages.
Female/total	103.3	103.5 ['03]	
Public health spending			
Total as percentage of GNP	2.15% ['96]	4.85% ['03]	Success in raising and protecting expenditure levels, but
Percentage of total spent on preventive care	12.1% ['96]	6.3% ['01]	offset by declining share of expenditures on preventive care, which remained roughly constant as a share of GDP.
Enrollment rates			
Primary (yrs. 1–8)			
a) Gross	84.27% ['93]	98.17%	Highly significant and rapid enrollment increase after 1997
b) Net	80.1% ['97]	90.0%	reform. Major implications for poverty reduction and labor
Secondary (yrs. 9–12)			market preparation.
a) Gross	52.4% ['97]	84.0%	Rapid increase at secondary level as primary completions
b) Net	45.1% ['97]	78.7%	grew.
Female to male gross enrollment ratios			
a) Primary	85.8% ['97]	95.2%	Significant rise in female primary enrollment relative to
b) Secondary	74.2% ['97]	74.2%	male does not yet show up at secondary level.
Tertiary attainment as percentage of 25–64 age group	7.0 [94]	9.0 [02]	Increase brings Turkey to lower end of OECD range.
Learning assessments			Establishment of regular national assessments a key institu-
Grade 5: Combined subject scores			tional step. While the absolute scores are quite low, and
Male	1.75 (95-7)	1.87 (02)	changes in scores not all statistically significant, it appears
Female	1.79 (95-7)	1.92 (02)	that the large enrollment expansion took place without loss in quality. Scores do not suggest gender differences in learning.
Literacy rates			
Adult total	84.7%	87.9% ['03]	Small relative gain for females should improve over time
Ratio: female to male literacy	.82	.85	given primary enrollment expansion. Literacy in poorest
Regional difference	.84 ['90]	.89 ['00]	region rose relative to national average.
Public spending on education as percentage of GDP	3.10% ['96]	4.47% ['04Pr]	Protection of spending levels during severe fiscal contraction.

Sources: See notes to Annex B, table B2.

better focused strategically than the previous ones, it suffered from numerous implementation problems, many stemming from the continued rapid turnover of MoNE leadership and professional staff (despite a PIU intended to overcome these problems). The efforts to improve MoNE capacity were unsuccessful in this environment, but some progress was made in increasing the focus on general education.

When the government extended compulsory primary education from five years to eight years in 1997, the Bank supported this breakthrough with two Basic Education Projects that contributed to enrollment expansion, especially in rural and slum areas. Learning materials were provided for nearly three million rural students, national learning assessment tests were improved and further institutionalized, and innovative nongovernmental approaches to early childhood education were funded. However, several weaknesses reduced the impact of these operations. The emphasis on information and communications technology as a way to improve quality appears to have been excessive and premature, with continuing problems in procurement and efficient use. Both of these operations have had serious implementation issues and long delays. More generally, there has been little progress in improving MoNE's management effectiveness due to its fragmented, bureaucratic structure and its frequent leadership turnovers (there have been eight ministers over the review period, including three since 2002).

Given the lack of systematic sector work until recently, with no comprehensive sector review since 1986, the Bank appears to have missed an opportunity to underpin a dialogue on strategic issues of quality, equity, efficiency, and finance in education. Instead, until recently the dialogue has been dominated by implementation and procurement issues. In addition to underscoring the importance of timely, high-quality sector work, this experience suggests that a different approach, possibly along the lines of a SWAp, might have been more effective.

In fiscal 2004 the Bank launched a comprehensive Education Sector Study (ESS), which focused on critical policy issues and used a participatory approach to have a wider impact than a traditional sector report. Turkish and international specialists collaborated with the Bank team in preparing background papers on priority issues. The ESS was conducted with the support of the Istanbul Policy Center's Education Reform Initiative (a consortium of interested nongovernmental organizations and stakeholders), which helped the Bank to engage a broader segment of civil society in discussions of the research and findings as they became available. The participation of both governmental and nongovernmental stakeholders appears to be helping to develop consensus and ownership of the results of the study. As in health, the PFPSALs helped protect spending levels during the fiscal crisis, and the SRMP is helping poor families keep their children in school.

But recent collaborative sector work is stimulating a more comprehensive dialogue on critical education issues.

Assessing Third Pillar Outcomes

The overall outcome for the third pillar is rated moderately satisfactory

Poverty reduction and employment growth were modest, due largely to the slow and volatile growth of the economy. Agricultural reforms, however, appear to have brought benefits to the poor by cushioning the impact of the economic downturn of 2001. And consumption growth since 2002 has probably reduced poverty further.

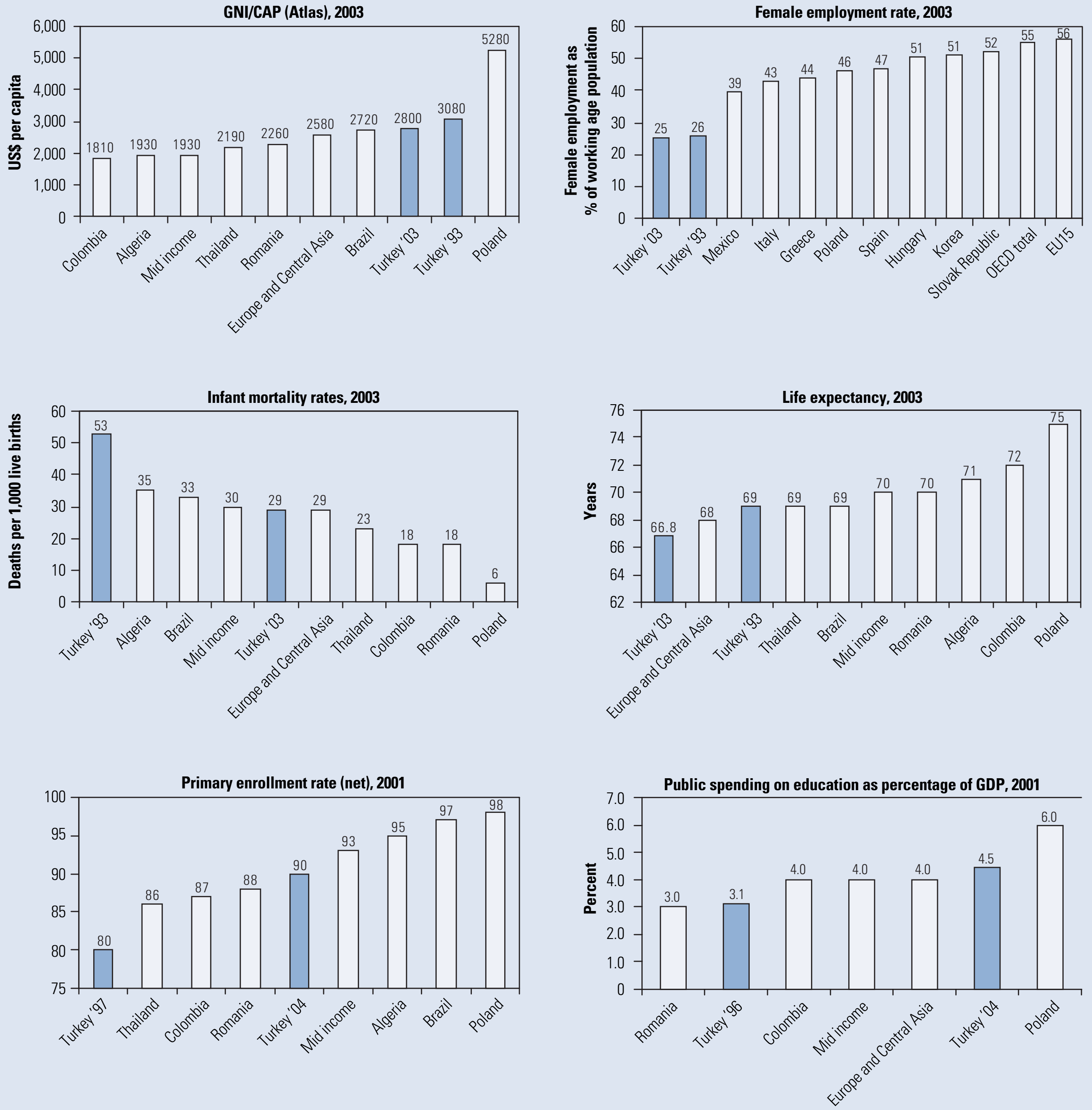
The rapid rise in primary-school enrollments, especially for girls, was a major achievement. It occurred without apparent loss of quality, and is leading to increased enrollments at the secondary level as well. Over time these changes are expected to bring broader social and economic benefits to Turkey.

The 45 percent decline in infant mortality is another major achievement, bringing Turkey into much closer alignment with comparators.

The implementation of a targeted social assistance program, with 60 percent of its 1.7 million beneficiaries in the two poorest regions, is bringing relief to poor families while reinforcing education and health programs. The protection of spending for health, education, and social protection during a time of severe fiscal contraction

Box 5.1: Changes in Turkey's Social Indicators

The charts below show how some of Turkey's important social indicators have changed over time and how they now compare with those of other countries and with regional and middle-income country averages. The charts suggest that most of Turkey's indicators are now in line with the comparators, though there remains substantial room for improvement. The improvements in infant mortality and primary-school enrollments are particularly large. The female employment rate is an important exception, with Turkey having the lowest rate by a wide margin.



Note/sources: Turkish data sources as for table 5.3. Comparator data are for year indicated in chart title and are from World Development Indicators/Global Development Finance database, except for employment rates, which are from OECD's *2005 Factbook*. The comparators vary across charts because data were not available for all countries.

has also been important in maintaining service delivery, and possibly in maintaining social peace in a time of stress.

The declining relative expenditure on preventive medicine, and particularly on immunizations, is a matter of concern, but even here spending has not fallen as a percent of GDP, and immunization coverage has recovered somewhat since 1998. In general, most social indicators, including those for gender and regional inequalities, were trending in the right direction, but at a rather slow pace. Box 5.1 provides a snapshot of some of Turkey's important indicators compared with those of other middle-income countries.

Institutional development during the period is rated as modest

Turkey gained the capacity to carry out poverty analyses, design pension reforms, implement a new targeted social assistance program, and carry out systematic learning assessments. The government restructured primary education as an eight-year compulsory system and established an unemployment insurance system.

But there was a lack of progress in developing the structure and capacity that the line ministries need to design and implement reforms in health and education policies and programs, including engaging the local levels where many social programs will need to be based. The development of the SSF during earthquake relief, and more recently in implementing conditional cash transfers, is an important exception, as is the recent reform effort under way in the Ministry of Health.

Sustainability of third pillar outcomes is likely

The expansion of primary education in particular has set in motion a process that should lead to further gains at other levels. In most areas the question is not whether current trends can be sustained, but whether they can be accelerated to bring Turkey's indicators into closer alignment with those of Europe. It will be important to focus efforts to ensure that promising developments of the recent past—particularly the new conditional cash transfer scheme, the reforms of the MoH, and the dialogue around the education sector study—are sustained.

The Bank's Contribution to Third Pillar Outcomes

In the first part of the review period, the Bank's contribution to the outcomes was small: little investment was made in the analytic work needed to build understanding and consensus, projects were not always well-focused on strategic goals, and several projects were poorly implemented. Efforts were made on the institutional side, but usually through PIUs, which often proved to be counterproductive.

The Bank's contribution in the early part of the review period was small.

Starting around 1999, however, as the first poverty report was being completed, the Bank began to reduce the "analysis gap" with high-quality work on poverty and on health. In June 2005 the Bank completed a participatory, collaborative analysis of education sector issues and a labor-market study. The Bank's response to the 1999 earthquake was quick and effective. Policy-based lending helped to protect social spending during fiscal contraction. Innovative operations have been launched (notably the Social Risk Mitigation Project, which is already reaching 1.7 million poor beneficiaries, and the Health Transition Project). However, implementation problems have persisted in health and education projects, despite reliance on PIUs designed specifically to avoid such problems. Institutional weaknesses continue in the key line ministries (though in the MoH these weaknesses are beginning to be addressed through the HTP).

High-quality analytic work since 1999 has improved outcomes.

The recent initiatives have the potential to make major sustainable contributions to Turkey's efforts to improve the lives of its people and narrow the gaps with Europe. It will take time to realize that potential. It will also take continued strengthening of line ministries to ensure sound policy and program design and implementation.

Chapter 6: Evaluation Highlights

- Turkey faces significant environmental challenges, but the Bank program has not addressed them systematically.
- The Bank did not follow up on its support for the National Environmental Action Plan, and Turkey still has no comprehensive national strategy to address environmental problems.
- Since the 1999 earthquake, the Bank has initiated a program of support for disaster management, which is proceeding slowly but has the potential to deliver important benefits.

Fourth Pillar: Environment and Natural Resource Management

Meeting Environmental Challenges

Outcomes. While some progress was made during the period in addressing Turkey's major environmental challenges, a large agenda remains (see table 6.1).

Much of the progress made so far relates to institutional development: the Ministry of Environment and Natural Resources (MoENR), newly established in the early 1990s and merged with the Ministry of Forestry in 2003, is gaining in capability and has now started to build the technical systems and standards that will be required for conformity to the environment chapter of the EU *acquis communautaire.*[1] Part of this work has involved the spread of knowledge to all government agencies, as well as to the private sector, of the requirements of an Environmental Impact Assessment (EIA) for investment projects.

The phase-out of ozone-depleting substances mandated by the Montreal Protocol has been almost fully accomplished. Significant progress has also been made in reducing ambient concentration of total suspended particulates (TSP) and sulfur dioxide (SO_2) from energy emissions in Turkish cities, mainly by changing from the use of lignite to gas in heating systems. Some progress—but not enough—has also been made in reducing industrial and municipal air and water pollution, although some forms of industrial pollution appear to have worsened during the period.

Progress was made in building awareness of the problem of marine pollution under coastal programs aimed at reducing the effluents into the seas (the Mediterranean Environmental Technical Assistance Program [METAP] and the Black Sea Convention [BSC]), and under the Nitrates Directive of the EU. But more is needed in this area, and a national strategy needs to be developed. The National Environmental Action Plan was prepared during the period, but it does not appear to have been used as a framework for policy.

Turkey has yet to develop a comprehensive national strategy for its wide range of environmental challenges.

Improved *natural resource management* is needed in areas of Turkey where land degradation, soil erosion, and deforestation threaten the livelihood of local communities. Programs have been mounted to involve local communities in community-based natural resource management programs. While the number is not large relative to the number of micro-catchments

[1] The *acquis communautaire* is the body of laws, regulations, treaties, and judicial decisions that comprise EU law, and to which accessing countries must conform.

Table 6.1: Fourth Pillar: Environment and Natural Resource Management Outcomes

Indicator	Baseline	Outcome	Comment
Organic water pollutant (BOD) emissions (000kg per day)	166.2 (1994)	159.2 (2004)	Very marginal improvement over the decade.
Water pollution, textile industry (% of total BOD emissions)	20 (1994)	12 (2004)	Substantial improvements, reflecting technology upgrades.
Water pollution, food industry (% of total BOD emissions)	46 (1994)	49 (2000)	Pollution has worsened.
Water pollution, chemical industry (% of total BOD emissions)	7 (1994)	9 (2000)	Pollution has worsened.
Ambient concentrations of TSP (total suspended particulates) (ug/m3)			Substantial improvements, reflecting fuel substitution from coal to gas in city heating systems.
Ankara	107 (1994)	62 (2000)	
Istanbul	151 (1994)	68 (2000)	
Emissions of NOx per unit of GDP (1994 = 1.00)	1.0 (1994)	0.95 (2004)	Some modest improvement, partly reflecting switch from coal to gas.
Number of Community-Based Resource Management Programs, in microcatchment areas	0 (1994)	80 (2004)	Modest progress relative to number of microcatchments.

Sources: World Development Indicators, World Bank estimates from Ministry of Energy data, and project documents for East Anatolia Watershed Project.
Note: BOD = biochemical oxygen demand.

Wastewater treatment is a significant gap.

in the country (more than 2,000 in total), by 2004 there were some 80 such community-based programs operating. Progress has also been made in expanding access to clean water supplies, in improved solid waste management in cities and towns, and in the collection of wastewater. Today about 81 percent of all wastewater in municipalities is collected. But there has been little increase in the portion of collected wastewater that is actually treated, which is currently only around 51 percent of the total.

The Bank's contribution. The Bank has provided Turkey with little assistance to reduce environmental degradation. The Bank helped address pollution issues through its support for the completion of ODS phase-out under the Montreal Protocol, and an ongoing renewable energy project shows some promise, but these were isolated activities. In other major areas, such as nutrient run-offs from agriculture (a major threat to Black Sea ecology), management of industrial and municipal solid waste, air pollution, and treatment of municipal wastewater, the Bank has had a negligible impact.

Bank support has been limited and not systematic.

Largely missing (even as the regional programs like METAP and the BSC are pressing for this) is the commitment by the government to a national environmental strategy. The National Environmental Action Plan has not been followed up systematically by either the ministry or the Bank.

The Bank had some success in supporting better natural resource management. The new models for local resource management and new methods of inter-ministerial cooperation for rural development, which the Bank supported as part of the East Anatolia Watershed Project, seem to be lasting—if expensive—approaches. A follow-on project is about to be launched using community-driven models for management of national parklands. In contrast, the Bank seems to have had little impact on the Ministry of Environment and Forestry (MEF) as the central body charged with environmental management.

Disaster Management

Outcome. In a period marked by a series of natural disasters, considerable attention has been focused on improving disaster management. Following the relief efforts carried out by the Turkish authorities, with widespread international support, homes, health facilities, schools, and other buildings have been rebuilt to higher earthquake-resistant standards than had been the case. The objectives are to build systems that will help to minimize losses and economic and social disruption and to cushion the economy and the population from the effects of disasters. The Emergency Management Directorate of Turkey (TEMAD) was established to monitor, report, and respond to disasters.

New building codes were enacted, and a new national disaster insurance institution—the Turkish Catastrophic Insurance Pool (TCIP)—was established under a new law that makes it mandatory for all homeowners (not just new buyers, as before) to insure their properties each year against earthquake damage. Actual insurance enrollments fluctuate from year to year, but are generally between 15 and 25 percent (between 1.8 and 2.4 million enrollments). Several factors affect the level of enrollment: ignorance (the system is still quite new); reluctance to declare home ownership, where houses are built without permits, or on unowned land; and the government's continuing assertion that it will give coverage to quake victims, which works as a disincentive to pay the relatively high insurance premium (about $5–$20 a month).

The Bank's contribution. Through four operations, the Bank contributed to disaster management through both emergency relief and programs to mitigate the impact of future disasters. The Bank was the lead agency in designing and dispensing relief, and under the Emergency Earthquake Recovery Loan both broke new ground and set new records in disbursing large amounts of relief through the Social Solidarity Fund.

The Bank's efforts to support mitigation measures and institutions took time to get started, but with each successive disaster relief project, unfinished work was rolled into the new project, thereby raising the share of mitigation in the overall project. By the time of the Marmara Emergency Earthquake Reconstruction (MEER) Project in 1999, the share of mitigation was 64 percent of the total loan amount. The Bank's Board recently approved the €310 million Istanbul Seismic Risk Mitigation and Emergency Preparedness (ISMEP) Project, which is focused exclusively on risk mitigation.

Assessing Fourth Pillar Outcomes and the Bank's Contribution

Overall progress on the fourth pillar is judged moderately unsatisfactory

This rating is a composite of quite disparate ratings for environment, which was given a relatively greater weight in Pillar 4 strategy, and disaster management. While there was some progress on the environment over the period, it is not commensurate with the scale of Turkey's environmental challenges or the challenge that EU accession will present, and is rated moderately unsatisfactory for the period.

No rating is given for disaster management for the first part of the period, but the overall speed and effectiveness of the 1999 disaster relief effort and the progress, albeit slow, in developing institutions and systems to handle disaster risks warrants a moderately satisfactory rating for the more recent years. This contributes to the rating of **modest for institutional development,** offsetting the failure to develop a framework for environmental management.

Sustainability is likely with regard to the environment

The goal of EU accession creates an imperative for the government to step up its efforts in this area. The decision to borrow $400 million from the Bank in 2005 for disaster prevention and management suggests that the commitment in this area will likely be sustained, even as the experience of the 1999 earthquakes recedes in time.

The Bank's contribution to the fourth pillar was a composite of environmental management and disaster preparedness. The Bank had little impact in environmental management. The lack of follow-up on the NEAP, for example, was an important shortcoming. The Bank has had a more substantial impact on disaster management, making valuable contributions to the management of relief efforts, as well as the focus on disaster mitigation going forward.

Chapter 7: Evaluation Highlights

- Overall outcome is moderately satisfactory.
- Institutional development is substantial, particularly in the financial sector and infrastructure.
- Sustainability is likely because the four pillars are on the critical path for EU accession.
- The Bank had little impact in the early period and failed to find the right balance between analytic work and lending.
- The 1997 portfolio clean-up and decentralization followed by support for education reforms and quick response to the 1999 earthquake set the stage for enhanced dialogue, lending, and Bank impact.
- The Bank worked effectively with the IMF after the 1999 and 2001 crises to support critical structural reforms.
- The overall Bank contribution to Turkey has been significant and was more than the sum of the operational parts.

Overall Assessment, Lessons, and Recommendations

Rating the Overall Outcomes

The overall outcome in the four pillars supported by the Bank's strategy is rated as moderately satisfactory. This rating is a composite of the unsatisfactory outcomes from the fiscal 1994–98 period and the much improved outcomes from fiscal 1999–2004.

The unsatisfactory rating for the earlier period reflects the greater weight of the first two pillars, where there was a worsening of some of the key structural indicators. The satisfactory rating for fiscal 1999–2004 reflects good outcomes in achieving macro-stability and a major turnaround in fiscal balances, combined with positive developments in the institutional basis for the financial sector and infrastructure, and in some of the social indicators. In some respects the weaker outcomes in the environment area reflect both Turkey's and the Bank's strategic focus on the macro and financial areas.

Institutional development is rated substantial. Much of the enabling framework of legislation and regulatory institutions was put in place during the period. Important gaps are the failure to strengthen the policy and implementation capacity of the line ministries and to strengthen the framework for governance and anti-corruption.

Sustainability is rated likely, given the institutional development and impetus provided by the negotiations for EU membership.

In evaluating the Bank's contribution to outcomes in the areas of its strategic objectives, the review period divides up somewhat differently from the evaluation of outcomes. From fiscal 1994 to 1996 the Bank's contribution was negligible, largely because of a political environment that was resistant to the policy changes and program design needed for growth and efficiency. The relevant question is not whether the Bank could have done anything that would have made a difference, but whether the Bank program represented an appropriate response to this environment. In an important respect—the balance between analytic work and lending—the program was poorly judged: the large number of small, yet complex, projects with limited ownership by the implementing ministries and agencies meant that substantial resources were diverted into supervision.

The Bank's contribution was negligible in the 1994–96 period.

The failure to carry out formal analytic work during this period reflects government resistance to, or lack of interest in, such analysis. In some areas, however, the authorities would have

Table 7.1: Rating the Overall Outcomes

Pillars	Outcomes	Institutional development impact	Sustainability
1. Macroeconomic stability	Moderately satisfactory	Substantial	Likely
2. Growth, productivity, and competitiveness	Moderately satisfactory	Substantial	Likely
3. Poverty reduction and social development	Moderately satisfactory	Modest	Likely
4. Environment and natural resource management	Moderately unsatisfactory	Modest	Likely
All Pillars	Moderately satisfactory	Substantial	Likely

been open to Bank analysis, and the argument should have been made that it was inappropriate to embark on lending without such analysis. A richer program of analytic work on public expenditure, agriculture, education, health, transport, energy, and environment could have become the basis for improvements in the dialogue and greater awareness of the policy and program needs.

From fiscal 1997 to 1999 the Bank demonstrated a much sharper strategic focus on Turkey—in both its analytic work and management of lending—which produced significant improvements in both its dialogue with the authorities and its effectiveness. The portfolio clean-up in 1997 and 1998 created space for more carefully selected programs. The Bank's decision to support expanded primary education and the quick and effective response to the 1999 earthquake created the basis for the expanded support for policy change in the financial crises of 1999 and 2001. An expanded program of economic and sector work provided the essential underpinnings for Bank policy advice and assisted in building consensus to take the necessary measures and implement programs more effectively.

The strategic focus sharpened in fiscal 1997–99.

Decentralization of the Bank was an important improvement. The capacity and responsibilities of the Country Office were substantially enhanced during this period. While the impact on outcomes during this transitional period remained modest, the Bank's efforts demonstrated that even in a politically difficult environment it is possible to define strategies that enhance the Bank's impact.

The impact on outcomes became substantial from fiscal 2000 to 2004.

From fiscal 2000 to 2004, the Bank's impact on outcomes was substantial. The political environment was much more favorable to Bank policy advice and interventions, and in many (though not all) sectors the Bank absorbed the lessons of the need for collaborative work in order to enhance capacity and build ownership of the programs it supported.

Lessons and Recommendations

The Bank's strategy

From the early 1990s until the end of 2003, the Turkish government's interest in the Bank's advice or financing correlated closely with financial crises. In the future the Bank will need to find areas of engagement and modes of operating that the Turkish government will perceive as useful for creating a more stable macroeconomy and contributing to growth. The agreement at the end of 2004 to begin negotiations for EU accession constitutes a major change in the environment in which the Bank operates in Turkey. The drive for EU accession will likely define economic policy in the years ahead and should provide a foundation for collaborative support between the Bank and Turkish authorities.

This evaluation finds that the Bank's strategy during the period under review was broadly appropriate. Macroeconomic instability was a constraint on sustainable growth and poverty reduction, requiring a focus on fiscal restructuring and increased efficiency in the public sector. While it remains essential that the Bank program addresses these issues, particularly capacities in line ministries to deliver services more effectively, a move to a more balanced approach is now appropriate. Looking forward, the Bank needs to strengthen its analysis and support for (1) improvements in the investment climate, including governance and labor markets, and (2) improved environmental management.

For much of the period, the Bank operated as if the private sector did not need support. Yet the environment for private sector investment in Turkey is not commensurate with its potential competitors in the EU. The failure to attract foreign direct investment is related to both the political and economic instability of the past and specific concerns about governance in the present. The large share of production that takes place in the informal sector is an indication of the governance problems arising from the current framework of incentives, regulations, and payroll taxes. While Turkey's large industrial groups have learned to operate effectively within these constraints, the situation facing foreign investors and domestic small and medium-size enterprises is more difficult. In the future the Bank needs to give much greater prominence to this set of issues, including the linkages between private sector development, job growth, and poverty reduction.

Effective support of the private sector will require closer coordination between the Bank, IFC, and IEG-MIGA. Joint teams of IFC and World Bank staff should follow up on the problems in the investment climate identified by the recent study carried out by the joint Bank/IFC Private Sector Development Vice-Presidency.

During the CAE period the Bank paid little attention to environmental issues, which were crowded out by other issues, especially the efforts to respond to the earthquake disaster of 1999. The Bank's support for mitigating the effects of the earthquakes and helping put in place measures that can provide early warning and reduce the potential impact of future disasters remains important, but needs to be placed in a broader context of Turkey's mixed record of environmental management. Environmental management, and its potential cost, is a high priority for EU accession.

The Bank's mode of operation

The Turkish experience between 1993 and 1998 raises the important issue concerning the way the Bank operates in middle-income countries when adjustment lending is not appropriate because of lack of progress in policy reform. The Bank's experience in Turkey suggests that it is useful to maintain a lending relationship with a country at such times, to maintain the level of the Bank's country and sector knowledge, and to provide some focus for dialogue.

Turkey's drive for EU accession provides an opportunity for consistent Bank engagement during a period of macroeconomic stability.

The EFILs are good examples of interventions that keep the lines of communication open, provide useful funding, and avoid unrealistic complexity and policy conditionality. The projects supported by the Bank in the early 1990s were often either too small and cumbersome, overloaded with technical assistance and barely worth the efforts required to implement them, or overly ambitious—with multiple components, dependent on politically sensitive legislation, and with limited ownership in the line ministries.

Turkey's private sector needs to become more competitive and more technologically sophisticated, both of which require an increase in foreign direct investment.

The Turkish experience underlines the value of well-designed analytic work in positioning the Bank to respond quickly and effectively in middle-income countries when there is a cyclical shift and the demand for Bank lending increases. The Bank's analytic work appears to have been necessary for success not only for adjustment operations but also for effective investment lending. Bank management needs to ensure that a reasonable program of analytic work is safeguarded from the inevitable downward pressures on the budget that occur when the lending program declines.

The analytic work undertaken by the Bank in Turkey looks very different from the work carried out in most other borrowing countries. Until 2000 the output of formal economic and sector work was extremely thin for a country of Turkey's size and complexity, and few Bank documents were sent to the Board or made publicly available. Throughout the period Bank analytic work was made available only to the

The Bank can provide valuable support for environment management, a key for EU accession.

A collaborative operating mode has been a key to success in creating ownership, and needs to be extended.

government (confidentially). This analysis is useful and important work, which even now could help to inform the understanding of the Bank's role. Some effort should be made to systematize these informal products and provide access to them for Bank staff.

There is another important issue, however. The large investment made in Bank analytic work should not be confined to a select group of government officials. As indicated, the Bank's analyses have influenced policy, but, except for the CEMs, they have not done much to promote discussion in the academic community or among the public at large. This is an area where the Turkish government needs to revisit how it relates to the Bank's analytic work, and there needs to be serious discussion of better ways to handle Bank analytic work in the future. The task of final review could be delegated to an advisory panel that includes academics and civil society representatives. Similarly, for lending, the Bank should work collaboratively with stakeholders outside of government, such as NGOs.

The overall impact of the Bank's decentralization in Turkey has been positive. Starting in 1996, the Country Office was strengthened by increasing the number and seniority of both international and local staff, and its effectiveness has been enhanced through the delegation of responsibility from Washington. The increased responsibility for portfolio improvement contributed to the turnaround in 1997–98, and the decentralization of management of 80 percent of the ongoing portfolio has been important to maintaining that improvement. The mission met with Turkish officials, who without exception judged decentralization to be a key factor in the Bank's enhanced dialogue with the government and increased access to policymakers since 1997. In their view, it has also permitted a quicker identification of options for positioning the Bank effectively in the public eye and a more rapid response to policy priorities such as education reform, natural disasters, and economic crises. The speed and quality of the response (based on the expanded program of analytic work) was an important element in the Bank's contribution to outcomes in Turkey during the latter part of the period.

The Bank's activities in Turkey have been more than the sum of the parts, and the success of the program since 1997 positions the Bank well to contribute to Turkey's aspirations for EU accession.

The Bank's impact in Turkey was most effective when it worked collaboratively with the government. In almost all the cases in which studies or projects were identified as being particularly successful, there was a strong collaborative element in the approach. These collaborative activities were rated high in their institutional development impact. The PEIR and the health sector work should be the model for most Bank activities in Turkey, combined where appropriate with participatory approaches that include nongovernmental stakeholders, as in the ongoing Education Sector Study. Collaborative work should be extended to all aspects of the program, including supervision and evaluation work, and collaboration needs to go beyond the government. The role of NGOs in Turkey is evolving rapidly from a once-weak base, and the Bank needs to adapt its programs to support this evolution.

The IEG's CAE retrospective[1] indicated that, in a third of all CAEs, most Bank operations are rated satisfactory, yet the overall impact is less than the sum of the parts. In Turkey the operations present a mixed picture, yet the overall impact of Bank support has been positive, especially since 1999. Why was the Bank able to have this impact in Turkey? Decentralization and a broad program of analytic work were important in setting the stage, so that when a political consensus was reached on the need for structural reforms, the Bank was able to respond quickly. Turkish authorities turned for guidance to the work the Bank had done over the years in agriculture, public expenditure management, banking, energy, pensions, and other areas, all of which became guideposts for needed action. The challenge for the Bank in the coming years will be to work its way out of this job and to promote the development of institutional capacities in Turkey, which can define the policy framework and supporting measures needed for growth, poverty reduction, and EU accession.

[1] *Country Assistance Evaluation Retrospective*, OED, World Bank, May, 2005.

Box 7.1: Summary of Recommendations

1. The Bank should increase the assistance program's strategic focus on private sector development and environment and natural resource management issues by:

- Defining a strategic approach to Private Sector Development in collaboration with IFC and MIGA, drawing on the recent Joint Investment Climate Assessment and leading to a new program of Bank support for PSD, including expanded coverage of issues of governance, anti-corruption, the regulatory framework, and employment impact.
- Expanding the Bank's analytic work on environmental and natural resource management issues and agreeing with the Turkish government on a program of support for Turkey's environmental priorities.

2. The assistance program should maintain an adequate level of well-focused, high-quality analytic work, as it did in the latter part of the review period. The Bank should proceed with lending activities in Turkey only when it is confident that the analytic work—not necessarily the Bank's own—is in place to support the design of programs. This analytic work should be carried out collaboratively, building systematically on the models developed for the public expenditure and education studies, so that it can generate genuine ownership both within the government and the society at large. This collaboration needs to go beyond the government and encompass a more active role for the Bank in ensuring the participation of nongovernmental stakeholders, as well as more systematic dissemination.

3. The Bank should also build collaborative approaches more systematically into its lending, including implementation and monitoring. At the government level, the Bank should seek to work more effectively with the line ministries, with projects implemented through their normal structures, and focus on building sustainable capacities in the ministries when needed. There should be a clear burden of proof for sector staff to demonstrate the justification for organizing an "enclave" activity through a PIU. The Bank should also systematically develop activities to extend the collaborative approach beyond the government, to include NGOs and other civil society stakeholders, again to develop a greater sense of ownership of Bank-supported activities in Turkey.

4. The Bank should assist the Turkish authorities to put in place frameworks for monitoring the key development programs and outcomes, including, for example, the efficiency of Turkish infrastructure, the social impact of pension expenditures, women's labor force participation, progress in health sector reforms, and the range of programs of assistance to the poor such as direct income support for farmers and conditional cash transfers. Nongovernmental stakeholders could play a useful role in this monitoring.

ANNEXES

ANNEX A: THE RELATION BETWEEN THE BANK'S STRATEGY AND PROGRAM

First Pillar: Macroeconomic Stability

Table A1. Public Financial Management

Table A2. Structural Reforms

Second Pillar: Growth, Competitiveness, and Productivity

Table A3. Strengthen the Banking System and Deepen Financial Intermediation

Table A4. Improve Management of Infrastructure

Table A5. Enhance Productivity

Third Pillar: Poverty Reduction and Social Development

Table A6. Promote Equity, Employment, and Social Protection

Table A7 Improve Health Standards

Table A8. Improve Education Coverage and Quality

Fourth Pillar: Improved Environment and Disaster Management

Table A9. Reduce Environmental Degradation

Table A10. Support Better Disaster Management

First Pillar: Macroeconomic Stability

Table A1: Public Financial Management

Bank program	Amount (US$ mn)	Ratings: Outcome/overall assessment	Ratings: Sustainability	Ratings: IDI	Comments
Lending					
Public Financial Management (FY95)	62	MS	L	S	Only the customs component rated satisfactory but the project helped to build a constituency for change in the bureaucracy.
ERL (FY00)	760	S	L	S	Helped tie down the commitment to transparency and to provide back-up for IMF programs for deficit reduction in key structural areas.
PFPSAL I (FY02)	1,100	S	NE	S	
PFPSAL II (FY02)	1,350	MS	L	S	
PFPSAL III (FY04)	1,000				
Analytic work					
CEMs (4)					Viewed as solid reports that provided a useful context for the Bank's dialogue and operations.
PEIR (FY02)					Very effective in building constituency for reform and securing good collaboration.
Dialogue and partnerships					
A central feature of the dialogue throughout the period					
Close collaboration with IMF					Division of labor, with Bank handling public expenditures and IMF covering tax policy.

Note: $450 million of PFPSAL II was disbursed in August 2002. The remaining balance of PFPSAL II was cancelled in June 2003 and was folded into PFPSAL III. For notes to all tables, see end of table A10.

Table A2: Structural Reforms

Bank program	Amount (US$ mn)	Ratings: Outcome/overall assessment	Ratings: Sustainability	Ratings: IDI	Comments
Lending					
ERL (FY00) PFPSAL I, II, III	760	S	L	S	Adjustment lending played an important role in keeping a focus on privatization in the period from 1999 to 2004.
Privatization Implementation Assistance Project (94)	100	U	NE	M	Provided resources for severance payments and enhanced capacity of privatization agency.
ARIP (FY02)	600				Provided resources for severance payments for agricultural parastatals and helped govt. reduce their role in provision of inputs and marketing.
TEK Restructuring (FY01)	300	MS	L	S	Led to the separation of generation, transmission, and distribution to provide a basis for possible later privatization.
Analytic work					
CEMs (4)					In absence of a systematic review of the SOE sector, the CEMs provided useful background information and reviewed progress on privatization.

Note: $450 million of PFPSAL II was disbursed in August 2002. The remaining balance of PFPSAL II was cancelled in June 2003 and was folded into PFPSAL III. For notes to all tables, see end of table A10.

Second Pillar: Growth, Competitiveness, and Productivity

Table A3: Strengthen the Banking System and Deepen Financial Intermediation

Bank program	Amount (US$ mn)	Ratings: Outcome/overall assessment	Ratings: Sustainability	Ratings: IDI	Comments
Lending					
FSAL (FY01)	778	MS	L	S	Aimed to strengthen regulation and supervision of the banking sector. After major crisis, second tranche was cancelled. Many of the components of FSAL were incorporated into PFPSAL I and PFPSAL II.
PFPSAL I (FY02) PFPSAL II (FY02) PFPSAL III (FY04)	1,100 1,350 1,000	MS MS	NE L	S S	PFPSALs series aimed at strengthening BRSA, bringing banking regulations to international standards, restructuring problem banks, privatization of state-owned banks.
EFIL I (FY00)	253	S	L	M	Primary objective was to provide medium-term loans to exporting enterprises hurt by global financial crisis. Secondary objective was to start dialogue with major banks through setting up strict eligibility criteria.
EFIL II (FY04)	303				Followed on EFIL I, added leasing companies, aimed to also reach small and medium-size exporters not serviced by banking sector. End-2004 Implementation Review ratings HS/HS for DO/IP.
Analytic work					
Banking Sector Policy Note 1997–1999					Identified major weaknesses in the banking sector and laid out a foundation for post-crisis program.
Banking System Crisis Impact Assessment, FY01					Assessed the cumulative impact of two banking crises and outlined the critical actions necessary to recover from the damage suffered in the banking sector.
Non-bank financial institutions					The objective was to make an assessment of non-banking sector for future Bank involvement through lending operations. But no follow-up has been mentioned yet in the Bank's program.
Dialogue and partnerships					
IMF					The Bank's assistance to the banking sector has been closely coordinated with the IMF.

Note: For notes to all tables, see end of table A10.

Table A4: Improve Management of Infrastructure

Bank program	Amount (US$ mn)	Ratings: Outcome/overall assessment	Ratings: Sustainability	Ratings: IDI	Comments
Lending					
TEK Restructuring (1991)	300	MS	L	S	Restored financial viability to TEK, began first stages of un-bundling, continued long-standing sector dialogue.
National Transmission Grid (1998)	270				Financed strategic links to neighboring countries, and implemented second and third stages of un-bundling of generation, transmission, distribution, and trading entities. Latest implementation review ratings are S/S. The major institutional changes supported by the project appear sustainable.
WSS Projects					
Ankara Sewerage (1990)	73	S	U	M	Satisfactory progress with physical facilities, less certain progress with instilling improved governance.
Bursa WSS (1993)	130	S	L	M	Satisfactory progress with physical facilities; one case where private operator experience was positive, quite positive efficiency gains; some problems with private contractors.
Cesme WSS (1995)	13				Most successful case of private operator; latest implementation review ratings are S/S.
Antalya WSS (1995)	100	MS	L	S	Satisfactory progress with project facilities, but major conflict between private operator and contractor now in court, interfered with outcomes and put sustainability in question.
Roads Improvement and Safety Project (1996)	250	MS	L	M	Satisfactory progress with program of road improvements, some modest gains in efficiency; dramatic improvement in road safety in "Black Spots," thanks to highly responsive program devised by KGM. Closure of project and cancellation of unused funds seen by some as premature.
ERL (2000) (telecom; power sector frameworks)	760	S	L	S	Significant progress with regulatory reform, little (or slow) progress with privatization. ICR subratings were MS for telecom, MU for energy.
Berke Hydro Plant (1992)	270	HU	U	N	Bank financed private independent power producers (IPP); project started with promise, but was seriously impeded by a hostile private buy-out of the operator ownership; Bank was prudent to cancel the loan.

(Continues on the following page.)

Table A4: Improve Management of Infrastructure ***(continued)***

Bank program	Amount (US$ mn)	Ratings: Outcome/overall assessment	Ratings: Sustainability	Ratings: IDI	Comments
Analytic work					
Efficiency of Gas Distribution (1999)					Underlay the restructuring and privatization strategy for the gas distribution sector, introducing increased competition.
Caspian Oil and Gas (2003) Gas Sector Note (2004)					Follow-on to Baku-Ceyhan TA project. Explored options for moving away from the Turkish National Gas Company (BOTAS) as sole-source gas buyer.
Dialogue and partnerships					
Energy Workshop (1999) ESMAP					Initiated by the country director, in response to request from Ministry of Energy for reform strategy assistance. Led to a series of studies, and fed into ERL action plans for power, gas, and petroleum.

Note: For notes to all tables, see end of table A10.

Table A5: Enhance Productivity

Bank program	Amount (US$ mn)	Ratings: Outcome/overall assessment	Ratings: Sustainability	Ratings: IDI	Comments
Lending					
Technology Development Project, TDP I (1991)	100	MS	L	M	Began process of building public infrastructure, protection systems, and financing for technology; created new institutions (Technology Development Foundation of Turkey—TTGV); failed to get legislative basis for national accreditation agency.
TDP II (1999)	155				Continued work in building institutions, extended funding to increasing circle of companies, succeeded in securing needed National Accreditation Council (NAC) law. Sustainability seems assured, and institutional impact has been substantial. Implementation review ratings HS/HS.
Analytic work					
CEM 2000		S			Laid out macroeconomic basis for expansion of the export sector, and underpinned the EFIL loans. Data as provided by an internal quality assurance group that monitors the Bank's project quality.
Dialogue and partnerships					None

Note: For notes to all tables, see end of table A10.

Third Pillar: Poverty Reduction and Social Development

Table A6: Promote Equity, Employment, and Social Protection

Bank program	Amount (US$ mn)	Ratings: Outcome/overall assessment	Ratings: Sustainability	Ratings: IDI	Comments
Lending					
Employment and Training [93-01]	67	S	L	M	Supported active labor market policies (ALMP).
Privatization Implementation Assistance and Social Safety Net [94-99]	100	U	NE	M	Lack of substantial privatization meant little impact of safety net and ALMP provisions. Project TA contracted the International Labour Organisation (ILO) to carry out detailed analyses of pension system problems.
Emergency Earthquake Recovery Loan [00-01]	253	S	L	S	Counterpart funds used to provide social support payments to earthquake victims through Social Solidarity Fund. PPAR ratings.
Privatization Social Support [01-***05***]	250				Mainly funds severance payments and special additional payments to laid-off SOE employees; also supports relatively small AMLP program. Designed more to ease privatization than reduce poverty. Workers have little incentive to accept private sector job offers. Implementation review ratings S/HS.
Social Risk Mitigation (SRMP) [02-***06***]	500				Highly innovative hybrid operation funding conditional cash transfers to poorest 6% and locally driven small projects. Implementation review ratings S/S.
Econ Ref Ln [00-04]	760	S	L	S	Supported initial reforms of pensions and start of unemployment insurance.
Ag Ref Impl Project [02-***06***]	600				Hybrid operation led to lower consumer food costs and less distorting, more equitable income support to farmers. Likely significant poverty-reducing impact. Implementation review ratings S/MS.
PFPSAL I [02-02]	1,100	S	NE	S	Programmatic Financial and Public Sector SALs: series of PDLs sought to protect social spending levels in time of large fiscal contraction; also supports public expenditure management (PEM) reforms that should build line ministries' capacities for strategic budgeting. PFPSAL III Implementation Review rating S/S.
PFPSAL II [02-03]	1,350	MS	L	S	
PFPSAL III [04-05]	1,000				
PPDPL [pending]					Proposed Programmatic PDL would, inter alia, support reforms in social insurance (pensions and health), social assistance, and labor markets, as well as public service delivery.

(Continues on the following page.)

Table A6: Promote Equity, Employment, and Social Protection ***(continued)***

Bank program	Amount (US$ mn)	Ratings: Outcome/overall assessment	Ratings: Sustainability	Ratings: IDI	Comments
Analytic work					
WID Report [93]					Report on gender issues; published in May 1993.
CEM [96, 00, and 03]					Contained analyses of Social Security Issues.
Living Standards [00]					Initial path-breaking poverty report. Stressed links between growth, employment, and poverty reduction; developed poverty profile; analyzed impact of public spending; and discussed regional and gender issues.
Marmara Earthquake Assessment [99]					Quick, informal assessment to guide response to 1999 disaster.
Poverty [04]					Poverty assessment (PA) that provided analytical base for SRMP.
Gender [04]					To inform CAS preparation.
Joint Poverty Assessment [05]					Recently completed PA done as joint study with Turkish Statistical Agency (SIS).
Labor Market					Long under preparation. CEMs of 2000 and 2003, and PAs of 2000 and 2005 contained interim analyses.
Dialogue and partnerships					
Social Security Reform Dialogue					Dialogue based on initial analysis by ILO-funded by project TA; main findings summarized in 1996 and 2000 CEMs; led to 1999 reforms in ERL; underpins components of Health Transition Project and future reforms to be supported by PPDPL.
UNDP and the U.S. Agency for International Development (USAID) partnership in implementing SRMP					UNDP partnership in mobilizing community participation for local initiatives component; USAID grant funding ($9 mn) of Conditional Cash Transfer component.
SIS Partnership in Joint Poverty Assessment					Poverty analysis now has become a regular part of State Institute of Statistics' work program.

Note: For notes to all tables, see end of table A10.

Table A7: Improve Heath Standards

Bank program	Amount (US$ mn)	Ratings: Outcome/overall assessment	Ratings: Sustainability	Ratings: IDI	Comments
Lending					
Basic Health 1 [89-99]	75	MS	U	M	Aimed to improve health in underserved areas of 10 of Turkey's 67 provinces through improved service delivery and greater financial sustainability and to strengthen management capacity of MoH. Civil works and equipment over 85% of initial project costs. ➢Bank and borrower performance rated unsatisfactory by IEG. Nearly 10-year implementation period. Major issue with size and effectiveness of PIU. Persistent staffing issues.
Basic Health 2 [95-05]	150				Aimed to improve equity of access to health services by construction and staffing of clinics in 23 low-income, underserved eastern and southeastern provinces; and to improve MoH management. Implementation delayed by civil unrest in area [early to late 1990s] and frequent changes in government/MoH leadership. Financed vaccination campaign in late 03. ➢$22.5mn reallocated to meet post-earthquake needs. ➢Closed in December 2004; over 10-year implementation period. At closing, 5 of 23 clinics not yet finished, and no clinic operational. PIU issue continued, but reduced. Quality of supervision assessment = 2 in 2000 and 3 in 2003. Final implementation review ratings U/U.
Primary Health Care Services [97-01]	15	NR	NE	NR	Intended to pilot family medicine approach but implementing legislation never passed. Subsequently restructured to reestablish health services in areas affected by Marmara earthquake in 1999. Disbursed only about $0.3 mn, even after restructuring to meet emergency needs. Unclear why unsatisfactory rating in project completion note changed to NR.
Marmara Emergency Earthquake Project [00-***05***] [health component only]	29				Two small health components in this large [$505 mn] emergency operation: $6.9 mn for adult trauma post-earthquake and $21.6 mn for facility reconstruction. Utilization slow: mental health policy and emergency equipment for health centers still pending in late 2004. Implementation review ratings S/S.

(Continues on the following page.)

Table A7: Improve Heath Standards ***(continued)***

Bank program	Amount (US$ mn)	Ratings: Outcome/overall assessment	Ratings: Sustainability	Ratings: IDI	Comments
Health Transition [04-***08***]	61				Supports preparation and first phase of fundamental, comprehensive reform of health system, including reorganization of MoH; hospital autonomy; family medicine approach; universal health insurance with related reforms of social insurance institutions; and collaborative approach between MoH and Ministry of Labor and Social Security (MoLSS). Based on comprehensive sector study in 2003 and government's Urgent Action Program. QER. Implementation review ratings S/S.
Analytic work					
Public Expenditure and Institutional Review [02]					Contained substantive chapter on health-expenditure issues.
Poverty Assessments [00 & 05]					Chapters on health issues in 2000 and 2005 Poverty Assessments.
National Health Accounts and Burden of Disease					These key building blocks for health sector analysis carried out and funded by the Basic Health 2 project.
Health Sector Study [03]					First comprehensive sector review since Sept. 1986; included major collaboration and dissemination effort; provided analytical base for Health Transition Project [04].
Dialogue and partnerships					
UNDP/UNOPS					Management services agreement to act as procurement agent and management service provider for Basic Health 1 and 2.
UNICEF, WHO, Centers for Disease Control (CDC), MoH					Basic Health 2 (BH2) focus on maternal and child health interventions emphasized by UNICEF. Collaboration on Measles Eradication Program in 2003 and 2004, using funds from BH2.
EU and WHO					Under Health Transition Project, coordination with EU on its grant to MoLSS for Social Security information platform and network, and with WHO on TA for M&E.
MoH					Frequent leadership changes and key staff turnovers limited policy dialogue; MoH institutional reform became possible only recently.

Note: For notes to all tables, see end of table A10.

Table A8: Improve Education Coverage and Quality

Bank program	Amount (US$ mn)	Ratings: Outcome/overall assessment	Ratings: Sustainability	Ratings: IDI	Comments
Lending					
Industrial Schools [85-95]	58	MS	Unc.	N	Aimed to improve quality and quantity of trained manpower by upgrading equipment, curricula, and materials in 39 of 316 existing industrial schools; assisted schools reportedly still functioning better than others, but demand for this type of education reportedly declined. ➢Bank performance rated unsatisfactory, borrower performance satisfactory. (Nearly) 10-year implementation period.
Nonformal Vocational Training [87-95]	59	S	Unc.	N	Bank and borrower performance rated satisfactory. Impact on employment likely negligible.
Industrial Training-2 [88-98]	116	MS	U	M	10-year implementation period. Impact on employment negligible.
National Education Development [90-99]	90	MS	U	M	First operation aimed at general education system; initial focus on raising quality of primary and secondary education and teacher training and on improving management of MONE. Restructured in 1996. Established national assessment test system; piloted expansion of primary coverage; and new early education training of mothers program in partnership with NGO. ➢Bank performance rated unsat; borrower sat. Closed 2 years and 3 extensions after original closing date. Quality of supervision = 3.
Basic Ed-1 [98-03]	300	U	L	N	Focused on capacity expansion and teaching materials in low-income rural and slum areas on introducing IT equipment and programs in selected schools. Serious implementation problems despite PIU. Quality at entry = 3.
Basic Ed-2 [03-***06***]	300				Implementation problems persist. QER; Quality at entry = 3,3. Implementation review ratings U/U.
Analytic Work					
Education and Training Sector [87]					Accepted view that primary enrollment rates were nearly 100%; focused on need to meet perceived skill gaps in the economy; highlighted need for better sector data and for deconcentration of MONE.

(Continues on the following page.)

Table A8: Improve Educationn Coverage and Quality *(continued)*

Bank program	Amount (US$ mn)	Ratings: Outcome/overall assessment	Ratings: Sustainability	Ratings: IDI	Comments
Primary and Secondary Education [91]					Highlighted the substantial coverage gaps in primary and secondary levels (with enrollment rates estimated at 80% for 5-year primary schools and 35% for secondary schools), as well as the need for higher quality.
Public Expenditure and Institutional Review [02]					Contained substantive chapter on education expenditure issues.
Poverty Assessments					Substantive chapter on education issues in 2005 Poverty Assessment; discussion of impact of spending in 2000 Poverty Assessment.
Education Sector Study [***05***]					First comprehensive sector review since Sept. 1986; includes major collaboration and dissemination effort with civil society stakeholders; Still under way, but provided input for recently approved Secondary Education Project. QER.
Dialogue and Partnerships					
Mother and Child Education Foundation (ACEV)					This NGO's innovative program of mothers' training and early childhood education supported thru several projects [Ind Schools, NFVT, NEDP, and BE2].
Education Reform Initiative (ERI)					Partnership with ERI, supported by Sabnaci University, ACEV, and Open Society Institute, to engage civil society stakeholders in dialogue with WB and GoT on education sector issues and the studies being prepared for the Education Sector Study.
European Union					Close collaboration to ensure that EU's parallel grant assistance to secondary education and recently approved Secondary Education Project are consistent and mutually reinforcing.

Note: For notes to all tables, see end of table A10.

Fourth Pillar: Improved Environment and Disaster Management

Table A9: Reduce Environmental Degradation

Bank program	Amount (US$ mn)	Ratings: Outcome/overall assessment	Ratings: Sustainability	Ratings: IDI	Comments
Lending					
ODS Phase-out Grants (94/5)	30	NA	NA	NA	Bank-administered grants made under the Montreal Protocol. ODS phase out now almost complete. No formal ratings available, but appears to have had satisfactory results.
Renewable Energy Project (04)	202				Bank financed IPPs in four medium hydro projects, as part of clean energy program. Shows promise, but take up is somewhat slow. Implementation review ratings S/S.
Analytic work					
Energy and Environment (00)	ESW				Comprehensive survey of major environmental issues facing Turkey as it confronts expansion of energy needs with growth in GDP, and in terms of higher standards demanded by EU membership.
The NEAP (01)	ESW/TA				Bank-initiated action plan, designed to offer assistance to the MEF in addressing environmental issues in a prioritized strategy.
The Clean Air Initiative (03)	NLTA				Part of the overall Energy and Environment follow-on program.
EIA Policy Work for MEF (04)	NLTA				Bank listing of areas in which compliance to EU norms is deficient, and suggestions as to how compliance can be attained over time. TA to MEF, likely impact is modest.
Energy and Environment (04)	ESW				Summarized results of 10 studies, into energy and environment issues arising out of the Energy Workshop of 1999. Contains comprehensive assessment of relevant issues to be addressed as Turkey approaches EU accession.
Dialogue and partnerships					
Energy Workshop (02) ESMAP + JSTCF					Culmination of the Energy and Environment project (10 studies), contained in a Synthesis Report that summarized main findings and issues. Main audience was Ministries of Energy and Environment.

Note: For notes to all tables, see end of table A10.

Table A10: Support Better Disaster Management

Bank program	Amount (US$ mn)	Ratings: Outcome/overall assessment	Ratings: Sustainability	Ratings: IDI	Comments
Lending					
Earthquake Rehab and Reconstruction (93)	285	S	L	M	Mainly dealt with relief and reconstruction, with first attempts at building mitigation capacity.
Emergency Flood and Earthquake Recovery (98)	369	S	L	M	While mitigation capacity-building was greater than in first project, still mainly focused on relief and rehab, in which progress was satisfactory, but IDI was modest.
EERL (00)	253	S	L	M	Record rate of relief disbursement through the Social Solidarity Fund. (PPAR rating)
MEER(00)	505				Substantial increase in mitigation capacity (established TEMAD and TPIC), but both institutions moving forward somewhat slowly. Implementation review rating S/S.
Analytic work					None
Dialogue and partnerships					
Disaster relief and other assistance Aid Coordination					Agencies, with diverse experience and capabilities, from Spain, Japan, Switzerland, the Islamic Development Bank, the EIB, UNDP and UNFPR were all engaged with the Bank (as lead agency) in parallel relief and rehabilitation efforts.

Note: For completed operations, ratings for outcome, institutional development, and sustainability are from the most recent Implementation Completion Reports, IEG Implementation Completion Report Review or Project Performance Assessment Reports. Scales are: HS (highly satisfactory), S (satisfactory), MS (moderately satisfactory), MU (moderately unsatisfactory), U (unsatisfactory), and HU (highly unsatisfactory) for outcomes; H (high), S (substantial), M (modest) or N (negligible) for institutional development impact, HL (highly likely), L (likely), U (unlikely), HU (highly unlikely), or Unc. (uncertain) for sustainability. In some cases ratings of NR (not rated) and/or NE (not evaluable) are given.

For ongoing operations (or those completed too recently to have an Implementation Completion Review), ratings are from last available project status reports/implementation status reports, and rate development objectives/implementation using a scale of HS (highly satisfactory), S (satisfactory). U (unsatisfactory), HU (highly unsatisfactory), NA (not applicable) and NR (not rated). Where available, the Quality Assurance Group quality at entry and quality of supervision ratings are presented. The Quality Assurance Group uses a 1–4 scale (for highly satisfactory, satisfactory, marginal, and unsatisfactory, respectively).

For AAA work, the quality assurance group quality of ESW ratings are used where available. The scales are the same as for quality at entry and quality of supervision.

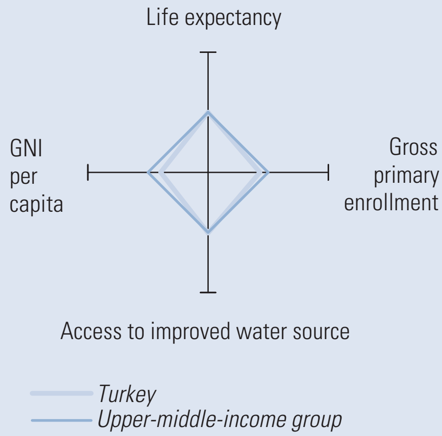
Dates are fiscal year of approval and of closing; closing year of ongoing projects/studies in bold italics; amounts are original loan amounts in US$mn.

ANNEX B: STATISTICAL TABLES

Table B1: Turkey at a Glance

	Turkey	Europe & Central Asia	Upper-middle-income
POVERTY and SOCIAL			
2004			
Population, mid-year (millions)	71.3	472	576
GNI per capita (Atlas method, US$)	3,770	3,290	4,770
GNI (Atlas method, US$ billions)	269.0	1,553	2,748
Average annual growth, 1998–04			
Population (%)	1.5	–0.1	0.8
Labor force (%)	2.2	–0.5	–0.9
Most recent estimate (latest year available, 1998–04)			
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	67	64	72
Life expectancy at birth (years)	69	68	69
Infant mortality (per 1,000 live births)	33	29	24
Child malnutrition (% of children under 5)	8	..	..
Access to an improved water source (% of population)	93	91	93
Literacy (% of population age 15+)	88	97	91
Gross primary enrollment (% of school-age population)	91	101	106
Male	95	103	108
Female	88	101	106

Development diamond*

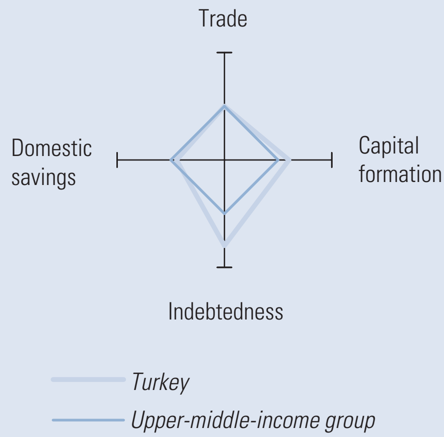


KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1984	1994	2003	2004
GDP (*US$ billions*)	59.9	129.7	240.4	302.8
Gross capital formation/GDP	16.2	21.5	22.8	25.7
Exports of goods and services/GDP	15.6	21.4	27.4	28.9
Gross domestic savings/GDP	..	22.5	19.5	19.9
Gross national savings/GDP	16.4	25.3	19.1	19.9
Current account balance/GDP	–1.9	2.0	–3.3	–5.1
Interest payments/GDP	3.1	3.1	2.9	2.4
Total debt/GDP	36.1	51.1	60.5	53.4
Total debt service/exports	33.0	34.1	38.4	32.6
Present value of debt/GDP	..	..	63.6	56.2
Present value of debt/exports	..	..	211.1	181.9

	1984–94	1994–04	2003	2004	2004–08
(average annual growth)					
GDP	4.5	3.1	5.8	8.9	5.0
GDP per capita	2.3	1.4	4.3	7.5	3.7
Exports of goods and services	6.8	11.1	16.0	12.5	5.7

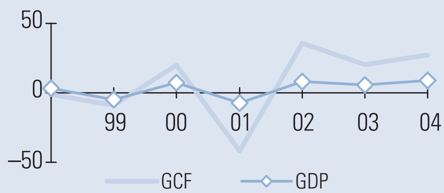
Economic ratios*



STRUCTURE of the ECONOMY

	1984	1994	2003	2004
(% of GDP)				
Agriculture	21.6	16.0	13.4	12.9
Industry	25.0	31.4	21.9	22.4
Manufacturing	16.4	20.2	13.3	13.9
Services	53.4	52.6	64.7	64.7
Household final consumption expenditure	79.6	65.9	66.6	66.9
General gov't final consumption expenditure	8.3	11.6	13.6	13.2
Imports of goods and services	19.7	20.4	30.7	34.7

Growth of capital and GDP (%)



Note: 2004 data are preliminary estimates.
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Table B1: Turkey at a Glance *(continued)*

STRUCTURE of the ECONOMY (continued)

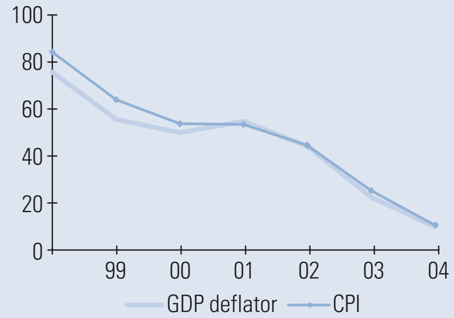
	1984–94	1994-04	2003	2004
(average annual growth)				
Agriculture	1.4	1.0	–2.4	2.0
Industry	5.7	2.4	5.0	8.8
Manufacturing	6.1	3.4	8.4	10.1
Services	3.9	3.3	6.4	8.3
Household final consumption expenditure	3.9	2.3	7.1	10.1
General gov't final consumption expenditure	3.5	3.5	–2.4	0.5
Gross capital formation	5.0	3.0	20.4	27.4
Imports of goods and services	9.2	9.1	27.1	24.7

Growth of exports and imports (%)

PRICES and GOVERNMENT FINANCE

	1984	1994	2003	2004
Domestic prices				
(% change)				
Consumer prices	..	106.3	25.3	10.6
Implicit GDP deflator	48.2	106.5	22.5	9.9
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	21.4	39.6	39.9
Current budget balance	..	–1.2	–5.8	–2.0
Overall surplus/deficit	..	–7.5	–9.1	–4.8

Inflation (%)



TRADE

	1984	1994	2003	2004
(US$ millions)				
Total exports (fob)	7,389	18,106	51,206	67,001
Agricultural and livestock	896	1,066	2,201	2,645
Mining and quarry products	239	263	469	649
Manufactures	6,254	16,777	44,378	59,533
Total imports (cif)	10,757	23,270	69,340	97,540
Food	359	658	404	528
Fuel and energy	3,887	3,771	11,568	14,400
Capital goods	2,675	5,323	11,326	17,397
Export price index *(2000=100)*	107	114	105	122
Import price index *(2000=100)*	118	105	106	120
Terms of trade *(2000=100)*	91	108	99	102

Export and import levels (US$ mil.)

BALANCE of PAYMENTS

	1984	1994	2003	2004
(US$ millions)				
Exports of goods and services	9,546	29,182	70,231	91,029
Imports of goods and services	11,340	26,297	73,736	102,180
Resource balance	–1,794	2,885	–3,505	–11,151
Net income	–1,440	–3,264	–5,559	–5,519
Net current transfers	2,082	3,010	1,027	1,127
Current account balance	–1,152	2,631	–8,037	–15,543
Financing items (net)	1,086	–2,085	12,084	16,367
Changes in net reserves	66	–546	–4,047	–824
Memo:				
Reserves including gold *(US$ millions)*	3,899	16,519	44,957	53,649
Conversion rate *(DEC, local/US$)*	367	29,818	1,496,668	1,421,835

Current account balance to GDP (%)

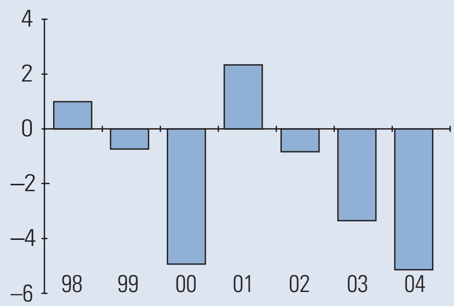


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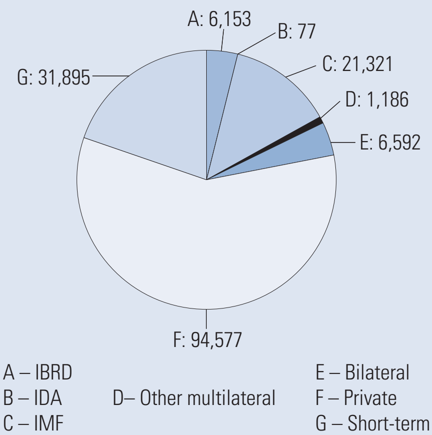
Table B1: Turkey at a Glance ***(continued)***

EXTERNAL DEBT and RESOURCE FLOWS

	1984	1994	2003	2004
(US$ millions)				
Total debt outstanding and disbursed	21,608	66,250	145,367	161,801
IBRD	2,358	5,195	5,214	6,153
IDA	181	136	83	77
Total debt service	3,223	10,259	27,808	30,506
IBRD	325	1,218	719	767
IDA	4	7	7	7
Composition of net resource flows				
Official grants	90	175	150	160
Official creditors	1,061	–605	541	758
Private creditors	277	–30	4,959	6,687
Foreign direct investment (net inflows)	113	559	1,254	1,874
Portfolio equity (net inflows)	0	1,059	1,133	6,064
World Bank program				
Commitments	794	250	300	1,586
Disbursements	628	343	276	1,499
Principal repayments	129	806	502	586
Net flows	500	–463	–226	913
Interest payments	200	419	224	189
Net transfers	299	–882	–450	724

Composition of 2004 debt (US$ mil.)



The World Bank Group: This table was prepared by country unit staff; figures may differ from other World Bank published data.

Table B2: Turkey—Key Economic and Social Indicators, 1990–2003

															Average							
Series name	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Turkey	Algeria	Brazil	Colombia	Romania	Thailand	Europe & Central Asia	World
GDP growth (annual %)	9.3	0.9	6.0	8.0	–5.5	7.2	7.0	7.5	3.1	–4.7	7.4	–7.5	7.9	5.8	3.7	2.3	1.8	2.7	–0.4	5.1	–0.2	2.5
GDP per capita growth (annual %)	6.8	–1.0	4.0	6.0	–7.2	5.2	5.1	5.6	1.3	–6.3	5.6	–9.0	6.2	4.2	1.9	0.3	0.4	0.8	–0.1	4.2	–0.3	1.1
GNI per capita, Atlas method (current US$)	2,270	2,540	2,900	3,080	2,600	2,750	2,820	3,100	3,060	2,800	2,980	2,420	2,510	2,790	2,758.6	1,752	3,434	1,844	1,584	2,177	2,150	4,919
GNI per capita, PPP (current international $)	4,300	4,420	4,700	5,100	4,830	5,200	5,570	6,000	6,150	5,840	6,300	5,870	6,310	6,690	5,520.0	4,786	6,415	5,742	5,586	5,635	5,870	6,459
Agriculture, value added (% of GDP)	18.3	15.8	15.3	16.2	16.0	16.4	17.4	15.1	18.5	16.0	15.4	12.8	13.0	13.4	15.7	10.9	7.8	14.8	18.1	10.0	11.4	4.5
Industry, value added (% of GDP)	29.8	30.5	29.9	29.8	31.4	30.0	27.9	28.2	25.0	24.6	25.3	26.1	23.7	21.9	27.4	52.2	32.2	32.0	40.6	40.4	36.4	31.1
Services and so on, value added (% of GDP)	51.9	53.7	54.7	54.0	52.6	53.6	54.7	56.8	56.5	59.4	59.4	61.1	63.3	64.7	56.9	37.0	60.1	53.3	41.3	49.6	52.2	64.4
Exports of goods and services (% of GDP)	13.3	13.8	14.4	13.7	21.4	19.9	21.5	24.6	24.3	23.2	24.1	33.7	29.2	27.7	21.8	29.7	9.8	18.2	27.2	49.4	34.1	21.6
Imports of goods and services (% of GDP)	17.6	16.6	17.4	19.3	20.4	24.4	27.5	30.4	27.9	26.9	31.5	31.3	30.7	31.0	25.2	24.5	10.1	19.4	33.4	48.1	33.2	21.3
Current account balance (% of GDP)	–1.7	0.2	–0.6	–3.6	2.0	–1.4	–1.4	–1.4	1.0	–0.7	–4.9	2.3	–0.8	..	–0.8	3.7	–2.2	–1.6	–5.0	–0.3	..	..
Total debt service (% of GNI)	4.9	5.5	5.7	4.8	7.9	6.7	5.9	6.2	7.3	10.0	10.3	15.6	15.2	..	8.1	12.7	6.0	7.1	5.2	9.0	5.4	..
External debt (% of GNI)	32.5	33.5	35.3	37.9	50.8	43.1	43.5	44.0	47.5	55.0	58.5	79.0	72.2	..	48.7	60.9	34.0	37.1	20.7	57.6	39.0	..
Real effective exchange rate (period average)[a]	111.9	114.5	109.9	122.9	92.5	100.0	102.7	277.6	118.5	123.1	136.5	112.5	125.3	136.5	..	..	..	..	..	..	..	..
Gross domestic savings (% of GDP)	20.1	19.9	20.9	21.9	22.5	21.0	18.6	19.3	20.6	19.7	17.0	19.2	19.8	19.7	20.0	33.8	20.4	17.2	17.6	33.9	24.5	22.8
Gross capital formation (% of GDP)	24.3	22.7	23.9	27.6	21.5	25.5	24.6	25.1	24.2	23.4	24.5	16.8	21.3	23.0	23.5	28.5	20.6	18.5	23.9	32.8	23.5	22.2
GFCF, private sector (% of GDP)	16.0	16.0	16.0	19.0	19.0	20.0	20.0	21.0	18.0	16.0	16.0	13.0	11.0	11.0	16.6	17.9	17.1	8.8	..	23.9	..	..
Inflation, consumer prices (annual %)	60.3	66.0	70.1	66.1	106.3	88.1	80.4	85.7	84.6	64.9	54.9	54.4	45.0	25.3	68.0	13.9	605.0	18.1	98.6	4.0		
Literacy rate, adult total (% of people ages 15 and above)[b]	78.4	79.4	81.6	84.7	84.1	85.0	84.9	85.1	85.8	86.3	86.5	86.3	87.1	87.9	84.5	61.3	84.5	90.4	97.6	93.7	96.5	74.1
Immunization, DPT (% of children ages 12–23 months)	84.0	72.0	77.0	76.0	87.0	67.0	72.0	79.0	81.0	79.0	85.0	88.0	78.0	68.0	78.1	88.9	82.0	80.1	97.3	93.6	88.9	73.7
Improved sanitation facilities (% of population with access)	87.0	..	..	..	..	..	..	..	..	..	90.0	..	..	..	88.5	92.0	73.5	84.5	53.0	87.5		50.6
Improved water source (% of population with access)	79.0	..	..	..	..	..	..	..	..	..	82.0	..	..	..	80.5	89.0	85.0	92.5	58.0	82.0	90.9	77.5
Life expectancy at birth, total (years)	66.1	..	66.6	66.8	66.9	67.1	67.2	67.4	67.6	67.8	68.0	68.2	68.7	68.6	67.5	69.4	67.1	70.1	69.6	69.0	68.6	66.0
Mortality rate, infant (per 1,000 live births)[c]	64.0	..	..	53.0	..	50.0	..	..	..	..	38.0	..	..	29.0	46.8	42.8	39.8	25.0	21.5	28.0	33.8	59.2

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Table B2: Turkey—Key Economic and Social Indicators, 1990–2003 *(continued)*

Series name	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Average: Turkey	Algeria	Brazil	Colombia	Romania	Thailand	Europe & Central Asia	World
Population growth (annual %)	2.3	2.0	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.7	1.7	1.6	1.6	1.6	1.8	1.9	1.4	1.8	–0.3	0.9	0.1	1.4
Population, total million	56.2	57.3	58.4	59.5	60.6	61.7	62.9	64.0	65.2	66.3	67.4	68.5	69.6	70.7	63.4	28.6	162.6	39.7	22.6	59.1	472.2	5,773.0
School enrollment, preprimary (% gross)	4.7	5.3	5.6	6.2	6.6	7.3	7.9	8.0	6.0	5.9	6.1	6.8	..	..	6.4	2.5	56.3	26.3	62.6	65.8	55.1	35.1
School enrollment, primary (% gross)[d]	99.1	100.2	84.3	84.9	85.2	84.6	84.5	85.6	88.5	94.3	96.2	96.6	96.4	98.2	91.3	105.8	123.5	109.0	96.5	93.7	99.3	102.6
School enrollment, secondary (% gross)[e]	47.3	48.7	51.8	53.4	56.3	57.0	58.2	52.4	56.6	57.0	56.0	60.9	71.3	84.0	57.9	63.9	62.9	61.6	81.3	49.3	84.2	61.4
Unemployment, total (% of total labor force)	8.0	8.0	8.3	8.7	8.4	7.5	6.5	6.7	6.8	7.7	6.6	8.5	10.6	..	7.9	24.4	7.3	12.7	7.0	1.9	8.2	6.0
Urban population (% of total)	59.2	59.8	60.4	61.0	61.5	62.1	62.7	63.2	63.7	64.2	64.7	65.3	65.8	66.3	62.8	55.1	78.8	72.8	54.4	30.6	63.1	45.5
Urban population growth (annual %)	4.6	3.0	2.9	2.9	2.8	2.8	2.7	2.6	2.6	2.6	2.5	2.4	2.4	2.3	2.8	3.0	2.2	2.7	0.0	1.6	0.2	2.3

Source: World Development Indicators, except where indicated.

a. Series used is Real Effective Exchange Rate Index (REER3- CPI) from the Bank of Turkey (official Web site).

b. Updated data from Hosgar 2004.

c. 1993 and 2003 data are from *Turkey Demographic* and *Health Survey* (TDHS), 1993 and 2003.

d. Series revised from 1992/3 on to reflect conversion from 5- to 8-year primary cycle. Calculated from Hosgar 2004 and Dulger 2004.

e. Discontinuity in series to reflect change in structure of primary education: up to 1996 includes grades 6–11; after 1996 includes only grades 9–11. From Hosgar.

Source for text table 5.2.:

1. Poverty Rates from *Joint Poverty Assessment,* State Institute of Statistics and World Bank, December 2004.
2. National and Regional per capita GDP from State Planning Office and World Bank Country Office Database.
3. Employment and Labor Force Data from *Labor Force Survey*, State Institute of Statistics.
4. Spending on Social Protection, Health and Education as percentage of GDP from Country Office Database. Percent of health spending on preventive care from *Reforming the Health Sector for Improved Access and Efficiency,* World Bank, March 2003, Volume I, p.25
5. Infant mortality and life expectancy from *Turkish Demographic* and *Health Surveys*, 1993, 1998 and 2003.
6. Enrollment rates from S. Hosgar, *Status and Trends of Education: Turkey*, (1970–2003), draft report, 2004; and I. Dulger, *Turkey: Rapid Coverage for Compulsory Education Program*, 15 March 2004. Literacy rates from Hosgar.
7. Learning Assessment results from Dr. Giray Berberoǧlu, *Student Learning Achievement in Turkey*, June 2004. Subject scores combined for ease of presentation. Grade 8 scores show similar pattern.
8. Literacy rates and male/female ratios from Hosgar, Op. cit.; regional data calculated from *Provincial Indicators*, 1980–2003, State Institute of Statistics.

Table B3: External Assistance to Turkey, Total Net ODA Disbursement, 1990–2003, in US$ Million

Donor	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Total
Austria	8.1	4.2	1.0	–2.9	–1.7	14.2	13.8	13.0	12.6	13.7	10.6	12.9	13.6	18.1	131.1
Belgium	2.6	6.5	–2.8	–2.9	–3.0	0.2	–4.5	–4.3	–4.6	–3.8	–0.2	–4.3	–5.4	–4.1	–30.5
Finland	2.9	9.3	2.4	–0.4	0.3	–0.1	–1.2	0.3	–0.9	–3.1	0.3	0.7	1.1	0.7	12.3
France	65.0	50.8	54.3	52.3	43.1	18.3	31.5	22.4	28.6	23.4	7.8	3.1	9.1	8.2	417.9
Germany	241.5	174.0	60.4	50.5	25.8	13.4	82.8	24.3	–12.1	5.6	–21.0	66.3	–71.0	–11.4	629.0
Greece							0.1	0.2	0.3	0.9	2.0	0.4	2.1	4.2	10.2
Italy	21.9	20.2	51.3	0.9	–3.0	–6.0	–4.5	–5.6	–2.2	–1.1	–1.8	–1.4	–4.1	–6.7	57.8
Japan	324.2	424.5	21.1	12.7	9.1	33.7	2.7	–21.7	–30.4	–45.6	144.5	–64.6	–15.9	1.0	795.3
Netherlands	0.4	3.5	1.0	–0.5	–1.2	–5.3	–1.4	–0.6	2.8	3.3	0.6	2.4	0.3	5.0	10.4
Norway	1.6	0.1	0.6		0.1	0.3	0.2	0.7	0.8	4.1	1.8	2.9	4.2	7.3	24.4
Spain	0.2	1.0	–0.2	–0.1	–0.2	–0.3	–0.1	–0.1	–0.1	2.6	4.4	8.6	14.2	41.4	71.4
Sweden	0.7	3.0	1.2	1.1	2.4	3.7	4.2	2.2	1.0	1.5	2.6	0.8	1.7	1.5	27.4
Switzerland	1.1	–0.8	6.1	4.2	6.6	5.9	3.4	2.3	2.5	4.5	5.8	3.1	4.3	1.8	50.7
United Kingdom	–8.2	14.7	3.8	13.2	20.7	–0.1	2.2	1.7	1.3	2.3	0.5	–0.2	–0.7	–1.9	49.3
United States	–76.0	225.0	–78.0	133.0	–71.0	101.0	–75.0	–86.0	–72.6	–72.8	–61.9	–59.5	144.5	–43.4	–92.7
Arab countries	630.6	453.9	145.5	140.8	140.0	140.1	167.6	–9.8	6.7	32.8	37.3	54.8	150.1	—	2,090.5
Other bilateral donors	2.0	2.9	–0.2	0.3	0.2	6.4	11.8	2.0	–0.5	15.6	3.1	0.3	1.3	–2.0	43.0
Total bilateral	1,218.5	1,392.8	267.4	402.2	168.1	325.4	233.6	–59.0	–67.0	–16.2	136.4	26.0	249.2	19.8	4,297.3
EC	–24.0	205.1	–23.8	–17.9	–23.3	–13.1	5.9	60.8	81.9	20.3	186.7	142.6	150.8	140.4	892.5
MONTREAL PROTOCOL								0.7	9.1	2.4	0.9	1.1	0.5	4.0	18.7
GEF								0.9	0.9	0.9	0.1	0.3	1.9	0.7	5.7
IDA	–4.0	–4.0	–5.3	–5.9	–5.9	–5.9	–5.9	–5.9	–5.9	–5.9	–5.9	–5.9	–5.9	–5.9	–78.1
IFAD	2.2	–0.7	–0.2	1.8	–0.4	–2.8									–0.1
UNDP	2.9	2.4	2.7	2.2	0.8	1.1	2.0	0.9	1.0	0.6	1.1	0.8	0.9	0.9	20.2
UNTA	0.9	1.0	1.3	1.6	1.1	1.5	1.1	1.2	1.3	1.5	0.9	0.8	0.9	0.9	15.8
UNICEF	1.3	4.0	5.0	3.3	1.8	2.3	2.9	1.8	1.8	1.2	1.1	0.9	0.8	0.9	29.0
UNHCR	1.9	8.7	8.0	5.4	3.8	3.2	4.8	4.5	4.5	4.8	3.9	4.3	5.1	4.4	67.3
WFP	2.7	1.4	3.5	1.0	0.4	0.4									9.5
Other U.N.	5.5	3.5	1.2	0.9	1.2	1.0	1.5	0.6	0.3	0.2	0.3	0.6	0.2	0.1	17.1
UNFPA	0.6	0.8	0.7	0.6	0.8	0.7	0.7	0.7	1.3	0.8	0.5	0.7	0.9	0.9	10.7
Council of Europe	0.0	–0.2	–3.8	1.2											–2.7
Arab agencies	–0.8	–1.3	0.6	–1.7	0.3					0.5	1.2	–2.8	5.2	–1.2	–0.2
Multilateral, total	–10.7	220.7	–10.0	–7.4	–19.6	–11.7	12.9	66.3	96.0	27.3	190.7	143.3	161.3	146.0	1,005.3
EU members, total	335.4	287.9	172.1	111.3	83.0	39.5	123.4	53.3	26.4	44.9	4.4	89.1	–39.3	55.5	1,386.9
Total donors	**1,207.8**	**1,613.5**	**257.5**	**394.8**	**148.6**	**313.7**	**246.6**	**7.2**	**29.1**	**11.2**	**327.2**	**169.3**	**410.5**	**165.8**	**5,302.7**

Source: Geographical Distribution of Financial Flows to Aid Recipients, OECD.

Table B4a: Turkey—Selected Key Economic and Sector Work, 1990–2005

Document title	Date	Report no.	Document type
Gas sector strategy note	09/01/2004	30030	Sector Report
Rapid coverage for compulsory education: the 1997 basic education program	05/01/2004	30801	Working Paper
Explaining and forecasting inflation in Turkey	04/01/2004	WPS3287	Policy Research Working Paper
Is there room for foreign exchange interventions under an inflation targeting framework? Evidence from Mexico and Turkey	04/01/2004	WPS3288	Policy Research Working Paper
Customs modernization initiatives: case studies	01/01/2004	30112	Publication
Energy and environment review—synthesis report	12/30/2003	ESM273	ESMAP Paper
Greater prosperity with social justice policy notes	11/21/2003	27379	Sector Report
Marmara earthquake assessment	09/14/2003	27380	Working Paper
Country economic memorandum: towards macroeconomic stability and sustained growth Vol. 1–3	07/28/2003	26301	Economic Report
Poverty and coping after crises Vol. 1–2	07/28/2003	24185	Sector Report
Non-bank financial institutions and capital markets in Turkey	04/30/2003	25954	Publication
Corporate sector impact assessment report V	03/31/2003	23153	Sector Report
Reforming the health sector for improved access and efficiency Vol. 1–2	03/31/2003	24358	Sector Report
Non-Bank financial institutions and capital markets report	02/28/2003	25467	Economic Report
The World Bank research observer 17 (2)	09/01/2002	30412	Publication
Secondary education and training	08/31/2001	22858	Departmental Working Paper
Public expenditure and institutional review—reforming budgetary institutions for effective government	08/20/2001	22530	Economic Report
Social services delivery through community-based projects	07/31/2001	23307	Working Paper (Numbered Series)
Forestry sector review	06/27/2001	22458	Sector Report
The challenge of urban government policies and practices	01/31/2001	21642	Publication
Measuring banking efficiency in the pre- and post-liberalization environment: evidence from the Turkish banking system	11/30/2000	WPS2476	Policy Research Working Paper
Foreign entry in Turkey 's banking sector, 1980–97	10/31/2000	WPS2462	Policy Research Working Paper
Country economic memorandum—structural reforms for sustainable growth Vol. 1–2	09/15/2000	20657	Economic Report
Financing of private hydropower projects	07/31/2000	WDP420	Publication
The private sector and development: five case studies	07/01/2000	26641	Working Paper (Numbered Series)
Socio-economic differences in health, nutrition, and population in Turkey	05/01/2000	30550	Working Paper
Energy and the environment: issues and options paper	04/30/2000	ESM229	ESMAP Paper
Case studies in participatory irrigation management	02/29/2000	20247	Publication
Social assessment and agricultural reform in Central Asia and Turkey	02/29/2000	WTP461	Publication
Economic reforms, living standards and social welfare study	01/27/2000	20029	Economic Report
Social assessment for the Turkey forest sector review	11/30/1999	22373	Working Paper (Numbered Series)
Partners for development: new roles for government and private sector in the Middle East and North Africa	09/30/1999	19807	Publication
Increasing the efficiency of gas distribution—Phase 1: case studies and thematic data sheets	07/31/1999	ESM218	ESMAP Paper
Capital flows, macroeconomic management, and the financial system—Turkey, 1989–97	07/31/1999	WPS2141	Policy Research Working Paper
Evaluating the impact of active labor programs: results of cross country studies in Europe and Central Asia	06/30/1999	20131	Working Paper (Numbered Series)
Deregulating technology transfer in agriculture: reform's impact on Turkey in the 1980s	03/31/1999	WPS2086	Policy Research Working Paper
The private sector and development: five case studies	09/30/1998	23471	Publication
The 1994 currency crisis in Turkey	04/30/1998	WPS1913	Policy Research Working Paper
Tax reform in developing countries	12/31/1997	17284	Publication
The effects of financial liberalization and new bank entry on market structure and competition in Turkey	11/30/1997	WPS1839	Policy Research Working Paper
The effects of hyper-inflation on accounting ratios—financing corporate growth in industrial economies	08/31/1997	17077	Publication
Easing barriers to movement of plant varieties for agricultural development	07/31/1997	WDP367	Publication
Intensified systems of farming in the tropics and subtropics	06/01/1997	WDP364	Publication
Industrial evolution in developing countries: micro patterns of turnover, productivity, and market structure	12/31/1996	16196	Publication

Table B4a: Turkey—Selected Key Economic and Sector Work, 1990–2005 ***(continued)***

Document title	Date	Report no.	Document type
Economic implications for Turkey of a customs union with the European Union	05/31/1996	WPS1599	Policy Research Working Paper
Challenges for adjustment Vol. 1–3	04/01/1996	15076	Economic Report
Governance, leadership, and communication—building constituencies for economic reform	01/01/1996	30615	Working Paper
Uneven governance and fiscal failure: the adjustment experience in Turkey	09/30/1995	15258	Working Paper (Numbered Series)
Institutional influences on economic policy in Turkey: a three industry comparison	07/31/1995	15141	Working Paper (Numbered Series)
Trade reform, efficiency, and growth	03/31/1995	WPS1438	Policy Research Working Paper
Informal settlements, environmental degradation, and disaster vulnerability: the Turkey case study	01/01/1995	14955	Publication
An introduction to the microstructure of emerging markets	11/30/1994	IFD24	Publication
Voting for reform: democracy, political liberalization, and economic adjustment	06/30/1994	13349	Publication
The World Bank economic review 7(2)	05/31/1993	17646	Publication
Women in development	05/31/1993	11922	Publication
Informatics and economic modernization	03/31/1993	11839	Publication
Economic crises and long-term growth in Turkey	01/31/1993	11744	Publication
The impact of financial reform: the Turkish experience	12/31/1992	11688	Departmental Working Paper
Political economy of policy reform in Turkey in the 1980s	12/31/1992	WPS1059	Policy Research Working Paper
Los Angeles, Mexico City, Cubatao, and Ankara—Efficient environmental regulation: case studies of urban air pollution	08/31/1992	WPS942	Policy Research Working Paper
Piecemeal trade reform in partially liberalized economies: an evaluation for Turkey	08/31/1992	WPS951	Policy Research Working Paper
Tax incentives, market power, and corporate investment: a rational expectations model applied to Pakistani and Turkish industries	05/31/1992	WPS908	Policy Research Working Paper
External debt, fiscal policy, and sustainable growth in Turkey	03/31/1992	10556	Publication
Inflation stabilization in Turkey: an application of the RMSM-X model	01/31/1992	WPS845	Policy Research Working Paper
Public sector debt, fiscal deficits, and economic adjustment: a comparative study of six EMENA countries	01/31/1992	WPS840	Policy Research Working Paper
The political economy of poverty, equity, and growth in Egypt and Turkey	12/31/1991	10368	Publication
Foreign trade and its relation to competition and productivity in Turkish industry	02/28/1991	WPS604	Policy Research Working Paper
Lessons from tax reform: an overview	01/31/1991	WPS576	Policy Research Working Paper
Privatization in Turkey	11/30/1990	WPS532	Policy Research Working Paper
A RMSM-X model for Turkey	08/31/1990	WPS486	Policy Research Working Paper
A strategy for managing debt, borrowings, and transfers under macroeconomic adjustment	06/30/1990	8777	Publication
Turkey: export miracle or accounting trick?	04/30/1990	WPS370	Policy Research Working Paper
Debt management and borrowing strategy under macroeconomic adjustment	02/21/1990	7732	Economic Report
Inflation, external debt, and financial sector reform: a quantitative approach to consistent fiscal policy	08/31/1989	WPS261	Policy Research Working Paper
The internal transfer problem: Turkey	07/31/1989	IDP46	Internal Discussion Paper
Unemployment, migration, and wages in Turkey 1962–85	07/31/1989	WPS230	Policy Research Working Paper
Economic adjustment in Algeria, Egypt, Jordan, Morocco, Pakistan, Tunisia, and Turkey	07/31/1989	EDI15	Publication
CAS Documents			
Country Assistance Strategy Vol. 1	8/6/97	16992	Country Assistance Strategy Document
Country assistance strategy Vol. 1	11/28/00	21408	Country Assistance Strategy Document
Country assistance strategy progress report (CASP) Vol. 1	7/10/01	22282	CAS Progress Report
Country Assistance Strategy Vol. 1 of 1	10/2/03	26756	Country Assistance Strategy Document

Source: Imagebank, data as of 01/10/05.

Note: Excluded from this list are 11 reports that have not yet been disclosed.

Table B4b: Turkey—List of IBRD/IDA-Approved Projects, 1990–2004

Project ID		Approval fiscal year	Sector Board	IBRD/ IDA	Latest DO	Latest IP	Latest risk rating	Project status	Date, rev closing	Outcome	Sustainability	Institutional development
P048852	NAT'L TRNSM GRID	1998	Energy and Mining	270	S	MS	M	Active	12/31/2005			
P009073	INDUSTRIAL TECH	1999	Private Sector Development	155	HS	S	M	Active	12/31/2005			
P068368	MARMARA EARTHQUAKE EMG RECON	2000	Urban Development	505	S	S	S	Active	5/31/2005			
P069894	PRIV SOC SUPPRT	2001	Social Protection	250	S	HS	N	Active	12/31/2005			
P070286	ARIP	2002	Rural Sector	600	S	MS	S	Active	12/31/2005			
P074408	SRMP	2002	Social Protection	500	S	S	M	Active	6/30/2006			
P059872	BASIC ED 2 (APL #2)	2003	Education	300	U	U	M	Active	2/28/2006			
P070950	ANATOLIA WATERSHED REHAB	2004	Environment	20	S	S	M	Active	6/30/2012			
P072480	RENEW ENERGY	2004	Energy and Mining	202	S	S	S	Active	6/30/2010			
P074053	HEALTH TRANSIT (APL #1)	2004	Health, Nutrition and Population	61	S	S	S	Active	12/31/2007			
P082801	EFIL 2	2004	Financial Sector	303	HS	HS	N	Active	9/30/2009			
P082996	PFPSAL 3	2004	Economic Policy	1,000	S	S	S	Active	6/30/2005			
P008974	AG.EXTN. II	1990	Rural Sector	63	S	U	S	Closed	6/30/1998	MODERATELY SATISFACTORY	UNCERTAIN	MODEST
P009029	NATL ED DEVT	1990	Education	90	S	S	M	Closed	6/30/1999	MODERATELY SATISFACTORY	UNLIKELY	MODEST
P009061	ANKARA SEWERAGE	1990	Water Supply and Sanitation	173	S	S	M	Closed	2/28/1999	SATISFACTORY	UNCERTAIN	MODEST
P009036	PRIVATE INVESTMENT C	1991	Financial Sector	200	S	S	M	Closed	6/30/1997	UNSATISFACTORY	HIGHLY UNLIKELY	SUBSTANTIAL
P009051	STATE AND PROVINCIAL	1991	Transport	300	S	S	N	Closed	12/31/1997	MODERATELY SATISFACTORY	LIKELY	NEGLIGIBLE
P009058	TECHNOLOGY DEVELOPME	1991	Public Sector Governance	100	S	S	M	Closed	12/31/1998	MODERATELY SATISFACTORY	LIKELY	MODEST
P009071	TEK RESTRUCT	1991	Energy and Mining	300	S	S	N	Closed	12/31/2000	MODERATELY SATISFACTORY	LIKELY	SUBSTANTIAL
P009019	BERKE HYDRO PLANT	1992	Energy and Mining	270	HU	HU	#	Closed	12/31/1997	HIGHLY UNSATISFACTORY	UNCERTAIN	NEGLIGIBLE
P009044	AGRIC RESRCH	1992	Rural Sector	55	S	S	M	Closed	4/30/2001	MODERATELY SATISFACTORY	UNLIKELY	MODEST
P009097	TA FOR TREASURY DATA	1992	Public Sector Governance	9	S	S	N	Closed	6/30/2000	SATISFACTORY	LIKELY	SUBSTANTIAL
P009023	E ANATOLIA WATERSHED	1993	Rural Sector	77	S	S	M	Closed	9/30/2001	SATISFACTORY	LIKELY	SUBSTANTIAL
P009064	EMPLOYMENT & TRG	1993	Social Protection	67	U	S	S	Closed	12/31/2000	SATISFACTORY	LIKELY	MODEST
P009065	BURSA WATER & SANITATION	1993	Water Supply and Sanitation	130	S	S	N	Closed	6/30/2001	SATISFACTORY	LIKELY	MODEST
P009099	EARTHQUAKE REHAB & RECONSTRUCT	1993	Urban Development	285	S	S	N	Closed	6/30/2000	SATISFACTORY	LIKELY	MODEST
P009102	PRIV IMPLMT	1994	Private Sector Development	100	U	U	S	Closed	12/31/1999	UNSATISFACTORY	NON-EVALUABLE	MODEST
P009076	HEALTH 2	1995	Health, Nutrition and Population	150	U	U	H	Closed	12/31/2004			
P009093	ANTALYA WS & SANITATION	1995	Water Supply and Sanitation	100	U	U	H	Closed	6/30/2003	MODERATELY SATISFACTORY	LIKELY	SUBSTANTIAL
P035759	PUB FIN MGMT	1996	Public Sector Governance	62	S	S	S	Closed	12/31/2002	MODERATELY SATISFACTORY	LIKELY	SUBSTANTIAL
P038091	ROAD IMPRVMT & TRAFFIC SAFETY	1996	Transport	250	S	S	M	Closed	3/31/2003	MODERATELY SATISFACTORY	LIKELY	MODEST
P009095	PRIM HEALTH CARE SERV	1997	Health, Nutrition and Population	15	S	U	H	Closed	6/30/2001	NOT AVAILABLE	NON-EVALUABLE	NOT AVAILABLE
P045073	BAKU-CEYHAN OIL EXP PIPE TA	1997	Energy and Mining	5	S	S	N	Closed	3/31/1999	SATISFACTORY	LIKELY	MODEST
P008985	CESME WS & SEWER	1998	Water Supply and Sanitation	13	S	S	S	Closed	12/31/2004			
P009072	PRIV OF IRRIGATION	1998	Rural Sector	20	S	S	N	Closed	6/30/2004			
P009089	BASIC ED	1998	Education	300	U	U	S	Closed	12/31/2003	UNSATISFACTORY	LIKELY	NEGLIGIBLE
P048851	COMMODITIES MKT DEVT	1999	Rural Sector	4	S	S	M	Closed	3/31/2003	SATISFACTORY	LIKELY	SUBSTANTIAL
P058877	EMGY FLOOD RECOVERY	1999	Urban Development	369	S	S	M	Closed	9/30/2003	SATISFACTORY	LIKELY	MODEST
P068394	EMG EARTHQUAKE RECOV - EERL	2000	Private Sector Development	253	S	S	M	Closed	3/31/2001	SATISFACTORY	NON-EVALUABLE	NOT AVAILABLE
P065188	EFIL	2000	Financial Sector	253	S	S	M	Closed	8/31/2003	SATISFACTORY	LIKELY	MODEST
P068792	ERL	2000	Economic Policy	760	S	S	S	Closed	4/30/2004			
P066511	FSAL	2001	Financial Sector	778	S	S	S	Closed	3/31/2002	MODERATELY SATISFACTORY	LIKELY	SUBSTANTIAL
P070561	PFPSAL I	2002	Financial Sector	1,100	S	S	H	Closed	12/31/2001	SATISFACTORY	NON-EVALUABLE	SUBSTANTIAL
P070560	PFPSAL 2	2002	Financial Sector	1,350	S	S	S	Closed	6/30/2003	MODERATELY SATISFACTORY	LIKELY	SUBSTANTIAL

Table B5a: World Bank Commitments by Sector Board for Fiscal Years 1994–2004, US$ Million

Sector Board	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Total	Percent
Economic Policy							759.6				1,000	1,760	17.5
Education					300					300		600	6.0
Energy and Mining				5	270						202	477	4.7
Environment											20	20	0.2
Financial Sector							252.5	777.8	2,450		303.1	3783	37.7
Health, Nutrition, and Population		150		14.5							60.61	225.1	2.2
Private Sector Development	100					155	252.5					507.5	5.1
Public Sector Governance			62									62	0.6
Rural Sector					20	4			600			624	6.2
Social Protection								250	500			750	7.5
Transport			250									250	2.5
Urban Development						369	505					874	8.7
Water Supply and Sanitation		100			13.1							113.1	1.1
Total	100	250	312	19.5	603.1	528	1,770	1,028	3,550	300	1,586	10,046	100.0

Source: World Bank internal database as of 01/10/2005.

Table B5b: Project Ratings by Sector Board, Exit Fiscal Years 1994–2004: Turkey and Comparisons

		Total evaluated		Outcome (% satisfactory)		IDI (% substantial)		Sustainability (% likely)		Overall Bank performance (% satisfactory)		Overall borrower performance (% satisfactory)	
Sector Board	Country	Net commitment ($ million)[a]	By number[b]	Net commitment ($ million)	By number	Net commitment ($ million)	By number	Net commitment ($ million)	By number	Net commitment ($ million)	By number	Net commitment ($ million)	By number
Education	Algeria	120	3	26	33	0	0	0	0	26	33	26	33
	Brazil	1,676	10	99	90	61	60	91	80	76	78	85	89
	Colombia	232	4	59	75	20	50	50	67	59	75	59	75
	Romania	170	3	100	100	100	100	100	100	100	100	100	100
	Thailand	158	2	100	100	100	100	100	100	100	100	100	100
	Turkey	579	5	51	80	0	0	49	20	29	40	51	80
	Europe & Central Asia	1,161	22	73	73	45	36	68	61	51	67	62	76
	Bankwide	15,029	254	83	79	47	40	74	62	78	78	78	78
Energy and Mining	Algeria	648	4	34	50	14	25	14	25	75	67	75	67
	Brazil	939	4	100	100	100	100	100	100	100	100	100	100
	Colombia	528	4	78	75	49	50	78	75	100	100	100	100
	Romania	160	1	100	100	100	100	100	100	100	100	100	100
	Thailand	861	12	100	100	55	50	100	100	100	100	100	100
	Turkey	1,033	7	25	29	44	29	27	33	56	67	1	33
	Europe & Central Asia	5,887	62	66	66	55	44	70	73	79	88	72	74
	Bankwide	34,393	336	70	65	45	41	65	58	73	73	68	64
Environment	Algeria	0	1		100		0		100		100		100
	Brazil	664	9	45	67	31	33	44	67	39	56	39	56
	Colombia	23	1	100	100	0	0	100	100	100	100	100	100
	Romania	0	1		100		100		100		100		100
	Thailand	120	2	100	100	76	50	100	100	100	100	100	100
	Turkey	0	2		100		100		50		100		100
	Europe & Central Asia	130	25	100	92	100	80	96	79	100	92	96	88
	Bankwide	3,177	109	66	71	39	49	71	70	60	70	62	70
Financial Sector	Brazil	1,012	4	100	100	82	75	100	100	82	75	82	75
	Colombia	580	5	92	80	27	40	84	75	92	80	92	80
	Romania	300	1	100	100	100	100	100	100	100	100	100	100
	Thailand	760	3	100	100	100	100	100	100	100	100	100	100
	Turkey	2,391	5	92	80	90	80	85	75	92	80	92	80
	Europe & Central Asia	4,338	34	91	76	84	55	86	78	93	85	92	85
	Bankwide	24,117	153	83	70	58	49	79	65	85	73	84	75
Health, Nutrition and Population	Romania	14	1	100	100	100	100	100	100	100	100	100	100
	Brazil	1,004	7	75	86	47	57	75	86	75	86	75	86
	Colombia	70	2	32	50	0	0	32	50	32	50	32	50

	Romania	149	1	100	100	0	0	100	100	100	100	100	100
	Turkey	71	2	100	100	0	0	0	0	0	50	0	50
	Europe & Central Asia	748	18	94	88	31	53	85	82	90	89	84	78
	Bankwide	9,141	179	78	68	50	40	75	63	80	72	79	70
Public Sector Governance	Algeria	21	1	100	100	0	0	100	100	100	100	100	100
	Brazil	1,995	6	100	100	84	50	100	100	99	83	94	67
	Colombia	783	4	100	100	43	50	100	100	100	100	100	100
	Romania	179	1	100	100	0	0	0	0				
	Thailand	418	2	96	50	96	50	96	50	96	50	96	50
	Turkey	150	3	100	100	35	67	100	100	100	100	71	67
	ECA	1,703	38	96	89	73	71	85	86	97	95	88	81
	Bankwide	12,187	187	85	74	48	44	84	65	89	81	84	70
Private Sector Development	Algeria	3	1	0	0	0	0	0	0	0	0	0	0
	Brazil	45	2	100	100	100	100	100	100	100	100	100	100
	Colombia	408	2	55	50	55	50	55	50	55	50	100	100
	Romania	97	1	0	0	0	0	100	100	0	0	0	0
	Turkey	281	2	90	50	0	0			90	50	90	50
	ECA	2,099	27	93	78	86	56	92	74	92	77	89	77
	Bankwide	6,599	119	85	68	54	38	80	69	86	76	85	65
Rural Sector	Algeria	143	8	2	13	0	0	0	0	57	50	15	33
	Brazil	2,159	29	71	90	73	86	83	90	64	82	72	82
	Colombia	275	7	46	50	19	33	19	33	47	60	19	40
	Romania	400	2	25	50	25	50	25	50	25	50	25	50
	Turkey	706	8	100	100	78	63	77	57	90	83	100	83
	ECA	2,944	58	81	78	47	52	62	66	76	76	65	72
	Bankwide	27,375	534	78	69	48	40	61	50	71	65	69	64
Social Protection	Algeria	47	1	100	100	100	100	100	100	100	100	100	100
	Brazil	1,515	3	100	100	50	67	100	100	100	100	100	100
	Colombia	359	3	100	100	100	100	100	100	100	100	100	100
	Romania	108	4	100	100	54	75	100	100	100	100	100	100
	Turkey	50	1	100	100	0	0	100	100	100	100	100	100
	ECA	1,722	35	51	89	38	63	96	87	52	91	50	89
	Bankwide	8,805	138	88	83	46	48	77	60	82	84	86	82
Transport	Algeria	277	3	60	67	0	0	0	0	31	50	31	50
	Brazil	1,457	9	100	100	75	67	70	75	91	89	71	67
	Colombia	603	5	94	80	55	40	11	20	91	75	91	75

(Continues on the following page.)

Table B5b: Project Ratings by Sector Board, Exit Fiscal Years 1994–2004: Turkey and Comparisons ***(continued)***

Sector Board	Country	Total evaluated		Outcome (% satisfactory)		IDI (% substantial)		Sustainability (% likely)		Overall Bank performance (% satisfactory)		Overall borrower performance (% satisfactory)	
		Net commitment ($ million)[a]	By number[b]	Net commitment ($ million)	By number	Net commitment ($ million)	By number	Net commitment ($ million)	By number	Net commitment ($ million)	By number	Net commitment ($ million)	By number
Transport	Romania	240	2	100	100	100	100	100	100	100	100	100	100
	Thailand	380	5	100	100	19	20	97	80	100	100	100	100
	Turkey	624	3	72	67	0	0	72	67	100	100	55	50
	ECA	2,747	38	80	89	36	51	85	79	88	94	77	89
	Bankwide	23,695	280	89	84	53	52	72	66	92	92	84	82
Urban Development	Algeria	290	4	86	75	77	50	18	50	86	75	76	50
	Brazil	674	7	100	100	52	57	75	86	100	100	100	100
	Colombia	77	2	100	100	24	50	100	100	100	100	100	100
	Thailand	20	1	100	100	0	0	0	0				
	Turkey	467	3	94	67	0	0	94	67	100	100	100	100
	ECA	991	17	72	73	3	13	67	54	72	67	93	67
	Bankwide	8,667	138	80	68	24	26	60	48	81	74	83	69
Water Supply and Sanitation	Algeria	813	4	34	25	0	0	0	0	0	0	0	0
	Brazil	1,092	6	100	100	41	50	74	83	100	100	90	83
	Colombia	163	2	89	50	0	0	0	0	100	100	100	100
	Romania	19	1	100	100	100	100	100	100	100	100	100	100
	Turkey	594	5	83	80	12	20	30	40	47	60	47	60
	ECA	819	18	86	81	21	31	41	57	60	71	60	71
	Bankwide	8,399	131	63	64	27	33	42	47	69	67	60	61
Overall	Brazil	14,233	96	91	92	66	67	86	86	85	84	84	80
	Colombia	4,506	43	85	76	40	43	63	62	86	81	89	81
	Algeria	2,811	33	52	45	13	12	8	19	64	58	60	50
	Romania	2,415	21	76	86	44	67	80	90	69	84	69	84
	Thailand	3,328	29	99	97	59	52	99	90	99	96	99	96
	Turkey	6,946	46	77	76	49	36	63	53	79	74	73	71
	ECA	33,523	459	74	80	49	51	79	75	79	85	70	79
	Bankwide	213,013	2,805	78	72	44	41	69	60	80	75	75	71

Source: World Bank internal database as of 01/10/2005.

a. Total evaluated ($) is total net commitment of evaluated projects, which outcome was rated minus total net commitment of evaluated projects, which outcome was not rated.

b. Total evaluated (No) is total number of evaluated projects, which outcome was rated minus total number of evaluated projects. which outcome was not rated.

Table B5c: Portfolio Status Indicators: Turkey and Comparisons

Country	Number of projects	Net commitment amount	Projects at risk (no.)	At risk (%)	Commitment at risk	Commitment at risk (%)
Algeria	9	337.0	2	22.2	112.2	33.3
Brazil	49	4,948.4	9	18.4	626.7	12.7
Colombia	18	1,351.4	2	11.1	48.0	3.6
Romania	19	1,395.9	0	0.0	0.0	0.0
Thailand	1	84.3	0	0.0	0.0	0.0
Turkey	19	5,929.9	1	5.3	300.0	5.1

Source: World Bank internal database as of July 6, 2005 (for FY05).

Table B6: Cost of Bank Programs for Turkey and Comparator Countries, US$ Thousands, Fiscal Years 1994–2004

	Total	Supervision	Lending	ESW	Other
Bank	15,374,823	1,479,828	1,380,052	1,086,542	11,428,401
ECA	1,111,215	278,100	330,709	207,198	295,209
Algeria	29,284	10,924	10,036	5,850	2,475
Brazil	126,881	44,907	36,272	24,165	21,536
Colombia	44,377	15,403	15,783	7,665	5,526
Romania	47,402	17,377	19,576	7,610	2,839
Thailand	39,980	10,073	11,687	11,704	6,515
Turkey	59,475	24,860	21,658	9,323	3,634
Cost structure by percentage					
	Total	**Supervision**	**Lending**	**ESW**	**Other**
Bank	100	10	9	7	74
ECA	100	25	30	19	27
Algeria	100	37	34	20	8
Brazil	100	35	29	19	17
Colombia	100	35	36	17	12
Romania	100	37	41	16	6
Thailand	100	25	29	29	16
Turkey	100	42	36	16	6

Table B7: Turkey: Bank's Senior Management, 1995–2005

Year	Vice president	Country director	Chief/resident representative	Economist
1991	Willi A. Wapenhans	Michael Wiehen	Luis de Azcarate	
1992	Wilfried Thalwitz	Michael Wiehen	Luis de Azcarate	R. Coutinho
1993	Wilfried Thalwitz	Michael Wiehen	Luis de Azcarate	R. Coutinho
1994	Wilfried Thalwitz	Michael Wiehen	Frederick Thomas Temple	S.Otoo
1995	Wilfried Thalwitz	Rachel Lomax	Frederick Thomas Temple	S.Otoo/Jacob Kolster
1996	Johannes F. Linn	Kenneth Lay	Frederick Thomas Temple	S.Otoo/Jacob Kolster
1997	Johannes F. Linn	Kenneth Lay	Frederick Thomas Temple	S.Otoo
1998	Johannes F. Linn	Ajay Chhibber		S.Otoo
1999	Johannes F. Linn	Ajay Chhibber		S.Otoo
2000	Johannes F. Linn	Ajay Chhibber*		S.Otoo
2001	Johannes F. Linn	Ajay Chhibber*		James Parks*
2002	Johannes F. Linn	Ajay Chhibber*		James Parks*
2003	Johannes F. Linn	Ajay Chhibber*		James Parks*
2004	Shigeo Katsu	Andrew N. Vorkink*		James Parks*
2005	Shigeo Katsu	Andrew N. Vorkink*		Rodrigo A. Chaves*

Source: The World Bank Group Directory 1995–2005.

Note: * Staff located at the Country Office at Ankara, Turkey.

Table B8: Turkey—Millennium Development Goals

	1990	1995	2001	2002
1. Eradicate extreme poverty and hunger	***2015 target = halve 1990 $1 a day poverty and malnutrition rates***			
Population below $1 a day (%)			2	
Poverty gap at $1 a day (%)			0.5	
Percentage share of income or consumption held by poorest 20%			6.1	
Prevalence of child malnutrition (% of children under 5)		10.3		
Population below minimum level of dietary energy consumption (%)	2.5	2.5	3	
2. Achieve universal primary education	***2015 target = net enrollment to 100***			
Net primary enrollment ratio (% of relevant age group)	89.4	96.2	87.9	
Percentage of cohort reaching grade 5 (%)	97.6	94.9		
Youth literacy rate (% ages 15–24)	92.7	94.9	95.5	
3. Promote gender equality	***2005 target = education ratio to 100***			
Ratio of girls to boys in primary and secondary education (%)	82.2	82.7	85.4	
Ratio of young literate females to males (% ages 15–24)	90.9	93.3	95.2	
Share of women employed in the nonagricultural sector (%)	16.7	16.7	18.9	
Proportion of seats held by women in national parliament (%)		2		
4. Reduce child mortality	***2015 target = reduce 1990 under-5 mortality by two-thirds***			
Under-5 mortality rate (per 1,000)	78	60	45	41
Infant mortality rate (per 1,000 live births)	64	50	38	35
Immunization, measles (% of children under 12 months)	78	65	90	82
5. Improve maternal health	***2015 target = reduce 1990 maternal mortality by three-fourths***			
Maternal mortality ratio (modeled estimate, per 100,000 live births)			70	
Births attended by skilled health staff (% of total)		75.9		
6. Combat HIV/AIDS, malaria and other diseases	***2015 target = halt, and begin to reverse, AIDS, etc.***			
Prevalence of HIV, female (% ages 15–24)				
Contraceptive prevalence rate (% of women ages 15–49)	63			
Number of children orphaned by HIV/AIDS				
Incidence of tuberculosis (per 100,000 people)			34	32.1
Tuberculosis cases detected under DOTS (%)				
7. Ensure environmental sustainability	***2015 target = various (see notes)***			
Forest area (% of total land area)	13		13.3	
Nationally protected areas (% of total land area)		1.4	1.3	1.6
GDP per unit of energy use (PPP $ per kg oil equivalent)	4.5	5.1	5.6	
CO_2 emissions (metric tons per capita)	2.6	2.8	3.3	
Access to an improved water source (% of population)	79		82	
Access to improved sanitation (% of population)	87		90	
Access to secure tenure (% of population)				
8. Develop a Global Partnership for Development	***2015 target = various (see notes)***			
Youth unemployment rate (% of total labor force ages 15–24)	16	15.6	16.7	19.5
Fixed line and mobile telephones (per 1,000 people)	122.1	221.5	580.6	628.6
Personal computers (per 1,000 people)	5.3	14.9	40.7	44.6
General indicators				
Population	56.2 million	61.7 million	68.5 million	69.6 million
Gross national income ($)	127.3 billion	170.0 billion	166.1 billion	173.3 billion
GNI per capita ($)	2,270.00	2,750.00	2,420.00	2,490.00

(Continues on the following page.)

Table B8: Turkey—Millennium Development Goals ***(continued)***

	1990	1995	2001	2002
Adult literacy rate (% of people ages 15 and over)	77.9	81.8	86.5	
Total fertility rate (births per woman)	3	2.7	2.4	2.2
Life expectancy at birth (years)	66.1	68.3	69.6	69.9
Aid (% of GNI)	0.8	0.2	0.1	0.4
External debt (% of GNI)	32.5	43.1	79	72.7
Investment (% of GDP)	24.3	25.5	16.8	16.3
Trade (% of GDP)	30.9	44.2	65	59.7

Source: World Development Indicators database, April 2004.

Note: In some cases the data are for earlier or later years than those stated.

Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Goal 2 target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

Goal 3 target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.

Goal 4 target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

Goal 5 target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

Goal 6 targets: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.

Goal 7 targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.

Goal 8 targets: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In co-operation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

ANNEX C: LIST OF PEOPLE MET

Prime Ministry

Mr. Birol Aydemir	Deputy Undersecretary, State Planning Organization
Mr. Kemal Madenoglu	Director General, Social Sectors and Coordination Directorate, State Planning Organization
M. Cuneyd Duzyol	General Director, Economic Sectors and Coordination, State Planning Organization
Mr. Metin Kilci	President of Privatization Administration
Mr. Sema Alpan	Former National Environment Action Coordinator at State Planning Organization
Ms. Yadigar Gokalp	Executive Director, Social Risk Mitigation Project, Social Solidarity Fund
Ilhan Kesici	Former Undersecretary of SPO

Treasury

Mr. Aydin Karaoz	Former Deputy Undersecretary of Treasury
Mr. Aysen Kulakoglu	Former Department Head of World Bank projects, Treasury 2000–2004
Mr. Faik Oztrak	Former Undersecretary of Treasury
Mr. Ferhat Emil	Former Undersecretary of Treasury
Mr. Ibrahim Canakci	Undersecretary of Treasury
Mr. Levent Yener	Head of Department, Treasury (ARIP Project)
Mr. Selcuk Demirel	Former Undersecretary of Treasury 1999–2001
Mr. Sen Akman	Former Assistant GD in Treasury

Ministry of Finance

Mr. Abdulkadir Goktas	Head of Department, Budget and Fiscal Control Department
Mr. Ahmet Kesik	Deputy General Director, Budget and Fiscal Control Department

Ministry of Agriculture

Mr. Ali Tunaboylu	ARIP Project Coordinator
Mr. Hasim Ogut	Deputy Undersecretary, Ministry of Agriculture

Ministry of Energy

Mr. Budak Dilli	General Manager, Ministry of Energy

Ministry of Public Works

Mucait Arman	General Directorate Highways
Yasar Yilmaz	General Directorate Highways

Central Bank

Mr. Sureyya Serdengecti	Governor of Central Bank
Mr. Ercan Kumcu	Deputy Governor of Central Bank

Mr. Hakki Arslan	General Director, Central Bank, Banking & Financial Institutions Department
Mr. Rustu Saracoglu	Former Central Bank Governor 1987–1993, President of Finance of Koc Group
Mr. Yavuz Canevi	Former Central Bank Governor, Board of Member of Turk Economic Bank

Ministry of Health

Mr. Ulvi Saran	Deputy Undersecretary
Mr. Mehmet Ugurlu	Director General of Primary Health Care Services
Mr. Fehmi Aydinli	M.D., Vice General Director, General Directorate of Primary Health Care
Mr. Haydar Mezarci	Project Coordinator

Ministry of National Education

Mr. Hikmet Ulubay	Former Education Minister
Mr. Salih Celik	Deputy Undersecretary, Ministry of National Education

Ministry of Economic Affairs

Mr. Kemal Dervis	Former Minister for Economic Affairs

Ministry of Labor and Social Security

Mr. Tuncay Teksoz	Acting President of Social Security Institution

Other Institutions

Turkish Court Accounts

Mr. Erol Akbulut	General Secretary

Banking Regulation and Supervision

Mr. Engin Akcakoca	Former Chairman, BRSA
Mr. Tevfik Bilgin	President of BRSA
Mr. Ferruh Tunc	Deputy President, Savings Deposits Insurance Fund (SDIF)

Eximbank

Mr. Gulcin Coklu	Department Head
Mr. Neslihan Dogan	Funding Manager

Iller Bank

Mr. Bahattin Kaptan	Deputy General Director
Mr. Melike Alpaslan	Banks Association of Turkey

Industrial Development Bank of Turkey (TSKB)

Mr. Ahmet Demirel	Deputy General Director
Mr. Orhan Beskok	Deputy General Director

Isbank

Mr. Ersin Ozince	General Director

Ziraat Bank

Mr. Can Akin Caglar	General Director

Turkish Electricity Transmission Corporation

Mr. Ayse Cansiz	Project Coordinator

Marmara Research Center

Mr. Sedat Inan	Director

National Meteorology Institute

Mr. Sermet Suer	Director of UME

Sabanci University

Prof. Tosun Terzioglu	President, Sabanci University
Prof. Ustun Ergudur	Head, Education Reform Initiative, Istanbul Policy Institute
Ms. Neyyir Berktay	Project Coordinator, Education Reform Initiative, Istanbul Policy Institute
Mr. Batuhan Aydagul	Project Specialist, Istanbul Policy Institute
Prof. Izak Atias	Sabanci University

Istanbul University

Prof. Asaf Savas Akad	

Middle East Technical University

Prof. Dr. Ahmet Acar	
Prof. Dr. Giray Berberoglu	Faculty of Education

Ankara University

Professor Dr. Ercan Uyguy	Head of Economy Department, Faculty of Politics

NGOs

Mr. Emine Cagan	Secretary, General Ari Movement
Mr. Enis Bagdadioglu	Turkish Trade Unions Confederation
Mr. Ferdi Miskbay	Director, Technology Development Foundation
Dr. Fusun Sayek	President of Turkish Medical Association
Mr. Bulent Pirler	Secretary General, Turkish Confederation of Employer Association

Turkish Association of Economics

Rifat Hisarciklioglu	Chairman of Union of Chambers and Exchange

Press

Osman Ulagay	Milliyet Newspaper

European Union Office

Dr. Holger Schroder	
Mr. Melek Erman	European Union Office
Mr. Mustafa Balci	Education and Training Specialist

UNDP

Mr. Jakob Simonsen	Resident Representative at UNDP
Ms. Yesim Oruc	UNDP

ANNEX D: MANAGEMENT ACTION RECORD

IEG Recommendations Requiring a Response	Management Response
1) The Bank should increase the assistance program's strategic focus on private sector development and environment and natural resource management issues by: • Defining a strategic approach to private sector development in collaboration with IFC and IEG-MIGA, drawing on the recent Joint Investment Climate Assessment and leading to a new program of Bank support for PSD, including expanded coverage of issues of governance, anti-corruption, the regulatory framework and employment impact; and • Expanding the Bank's analytic work on environmental and natural resource management issues and agreeing with the Turkish government on a program of support for Turkey's environmental priorities.	Because of the necessary attention to the banking system after the 2001 banking crisis, we recognize that substantial attention had to be focused in the Bank's program on the financial sector, and less upon the private sector. As the economy and sector have now stabilized, the program has launched a new series of adjustment operations dealing with the public-private interface under the umbrella of employment generation. A key pillar of that program will be improvements in the business environment and support to the private sector. The investment climate review under way will underpin it along with the joint Bank-IFC work done on the annual Investors Advisory Council hosted by the government. On the environment, the CAS progress report will include additional activities in this area.
2) The assistance program should maintain an adequate level of well-focused, high-quality analytic work, as it did in the latter part of the review period. The Bank should proceed with lending activities in Turkey only when it is confident that the analytic work—not necessarily the Bank's own—is in place to support the design of programs. This analytic work should be carried out collaboratively, building systematically on the models developed for the public expenditure and education studies, so that it can generate genuine ownership both within the government and the society at large. This collaboration needs to go beyond the government and encompass a more active role for the Bank in ensuring the participation of nongovernmental stakeholders, as well as more systematic dissemination.	We agree that a high level of well-focused analytical needs to support not only lending but the quality of the dialogue under the program. We also agree, as we have been doing with the Education Sector Study and the Investment Climate Assessment, that more involvement with non-government stakeholders is needed. We believe the EU accession process, which included substantial financial support for NGOs, will help present more opportunities in the future.
3) The Bank should also build collaborative approaches more systematically into its lending, including implementation and monitoring. At the government level, the Bank should seek to work more effectively with the line ministries, with projects implemented through their normal structures, and focus on building sustainable capacities in the ministries when needed. There should be a clear burden of proof for	We agree. *(Continues on the following page.)*

IEG Recommendations Requiring a Response	Management Response
sector staff to demonstrate the justification for organizing an 'enclave' activity through a PIU. The Bank should also systematically develop activities to extend the collaborative approach beyond the government, to include NGOs and other civil society stakeholders, again to develop a greater sense of ownership of Bank supported activities in Turkey.	
4) The Bank should assist the Turkish authorities to put in place frameworks for monitoring the key development programs and outcomes, including, for example, the efficiency of Turkish infrastructure; the social impact of pension expenditures; women's labor force participation; progress in health sector reforms; and the range of programs of assistance to the poor such as direct income support for farmers and conditional cash transfers. Nongovernmental stakeholders could play a useful role in this monitoring.	We are striving to do this and have built in monitoring and evaluation components in recent projects and as capacity building in analytical work, such as under the joint poverty assessment.

ANNEX E: SUMMARY OVERVIEW OF MIGA'S ACTIVITIES IN TURKEY

Turkey Country Assistance Evaluation
MIGA Activities (FY91-04)
An Overview by IEG-MIGA

World Bank Group and MIGA Strategy

The World Bank Group (WBG) Country Assistance Strategies (CASs) for Turkey emphasized the need to restore macroeconomic stability and enhance competitiveness to foster employment growth in the private sector as priorities. The CASs also recognized infrastructure as a bottleneck for economic growth and the role private sector should play in this sector. The CASs (for 1997, 2000, 2001 Update, and 2003) briefly noted that MIGA's task was to play a complementary role to the Bank and the IFC in this regard, by facilitating foreign direct investment (FDI) through political risk guarantees, particularly in the infrastructure sector.

MIGA expected to expand its guarantees in Turkey during the 1997–2000 CAS period. While MIGA guarantees indeed increased in this period, mainly covering financial sector projects, the 2000 CAS noted that MIGA would aim to further expand and diversify its portfolio by focusing on infrastructure investments. However, with the onset of a severe financial crisis in 2001, this did not materialize, which had a predictably negative impact on the investment environment. There were no new MIGA guarantee projects in fiscal 2001, and only three new guarantees were issued in fiscal 2002; since then MIGA has not guaranteed any new projects in Turkey.

MIGA's 2000 strategy defined a "multi-niche" approach for the agency.[1] One of the priorities was supporting "south-south" investments. Turkish companies investing abroad have been a significant beneficiary of this focus. Thus far, MIGA has issued 14 guarantees[2] to Turkish investors for 11 projects in Eastern Europe and Central Asia in the beverages, telecommunications, and banking sectors. At present, Turkey has been one of the two most important "south-south" investors in MIGA's portfolio.

MIGA Portfolio Overview

Turkey has been a MIGA member since 1988. Between fiscal 1991 and 2004, MIGA issued a total of 20 guarantees in support of 16 projects for a total cumulative gross exposure of US$577 million. The majority of these projects have been in the financial sector, with a few others in the services, manufacturing, and infrastructure sectors.[3] Out of these 20 guarantee contracts, 18 have been cancelled to date by clients, leaving one active guarantee project (with 2 contracts) in MIGA's portfolio in Turkey.[4]

The majority of MIGA's guarantee activity in Turkey occurred during the fiscal 1998–2000 period. New guarantees issued went up to US$161 million in gross exposure in 1999 (figures E1–E2), but began to decline again in 2000 following the onset of economic recession at the end of 1999.

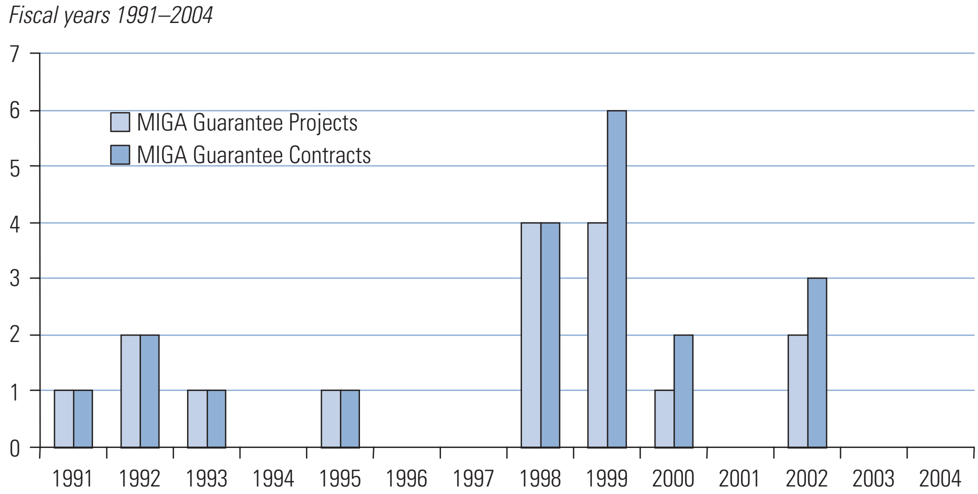
[1] MIGA Review 2000.

[2] Gross exposure of US$116 million.

[3] The financial sector accounted for 11 of a total of 16 projects; the remaining 5 were in the manufacturing (2), services (2), and infrastructure (1) sectors.

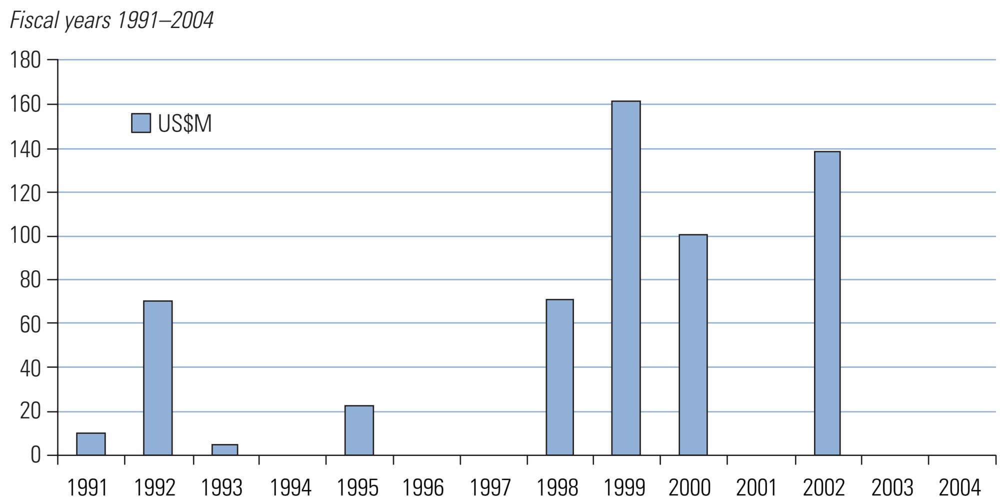
[4] Clients cited "change in corporate strategy," "early repayment of loans," or "switching to self insurance" as reasons for canceling the guarantees prior to their expiration.

Figure E.1: MIGA Guarantee Activity in Turkey



Source: MIGA Annual Reports, various years.

Figure E.2: MIGA Guarantees Issued in Turkey (gross exposure)



Source: MIGA Annual Reports, various years.

There were no new MIGA guarantees in 2001, when the investment climate suffered from a severe financial crisis.

Since 2002, MIGA has guaranteed only two new projects, consisting of one large infrastructure and one manufacturing sector projects.

Cumulatively, the financial sector accounted for 46 percent of all MIGA guarantees issued for investments in Turkey during 1991–2004. Guarantees in the services and manufacturing sectors account for 19 and 12 percent, respectively. Although there is only one infrastructure project, its share of the total exposure is significant (23 percent) because of its large size.

As of June 30, 2005 MIGA had only two active contracts (associated with one infrastructure project), with a total gross exposure of US$135 million, representing 2.65 percent of MIGA's total gross exposure. MIGA has not provided any technical assistance to Turkey for FDI promotion.[5]

Effectiveness of Guarantee Activities

To date, IEG-MIGA has carried out ex-post evaluations of two financial sector projects in Turkey, guaranteed during the fiscal 1998–99 period, and assessed the environmental impact of a more recent nonfinancial sector project.

Most of the financial sector projects insured by MIGA have been to facilitate the investments of foreign banks operating in Turkey. Foreign banks constitute a relatively small share of the banking sector, which has been dominated by state-owned banks. During the 1990s, the private banking sector grew rapidly in assets, profits, and sophistication. However, financial deepening did not materialize in the high-inflation environment. From the mid-1990s, a large number of private banks have been created, many of which lacked critical size. They served the business interests of their parent company, typically large conglomerates active in a wide range of sectors. A number of foreign banks have also invested in domestic banks as shareholders, in addition a small number of foreign banks operate as a branch of their parent. The 1997 CAS had noted the almost complete absence of medium-term debt financing in Turkey, in a high-inflation/high-real-interest-rate environment. The banks became heavily dependent on interest earnings from government securities. Most foreign banks worked under strict country exposure ceilings, in particular, as the financial sector in Turkey came under strain.

Both evaluated projects involved shareholder loans to expand their lending operations for medium-term credit. MIGA guarantees helped them expand country credit limits and provided an additional safety net. Both banks had been very selective and conservative in their lending decisions and favored public sector projects. While both banks remained active in Turkey during and after the financial crisis of 2001, they curtailed their lending volumes during this period; one offered only short-term lending, while the other used its medium-term lending for public works projects, when solid investment projects from the private sector became scarce. In the former case, during the crisis, the bank compared well with its peers in Turkey in business performance. In the latter case, this bank did better than its peers in profitability, but its efficiency and productivity suffered. While supporting public sector projects helped preserve its profitability, it was a departure from the original expectation that it would use the MIGA-guaranteed facility to provide lending to a more diverse group of private sector clients. Both banks had positive, albeit small, impacts on improving financial intermediation, but remained small players operating in a niche market, limiting their overall impact.

Both projects were rated satisfactory for their contribution to providing medium-term lending in a difficult economic environment, at least prior to the crisis.

IEG-MIGA also assessed the environmental impact of a MIGA-guaranteed infrastructure project. The review concluded that the project was well designed and constructed, and the operation met high environmental and safety standards at the time of the IEG-MIGA review. The project fits well with country's strategic priority of expanding its energy supply in an environmentally sustainable manner. From an environmental perspective, the plant design—with its state-of-the-art technology with high thermal efficiency using natural gas—represents the least polluting option for a thermal power plant.

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[5] However, MIGA offered technical assistance (TA) to the Center for Private Sector Development in Istanbul, a joint undertaking of the OECD and the Turkish Development Agency TICA, which was created to support the transfer of experience for private sector development to countries in the neighboring countries. This collaborative activity lasted for about two years, until the Center was dissolved by OECD.

ANNEX F: GUIDE TO IEG'S COUNTRY ASSISTANCE EVALUATION METHODOLOGY

This methodological note describes the key elements of IEG's country assistance evaluation (CAE) methodology.[1]

CAEs rate the outcomes of Bank assistance programs, not the Clients' overall development progress

A Bank assistance program needs to be assessed on how well it met its particular objectives, which are typically a sub-set of the Client's development objectives. If a Bank assistance program is large in relation to the Client's total development effort, the program outcome will be similar to the Client's overall development progress. However, most Bank assistance programs provide only a fraction of the total resources devoted to a Client's development by donors, stakeholders, and the government itself. In CAEs, IEG rates only the outcome of the Bank's program, not the Client's overall development outcome, although the latter is clearly relevant for judging the program's outcome.

The experience gained in CAEs confirms that Bank program outcomes sometimes diverge significantly from the Client's overall development progress. CAEs have identified Bank assistance programs which had:

- Satisfactory outcomes matched by good Client development
- Unsatisfactory outcomes in Clients which achieved good overall development results, notwithstanding the weak Bank program
- Satisfactory outcomes in Clients which did not achieve satisfactory overall results during the period of program implementation.

[1] In this note, *assistance program* refers to products and services generated in support of the economic development of a Client country over a specified period of time, and *client* refers to the country that receives the benefits of that program.

Assessments of assistance program outcome and Bank performance are not the same

By the same token, an unsatisfactory Bank assistance program outcome does not always mean that Bank performance was also unsatisfactory, and *vice-versa*. This becomes clearer once we consider that the Bank's contribution to the outcome of its assistance program is only part of the story. The assistance program's outcome is determined by the *joint* impact of four agents: (a) the Client; (b) the Bank; (c) partners and other stakeholders; and (d) exogenous forces (e.g., events of nature, international economic shocks, etc.). Under the right circumstances, a negative contribution from any one agent might overwhelm the positive contributions from the other three, and lead to an unsatisfactory outcome.

IEG measures Bank performance primarily on the basis of contributory actions the Bank directly controlled. Judgments regarding Bank performance typically consider the relevance and implementation of the strategy, the design and supervision of the Bank's lending interventions, the scope, quality and follow-up of diagnostic work and other AAA activities, the consistency of the Bank's lending with its non-lending work and with its safeguard policies, and the Bank's partnership activities.

Rating Assistance Program Outcome

In rating the outcome (expected development impact) of an assistance program, IEG gauges the extent to which major strategic objectives were relevant and achieved, without any shortcomings. In other words, did the Bank do the right thing, and did it do it right. Programs typically express their goals in terms of higher-order objectives, such as poverty reduction. The Country Assistance Strategy (CAS) may also establish intermediate goals, such as improved targeting of social services or promotion of integrated rural development, and specify how they are expected to contribute toward achieving the higher-order objective. IEG's task is then to validate whether the intermediate objectives were the right ones and whether they produced satisfactory net benefits, and whether the results chain specified in the CAS was valid. Where causal linkages were not fully specified in the CAS, it is the evaluator's task to reconstruct this causal chain from the available evidence, and assess relevance, efficacy, and outcome with reference to the intermediate and higher-order objectives.

For each of the main objectives, the CAE evaluates the relevance of the objective, the relevance of the Bank's strategy towards meeting the objective, including the balance between lending and non-lending instruments, the efficacy with which the strategy was implemented, and the results achieved. This is done in two steps. The first is a top-down review of whether the Bank's program achieved a particular Bank objective or planned outcome and had a substantive impact on the country's development. The second step is a bottom-up review of the Bank's products and services (lending, analytical and advisory services, and aid coordination) used to achieve the objective. Together these two steps test the consistency of findings from the products and services and the development impact dimensions. Subsequently, an assessment is made of the relative contribution to the results achieved by the Bank, other donors, the Government, and exogenous factors.

Evaluators also assess the degree of Client ownership of international development priorities, such as the Millennium Development Goals, and Bank corporate advocacy priorities, such as safeguards. Ideally, any differences on dealing with these issues would be identified and resolved by the CAS, enabling the evaluator to focus on whether the trade-offs adopted were appropriate. However, in other instances, the strategy may be found to have glossed over certain conflicts, or avoided addressing key Client development constraints. In either case, the consequences could include a diminution of program

Ratings Scale

IEG utilizes six rating categories for **outcome**, ranging from highly satisfactory to highly unsatisfactory:

Highly satisfactory	The assistance program achieved at least acceptable progress toward all major relevant objectives, and had best practice development impact on one or more of them. No major shortcomings were identified.
Satisfactory	The assistance program achieved acceptable progress toward all major relevant objectives. No best practice achievements or major shortcomings were identified.
Moderately satisfactory	The assistance program achieved acceptable progress toward most of its major relevant objectives. No major shortcomings were identified.
Moderately unsatisfactory	The assistance program did not make acceptable progress toward most of its major relevant objectives, or made acceptable progress on all of them, but either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
Unsatisfactory	The assistance program did not make acceptable progress toward most of its major relevant objectives, and either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.

Highly unsatisfactory	The assistance program did not make acceptable progress toward any of its major relevant objectives and did not take into adequate account a key development constraint, while also producing at least one major shortcoming, such as a safeguard violation.

relevance, a loss of Client ownership, and/or unwelcome side-effects, such as safeguard violations, all of which must be taken into account in judging program outcome.

The **institutional development impact (IDI)** can be rated as: *high*, *substantial*, *modest*, or *negligible*. IDI measures the extent to which the program bolstered the Client's ability to make more efficient, equitable and sustainable use of its human, financial, and natural resources. Examples of areas included in judging the institutional development impact of the program are:

- The soundness of economic management
- The structure of the public sector, and, in particular, the civil service
- The institutional soundness of the financial sector
- The soundness of legal, regulatory, and judicial systems
- The extent of monitoring and evaluation systems
- The effectiveness of aid coordination
- The degree of financial accountability
- The extent of building NGO capacity
- The level of social and environmental capital.

Sustainability can be rated as *highly likely*, *likely*, *unlikely*, *highly unlikely*, or, if available information is insufficient, *non-evaluable*. Sustainability measures the resilience to risk of the development benefits of the country assistance program over time, taking into account eight factors:

- Technical resilience
- Financial resilience (including policies on cost recovery)
- Economic resilience
- Social support (including conditions subject to safeguard policies)
- Environmental resilience
- Ownership by governments and other key stakeholders
- Institutional support (including a supportive legal/regulatory framework; organizational and management effectiveness)
- Resilience to exogenous effects, such as international economic shocks or changes in the political and security environments.

ATTACHMENT 1: COMMENTS FROM THE GOVERNMENT

OVERALL GOVERNMENT VIEW ON WORLD BANK ASSISTANCE

With the World Bank assistance for about six decades, Turkey took concrete steps towards economic development. World Bank assistance on education, health, infrastructure, financial and public sector reforms yielded positive tangible results.

Our dialogue with the Bank is built on mutual understanding on the priorities of each other. Lessons taken from the past contributed much to our strong dialogue. The political stability during the last three years consolidated our benefit from the Bank assistance.

The central mandate of the Bank is to fight poverty on a multidimensional scale ranging from human development to security, voice and participation. However, the Bank's understanding of the poverty impact of programs and policies is sometimes narrow, and to this end, the Bank tends to focus mainly on the social sectors while neglecting productive sectors. Furthermore, the Bank tries to reduce poverty through increased expenditures on the social sectors. For example, in health and education, the Bank focuses on the inputs and the outputs and its interventions are for securing increased expenditures on these sectors. Even though the targets are outperformed, sometimes converting these measurable inputs/outcomes into sustainable quality results such as better student achievement or improved health status is difficult. Actually, any Bank assisted poverty reduction activity is proved to have the most success when it is supported by the existing local initiatives and ownership. Particularly, long average implementation life of health and education projects, implemented in Turkey during the last decade, reflects this issue.

The complex procedures for disbursement and procurement used to be one of the important barriers to reach our eventual goal of development. The Bank's recent efforts to streamline and simplify its lending procedures enabled the implementing agencies to utilize the funding sources more effectively.

Ownership is the key factor for successful implementation. The contribution of the related parties in designing the components of the loan is key for reaching the targets of the loan. Our experience so far, reveals that this is valid both for investment and policy lending. The conditionalities reflecting the Government's program will further enhance the ownership. The policy matrix for the development lending should focus on actual needs of the country and support the priority policies of the Government's program.

Our past weak performance regarding adjustment lending was the consequence of coinciding internal and external factors. Political instability did not allow for sound policy environment. The Bank's policies were not helpful, either, in that respect. Bank's insistence on using large and complex policy matrix in programmatic operations led to departure from the main objectives of the operation. Additionally, too many components and indicators bring forth too many agencies which hampers ownership and flexibility. We experienced such cases that any conditions unmet, despite the fulfilment of other commitments, blocked the disbursement of whole loan. We would like to encourage the Bank to shift its policies towards ex post conditionality from preconditionality and follow the policy of concentrating on one sector in each operation. Rewarding the actions which is already taken rather than relying on promised reforms to be taken in the future is considered as a good step to contribute to smooth implementation of programmatic operations.

We appreciate the support of Bretton Woods institutions to our economic program. However, cross-conditionality is becoming a major issue in our program financing. We would like to urge the World Bank to eliminate cross-conditionality with the IMF programs in the design of the policy lending.

One should underline that Bank support on our way to EU is invaluable. We believe that the recent CEM report will be an important guide for our efforts with respect to EU Acquis.

Last but not the least, we appreciate the Bank's non-lending assistance. The Bank's expertise on development issues is non-arguable; Bank's technical assistance supported by research and its expertise in the world of development is an important source to identify priority areas and address development challenges. However, this expertise should be synthesized with the home-grown ideas to serve for the purpose of country development.

We believe that building on the experiences with the Bank for so many years, our partnership with the Bank cites a good model for other middle income countries.

ATTACHMENT 2: CHAIRMAN'S SUMMARY: COMMITTEE ON DEVELOPMENT EFFECTIVENESS (CODE)

The Informal Subcommittee (SC) of the Committee on Development Effectiveness (CODE) met on October 24, 2005 to discuss the report entitled *The World Bank in Turkey, 1993–2004 Country Assistance Evaluation*, prepared by the Independent Evaluation Group (IEG). Written statement was issued by Mr. Hermann.

Background. The Turkey CAE provided an assessment of the Bank's assistance during the period of 1993–2004. The report noted that the Bank's experience in Turkey clearly divided into two phases and the key lessons were associated with each phase. Prior to 1997, the Bank emphasized investment lending in a situation of major structural distortions and under-invested in analytic work. In the subsequent period, a greater strategic focus combined with decentralization to the field and an expanded program of analytic work, rebuilt the Bank's relationship and positioned it to play an effective role in supporting structural reform. Overall, IEG has rated the development outcome of the Bank's assistance as moderately satisfactory, with substantial institutional development impact and likely sustainability. Among major lessons identified was the importance of the Bank maintaining its analytical capital and senior managerial focus in a country, even when there is little response from the client. The CAE made the following recommendations: (i) focus on support for Turkey's EU accession aspirations; (ii) more emphasis to environmental management; (iii) resume support to the private sector; (iv) help to improve investment climate through better governance and regulations; (v) improve coordination with IFC; (vi) support efforts to build more efficient, policy-oriented line ministries. Management broadly agreed with the report's conclusions and recommendations and will incorporate them in its strategy.

The Chair representing Turkey welcomed the report and noted the World Bank Group's contribution to sustainable development and macroeconomic stability in the country. He stressed that Turkish authorities broadly agreed with the CAE ratings, but noted that average rating for ten years did not fully reflect the achievements of the last three years. In this regard, he noted that separate rating of two sub-periods would have better projected the current dynamics of the country's economic development. He also disagreed with IEG's rating of the sustainability of the outcomes as "likely." He argued that the radical changes in the fundamental dynamics of the economy during the last three years indicated that the sustainability of the outcomes should have been rated "highly likely," rather than "likely." Turkish authorities welcomed the report's recommendations in emphasizing more private sector development and improving investment climate, but urged continuous efforts in public sector reform as well. The Turkish Chair also asked that, since the majority of the detailed comments of the Turkish authorities had been taken into account in the text, only the general comments should be included in the final report.

Main Conclusions and Next Steps. The Subcommittee welcomed the CAE and broadly agreed with the ratings and recommendations. Among main issues raised by the members were: need to improve synergies between the members of the World Bank Group and aid harmonization with other donor partners, particularly the EU; more active support for the private sector, especially the small and medium enterprises (SMEs); and importance of maintaining close dialogue with the clients through non-lending activities (AAA, support for private sector and NGOs) in times of low demand for the Bank's assistance.

The following points were raised.

Reports' timing and coverage. Members appreciated the submission of the IEG report, which had provided a broad and comprehensive view of the World Bank Group's assistance to the country, and encouraged the same practice for future country evaluations. Several members supported the Turkish authorities' view on the period covered by the CAE, noting that an average assessment of the whole ten year period might not have fully captured the recent achievements and differences between the two sub-periods. IEG noted that while defining a period to be rated is often a challenge, outcomes of three of the four pillars of the Bank's program during the decade would have been quite similar even if split into separate periods.

Country dialogue, ownership and capacity. Members broadly concurred with the report's emphasis on the importance of maintaining active dialogue with the clients and highlighted the role of country ownership as a crucial component for success. In this regard, they noted the positive impact of decentralizing the Bank's decision-making to the country office in the late 1990s. Management noted that in a country like Turkey, the best way to promote ownership would be drawing appropriate country comparisons, especially with the new EU member countries. Members agreed with the CAE on the need to better engage NGOs and civil society organizations, but also stressed the importance of keeping the government closely involved in that process. Some members expressed interest whether Turkey could be a pilot for testing the use of country systems. Management replied that it would seriously consider piloting the use of country systems in Turkey, both on the fiduciary and environmental side. Another concern expressed by some members was related to the limitations of the ring-fenced approach in project implementation and the role of the PIUs.

Private sector development and the role of IFC. Members agreed with the CAE assessment that the Bank's assistance should have centered more clearly on private sector development. Some members echoed the concerns of the Turkish authorities regarding low level of involvement of IFC with the second-tier companies and SMEs and noted the need for more active work towards diversifying the financial sector.

Coordination/cooperation. Several members felt that the IEG report should have paid more attention to some aspects of the Bank-Fund collaboration in Turkey, particularly related to the first pillar of assistance to the country—macroeconomic stability. They noted that a more frank discussion of some disagreements between the two institutions would have been beneficial for informing the Bretton Woods Institutions in other important client countries of comparable size. IEG noted that despite some disagreements on country stabilization program in the past, the Bank-Fund relationship in Turkey has been overall very productive—their collaboration on the 2001 reform being an example of best practice. Some members noted the Turkish government's concerns about Bank-Fund cross-conditionality issue. Management clarified that since 2001 the Bank-Fund collaboration has been very effective and beneficial for the country. IEG added that in the case of Turkey it was almost impossible to avoid certain overlaps on conditionalities. Responding to concerns raised by some speakers regarding coordination with other donors, management noted that the Bank is working closely with the EU to make sure that the Bank's country assistance strategy is complementary to the EU strategy and helps to build capacity for absorption of expected EU grant funds.

Lessons learned. Some members were interested in the lessons that can be drawn from the Turkey's experience with successful agricultural liberalization and reduction of agricultural subsidies. IEG noted that reduction of agricultural subsidies—one of the real successes of the Bank's support in Turkey—was a result of exemplary analytical work and close cooperation with the authorities. A member noted the importance of lessons learned from the experience with adjustment lending in Turkey, which demonstrated the need for more ex-post conditionalities and sharper sectoral focus. Another member felt that the report could have been more specific about the reasons to clean up the portfolio in Turkey. Several members noted that Turkey's experience provides a typical case in the context of Middle Income Countries (MICs) development, and could serve as a basis for a study of the Bank's experience in MICs, including crisis preparedness, establishment of early monitoring systems and crisis management. IEG replied that it is planning to conduct a study of the Bank's experience in MICs, based on individual CAEs, in the near future. A member suggested that in the future similar reports should make better use of various indicators (e.g. CPIA, WBI governance indicators, others) as guidance for further action needs.

Social sectors. Some members felt that the report could have put more emphasis on poverty reduction and employment generation, given the overall modest achievements in those areas throughout the period under review. IEG replied that since, in its view, employment generation in SME sector would be the best way to overcome poverty in Turkey, the report's focus on private sector development and better synergies with the other members of the WBG in this area would be in line with the Bank's mission to fight poverty. Management noted that the Bank has recently done substantial work in helping the government to build capacity in the poverty monitoring area, creating an annual monitoring system. A member urged more attention to promoting gender equality in Bank projects. Some speakers noted that serious issues remaining in the pension reform in Turkey necessitate having a clear message in that area, and asked for details on the Bank's strategy in this regard. Management noted that it maintains an intensive dialogue with the government to develop significant changes in the presently unsustainable and costly pension system.

Pietro Veglio, Acting Chairman

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