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INTERNATIONAL FINANCE CORPORATION

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP STRATEGY PROGRESS REPORT

FOR

THE REPUBLIC OF TURKEY

FOR THE PERIOD FY12 – FY16

September 16, 2014

Turkey Country Unit, World Bank
Europe and Central Asia Region

International Finance Corporation
Europe and Central Asia Department

Multilateral Investment Guarantee Agency
Economics and Sustainability Group

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The date of the last Country Partnership Strategy was February 28, 2012

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Metric System

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ABBREVIATIONS AND ACRONYMS

AAA	Analytic and Advisory Activities
AFAD	Disaster and Emergency Management Agency
AKP	Justice and Development Party
BEEPS	Business Environment and Enterprise Performance Survey
BOTAS	Petroleum Pipeline Corporation
CAR	Capital Adequacy Ratio
CBRT	Central Bank of the Republic of Turkey
CEM	Country Economic Memorandum
CG	Corporate Governance
CoP	Community of Practice
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
CPSPR	Country Partnership Strategy Progress Report
CSDPL	Competitiveness and Savings DPL
CTF	Clean Technology Fund
DPL	Development Policy Loan
DO	Development Objective
DPM	Deputy Prime Minister
DPR	Diversified Payment Rights
DRG	Diagnosis Related Groups
ECE	Early Childhood Education
ECSEE	Energy Community of South East Europe
EFIL	Export Finance Intermediation Loan
EIA	Environmental Impact Assessment
EPIAS	Energy Market Operations Company
ESES	Environmental Sustainability and Energy Sector
EU	European Union
FDI	Foreign Direct Investment
FILs	Financial Intermediary Loans
FLP	Female Labor Force Participation
GDP	Gross Domestic Product
GFDRR	Global Facility for Disaster Reduction and Recovery
GHG	Greenhouse Gas
GPF	Governance Partnership Facility
HSYK	Supreme Board of Judges and Prosecutors
IBRD	International Bank for Reconstruction and Development
ICP	International Comparison Project
IDF	Institutional Development Fund
IP	Implementation Progress
IPA	Investment Promotion Agency
IRBM	Integrated River Basin Management Project
IFC	International Finance Corporation
IPF	Investment Project Financing
IPA	The Instrument for Pre-Accession Assistance
ISIS	Islamic State of Iraq and the Levant
ISKUR	Turkish Employment Agency
ISMEP	Istanbul Seismic Risk Mitigation and Emergency Preparedness Project
KAGIDER	Women Entrepreneurs Association of Turkey
KENTGES	Urban Development Strategy and Action Plan
M&E	Monitoring and Evaluation
MNA	Middle East and North Africa
MICs	Middle-Income Countries
MIGA	Multilateral Investment Guarantee Agency
MoD	Ministry of Development
MoEU	Ministry of Environment and Urban Planning
MoFSP	Ministry of Family and Social Policies
MoFWA	Ministry of Forestry and Water Affairs
MoH	Ministry of Health
MOLSS	Ministry of Labor and Social Security
MoNE	Ministry of National Education
MoU	Memorandum of Understanding
MPC	Monetary Policy Committee
MSMEs	Micro, Small, and Medium Enterprises
MSP	Municipal Services Project
MTP	Medium-Term Program
NCA	National Capital Accounting
NCD	Non-Communicable Disease
NDP	National Development Plan
NPL	Non-Performing Loan
NWBMS	National Water Basin Management Strategy
OECD	Organisation for Economic Co-operation and Development
PFM	Public Financial Management
PKK	Kurdistan Workers' Party
PM	Prime Minister
PMR	Partnership for Market Readiness
PPFM	Programmatic Public Financial Management
PPIAF	Public-Private Infrastructure Advisory Facility
POS	Point of Sale
PPPs	Public Private Partnerships
pps	percentage points
PR	Progress Report
PRI	Political Risk Insurance
PSIA	Poverty and Social Impact Analysis
RAS	Reimbursable Advisory Services
R&D	Research and Development
RE	Renewable Energy
ROA	Return on Assets
ROE	Return on Equity
SAFE	Strengthening Accountability and Fiduciary Environment
SCD	Systematic Country Diagnostic
SCP	Sustainable Cities Project
SIDA	Swedish International Development Cooperation Agency
SMEs	Small and Medium Enterprises
SOE	State Owned Enterprises
SSG	Sustaining Shared Growth

SSI	Social Security Institution
TA	Technical Assistance
TCDD	Turkish State Railways
TEIAS	Turkish Electricity Transmission Company
TF	Trust Fund
TKYD	Corporate Governance Association of Turkey
TL	Turkish Lira
TUIK	Turkish Statistical Institute
UN	United Nations
UNICEF	United Nations Children's Fund
WAVE	Wealth Accounting and Evaluation Program
WB	World Bank
WBG	World Bank Group

COUNTRY PARTNERSHIP STRATEGY PROGRESS REPORT

THE REPUBLIC OF TURKEY

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Map of the Republic of Turkey (IBRD No.33501)

I. Introduction

1. **Turkey has had good performance in reducing poverty and boosting shared prosperity in the past decade.** Between 2002 and 2011, extreme poverty fell from 13 percent to 5 percent, while moderate poverty fell from 44 percent to 22 percent (World Bank data respectively for US$2.5 and US$5 a day). The labor market has been the most important factor driving poverty reduction in Turkey in the 2000s, with around two thirds of the decline in poverty due to higher private sector earnings or higher employment rates among poor households. Other main drivers of these positive changes were social assistance and pensions. Pockets of poverty and vulnerability remain, particularly in rural areas and in the economically less advanced regions. Rural poverty rates are around twice the level in urban areas, even though the majority of the poor live in cities.

2. **The Country Partnership Strategy (CPS) starting in FY12 remains relevant and is extended by one year to include FY16.** The three pillar structure - Pillar 1: Enhanced Competitiveness and Employment; Pillar 2: Improved Equity and Public Services; and Pillar 3: Deepened Sustainable Development - continues to frame the country engagement well. It is on track to deliver on most of the expected results. Progress is assessed as overall on track with one thematic area completed and a few areas on watch. Some adjustments are made at the thematic area level for the last two years of the CPS (FY15 and 16) in view of (i) aligning the CPS with the World Bank Group (WBG) Twin Goals, and (ii) updating the CPS based on shifts in client priorities and changes in country circumstances. The adjustments to the CPS structure in our engagement are triggered primarily by less than anticipated demand in lending for social services and a rethinking on governance and transparency. The CPS so far has delivered financing of over US$5.5 billion during FY12-14 including US$2.7 billion from the International Bank for Reconstruction and Development (IBRD), US$2.8 billion from the International Finance Corporation (IFC), and US$65 million from the Multilateral Investment Guarantee Agency (MIGA) with an overall well performing portfolio. In addition, IBRD lending over US$1.15 billion has already been approved for FY15. Going forward the CPS faces a more fragile economic and a more complex political environment. The one-year extension will allow the CPS to be aligned with the political cycle as parliamentary elections are scheduled for mid-2015. The IBRD financing envelope for the five year CPS-period is expected to be up to US$6.45 billion with US$3 billion combined in FY15 and 16 reflecting the additional exposure available following the increase in the IBRD Single Borrower Limit. IFC's own-account investment program in Turkey is expected to be in the range of US$600-650 million each in FY15 and FY16.

II. Update on Country Developments in Turkey

Changes in the Political Environment

3. **The governing Justice and Development Party (AKP) continues to enjoy strong public support but the political temperature has risen during the current heavy electoral cycle.** While the presidential and the municipal elections provided a strong endorsement to the AKP government, political tensions have remained elevated since large scale protests around Istanbul's Gezi Park in the spring of 2013, accentuated by the launch of a corruption probe against senior government officials in December. The resulting tensions and heightened political temperature has affected investor confidence, although market concerns have lessened following the municipal elections. At the local elections in March 2014, the governing AKP won 46 percent of the national vote, including the metropolitan municipalities of Istanbul and Ankara. Prime Minister Recep Tayyip Erdoğan has been elected President of the Republic (a five year term that allows one reelection) at a first time

nationwide direct Presidential election in August 2014 after having been in power for 12 years as Prime Minister. Final elections of this heavy cycle, the parliamentary elections, are scheduled for mid-2015.

4. **Turkey's foreign and security policy environment has become more challenging since the CPS was approved.** The security environment in Turkey's neighborhood has deteriorated with ongoing conflict in Syria and Iraq. Turkey has accommodated over 1 million refugees from Syria, straining host community resources. Security risks along the border have increased. Turkey's authorities are engaged in a process of resolving the long-standing internal conflict in Turkey's South-East. Relations with the European Union (EU) remain strained, despite the opening of an additional chapter (on regional development) in Accession negotiations in late 2013. Trade relations and the Customs Union Agreement have received greater attention in the context of Turkey's interest to join the Trans-Atlantic Trade and Investment Partnership. Turkey will chair the G20 in 2015.

Changes in the Economic Environment

5. **Turkey's economy has experienced significant volatility over the past three years.** Gross Domestic Product (GDP) growth of close to 9 percent in 2010-11 was followed by a correction to 2.2 percent in 2012 and a modest recovery to 4 percent in 2013. Turkey's reliance on external financing made the country vulnerable to the waxing and waning of investor sentiment in relation to emerging markets. Further emerging market jitters in late 2013 and rising domestic political tension put pressure on the Turkish Lira (TL), which has depreciated by some 12 percent since May 2013, forcing a sharp monetary policy tightening and significant increase in domestic interest rates in January 2014. With the exchange rate stabilizing, and credit growth coming down sharply, the Central Bank of the Republic of Turkey (CBRT) decided to lower the policy rate cumulatively by 175 bps between May 22 and July 17, 2014. Given an inflation outlook well above the CBRT's 5 percent target, while twelve-month inflation rose to 9.7 percent in May 2014 from 6.5 percent a year earlier, these moves seem to be premature.

6. **Looking two to three years ahead, Turkey (like other emerging markets) may have to settle for a period of more modest growth, as higher global interest rates and risk of re-pricing increase the cost of external financing.** Economic growth is likely to be about 3.5 percent of GDP in 2014, with high inflation but a narrower current account deficit, before recovering to about 4 percent annually over the medium term. Inflation is projected to ease towards the official target of 5 percent in the medium term, helping limit real exchange rate appreciation.

7. **Turkey's dependence on external financing and the corporate sector's large open foreign exchange position are the main risks to the baseline economic outlook.** Turkey's external financing needs amount to about US$210 billion (27 percent of GDP) in the coming 12 months and are likely to remain high over the medium term. The prospect of tighter monetary conditions in the advanced economies and investor concerns over domestic political uncertainty and governance risks could put pressure on Turkey's external finances. Further depreciation of the lira could strain the balance sheets of corporates with large foreign exchange liabilities which in turn could have spill-over effects on the banking sector and the labor market, especially through the construction sector. The expected slowdown in credit growth and squeeze on interest margins is likely to reduce bank profitability. Additional economic risks result from the volatile security situation in Turkey's neighborhood. Interruption of trade with and transit routes through Iraq could hurt export performance, while security related energy price increases could increase import bills.

8. **Turkey's fiscal and financial sector buffers will help mitigate these risks.** The central Government budget deficit narrowed to 1.2 percent of GDP in 2013 from 2.1 percent in 2012 thanks to buoyant tax revenues and public debt is just below 40 percent of GDP. The banking sector remains well capitalized and non-performing loans are below 3 percent system-wide.

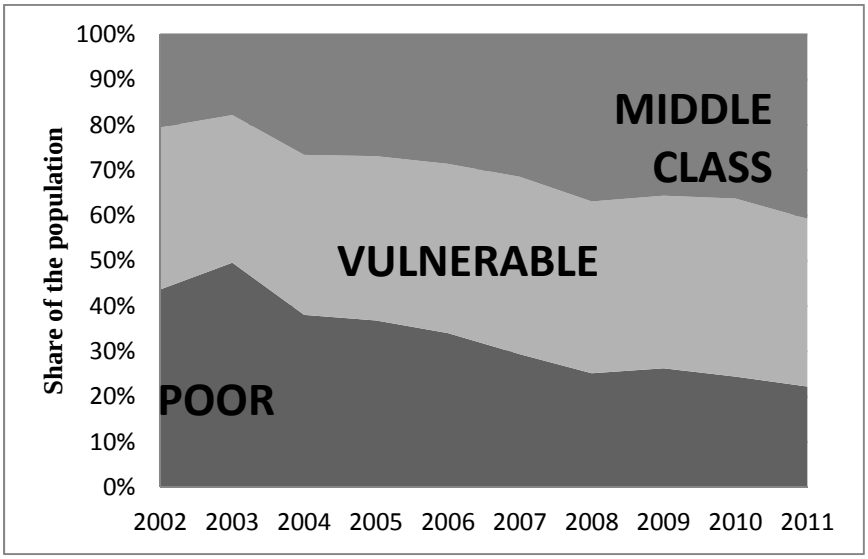
9. **Measures to promote transparency and good governance could help build investor confidence and lower risks in the short term, while over the medium term renewed structural reforms will be critical for growth.** Turkey's aspirations to reach high income are closely tied to improvements in the quality of economic institutions. Recent Government efforts to increase transparency have focused on an independent financial audit and investor protection, but additional steps are needed to strengthen the rule of law and public sector governance. Medium-term structural reforms have been outlined in the Government's 2014-18 Development Plan and comprehensively cover competitiveness, inclusion and sustainability challenges. Particular efforts are needed to increase Turkey's attractiveness to Foreign Direct Investment (FDI), given the country's financing needs and the potential for technological upgrading that foreign investment can bring. Additionally, important reforms on the Government's agenda this year include the adoption of a new employment strategy to make labor markets more flexible and the enactment of a new income tax law to simplify the tax system.

III. Progress towards the Twin Goals: Preliminary Assessment

10. **Turkey has had good performance in reducing poverty and boosting shared prosperity in the past decade.** Between 2002 and 2011, extreme poverty fell from 13 percent to 5 percent, while moderate poverty fell from 44 percent to 22 percent (WB data respectively for US$2.5 and US$5 a day, Figure 1). The labor market has been the most important factor driving poverty reduction in Turkey in the 2000s, with around two thirds of the decline in poverty due to higher private sector earnings or higher employment rates among poor households. Other main drivers of these positive changes were social assistance and pensions. Continuing this performance in the future will require several challenges to be addressed including: (i) improving better protection of the poor from economic volatility given a potentially more challenging external environment; (ii) improving access to markets with a focus on reducing gender and rural/urban gaps; (iii) increasing female labor force participation; and (iv) reducing intergenerational inequality by weakening the link between people's initial life circumstances and their future socio-economic outcomes.

11. **Pockets of poverty and vulnerability remain, particularly in rural areas and in the economically less advanced regions.** Rural poverty rates are around twice the level in urban areas, even though the majority of the poor live in cities. While there has been a considerable decrease in regional inequalities in income as well as access to services, gaps still remain, with the East and Southeast of the country particularly affected. In addition, an analysis of shared prosperity dynamics by sub-periods reveals strong progress until around 2007 and increasing inequalities during the crisis-years. While social transfers have been significantly expanded and have played an important role in supporting incomes of the bottom 40 percent, there may be scope for further increasing the effectiveness of social assistance to mitigate risks of vulnerability in the face of macroeconomic volatility. Several of these issues require further analysis feeding into a Systematic Country Diagnostic (SCD) (planned for FY16) to inform WBG engagement over the medium-term. See Annex 5 on more information on the Twin Goals of poverty reduction and shared prosperity in Turkey.

Figure 1: Poor, Vulnerable and Middle Class in Turkey during 2002-2011



Source: Azevedo and Atamov (2014)[1]

IV. Results and Progress towards Achieving CPS Outcomes

12. **The CPS is on track to deliver on most of the expected results but the more fragile economic environment poses risks.** Most CPS outcome indicators are well on track and a number of milestones have been completed. While the three pillar structure remains relevant, some adjustments have been made to individual thematic areas. Annex 1 and the corresponding results matrix in Annex 2 summarize the progress achieved. Annex 3 presents the adjusted results matrix going forward.

i. *Firmly on track* are the areas of (i) access to finance with strong export and sales growth by companies that benefitted from IBRD and IFC financing; (ii) a more effective and financially sustainable health system where institutional reforms in the health sector have been largely completed; (iii) improved gender equity with an upward trend in female labor force participation and gender certification in the private sector well under way; (iv) improved energy security and more sustainable energy through a strong increase in natural gas and renewable energy generation, and work underway for the establishment of an emission market for Greenhouse Gas (GHG); (v) strengthened environmental management through alignment of regulations with EU policy directives, integrated environmental permitting system, and an approved Water Basin Management Strategy; and (vi) improved sustainability of Turkish cities through strengthened environmental services, resilience to seismic risks, a modern cadaster system, and access to private sector financing. Lending demand for the third pillar on sustainable development has picked up by focusing on complex issues such as municipal planning, smart-grid investments in the power sector, and

[1] Azevedo, Joao Pedro and Aziz Atamanov, 2014. "Pathways to the middle class in Turkey: how have reducing poverty and boosting shared prosperity helped?" Policy Research Working Paper Series 6834, The World Bank.

water management. Turkey has also recorded remarkable achievements in job creation, with nearly 5 million jobs created between January 2009 and December 2013.

ii. *Progress has been slower than expected* in macroeconomic and financial stability as well as investment and business climate reforms. The main reason is the more fragile economic environment which has led national macroeconomic and financial targets to be missed. Moreover, while CPS milestones in support of macroeconomic stability and improvements in competitiveness have been met, several structural reform priorities to boost competitiveness and medium-term growth prospects such as increased flexibility of labor markets and further deregulation of product markets and services have been delayed. The authorities continue to emphasize these measures and the Medium-Term Program (MTP) has incorporated policies on growth, employment, competitiveness and savings in line with World Bank Group (WBG) analytic work and policy recommendations.

iii. *Adjustments to the CPS structure* in our engagement are triggered primarily by less than anticipated demand in lending for social services and a rethinking on governance and transparency. The planned financial engagement in early childhood education did not materialize and forward-going the area of education will be merged with social and public services. This calls for a consolidation of the outcome areas to match mostly analytic and advisory activities (AAA) oriented program around health, education and newly emerging demand for support in social protection. The World Bank's support to Turkey in the area of governance was originally quite narrowly defined around public financial management (PFM) and improved efficiency of social services. Target results in these areas are on track or have been completed. However, recent developments in Turkey motivate a shift in emphasis of the Bank's support towards improved transparency as a key aspect of sustaining investor confidence.

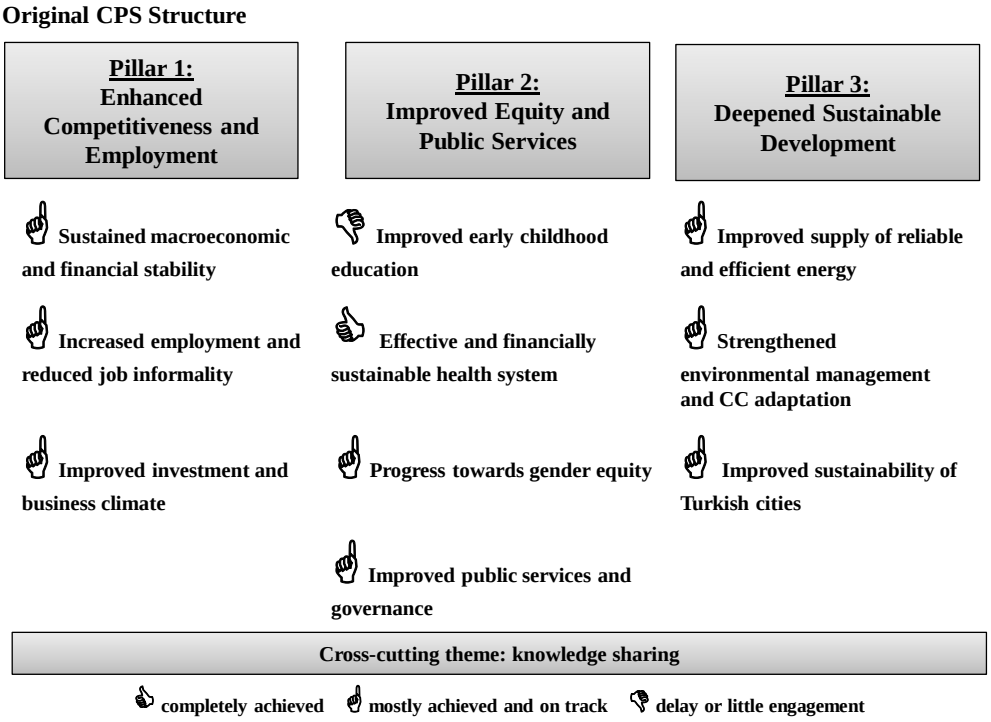
13. **Unde the CPS, the WBG delivered financing of over US$5.5 billion during FY12-14**. IBRD has contributed US$2.7 billion, IFC US$2.8 billion (including US$309 million in mobilization) and MIGA US$65 million. Thanks to IFC's significant expansion, this is above expectations, although IBRD lending has fallen short particularly in FY14. Development Policy Lending (DPL) contributed with two operations totaling US$1.4 billion supporting reforms in energy, environment, savings and competitiveness. Investment lending contributed US$1.7 billion with a shift towards more complex investment lending in energy infrastructure and a new generation of innovative Financial Intermediary Loans designed to maintain the Bank's additionality as financial markets in Turkey have deepened. In addition, IBRD lending over US$1.15 billion has already been approved for FY15.

14. **The IBRD portfolio continues to perform well overall** although FY14 has seen a slowdown in implementation. The reasons are mainly related to slower disbursements on credit lines to SMEs, and delays in the tendering of some large contracts in the energy and municipal sector. With a renewal of the investment portfolio under way, some slowdown in implementation is to be expected, but needs to be proactively managed. Turkey's active IBRD portfolio includes 12 projects with total net commitments of US$5.1 billion as of July 2014. The investment portfolio supports the energy sector (40.4 percent), financial and private sector development (33.5 percent), urban development (24.7 percent), and health (1.5 percent).

15. **Turkey is the IFC's second largest client, while MIGA's business is growing**. IFC has US$4.4 billion in its committed portfolio in Turkey, including US$3.2 billion for its own account

and US$1.2 billion from mobilization. IFC's investments are focused on energy, municipal and transport infrastructure, financial institutions with emphasis on energy efficiency, access to finance for SMEs and women entrepreneurs, deepening of capital markets, private health and education, and enhancing the competitiveness of Turkish firms including their expansion to other emerging markets. Through its investments IFC continues to offer longer maturity, higher environmental and social standards, better corporate governance and its global knowledge. By end FY14, MIGA's outstanding guarantee portfolio is expected to reach US$288 million, with one transport project in Izmir (US$91 million), financed alongside IFC. The reduction in MIGA's gross exposure since FY12 is the result of US$621 million in runoff (cancellations, reductions and expirations) only partly off-set by US$65 million in new issuances.

Figure 2: Progress towards CPS Results



16. **Turkey greatly values the WBG's knowledge work.** The large analytical and advisory program with around 40 tasks during FY12-14 is carried out with the Government and a broad range of stakeholders. Major tasks are focused on long-term structural and institutional issues, including improvements in the investment climate, how to boost trade competitiveness and regional trade integration, promote skills and job creation, and orient fiscal policy to support growth. A growing area of common interest is to share Turkey's lessons with other developing countries. The Turkey program is supported by selected Trust Funds. The Turkey Trust Fund portfolio currently consists of 35 recipient or Bank-executed Trust Funds. They amount to US$257 million, with the bulk of funding (US$220 million) accounted for by the Clean Technology Fund (CTF).

17. **A new strategic coordination mechanism to prioritize lending and advisory services has been established.** A joint Government - WBG CPS Steering Committee was set up (meeting about three times a year) to strategically guide analytical and investment support, together with a CPS

Working Group (meeting about four times a year) to support implementation of AAA and investment projects. Possibilities to develop Reimbursable Advisory Services (RAS) and address associated legal and contractual issues will be explored by the CPS Working Group Committee and the Steering Committee.

V. The Government's Program

18. **Turkey's National Development Plans (NDPs) form the basis of the partnership between Turkey and the WBG.** The Ninth (2007-13) and the new Tenth Development Plan (2014–18) overlap the CPS period. The main pillars of both Development Plans are fully consistent with the CPS, and with the CPS Progress Report (PR) the alignment is further fine-tuned. The one-year CPS extension coincides with the mid-term review of the Tenth NDP.

19. **The Tenth NDP stretches from 2014 to 2018 and diagnoses the key challenges that Turkey needs to address to overcome the "Middle Income Trap".** The focus of the NDP is on building Turkey's human and social capital (Pillar 1: Qualified Individuals, Strong Society), enhancing its competitiveness and boosting productivity (Pillar 2: Innovative Production, Sustainable High Growth), and ensuring Turkey's development progress is in harmony with the environment (Pillar 3: Livable Spaces, Sustainable Environment). The NDP identifies 25 priority national spending programs, many of them of a largely cross-sectoral nature reflecting the complexity of the challenges that Turkey faces as it moves towards high-income. Relative to previous development plans, an increased focus has been placed on Monitoring and Evaluation (M&E) with specific targets for each program and one entire program calling for strengthening Turkey's statistical and information infrastructure. A notable change is a fourth pillar in the NDP on Turkey's newly-emerging donor role. As an upper middle income country, Turkey has assumed an active role in overseas development assistance. The pillar emphasizes this new role and provides for more active participation of Turkey in multilateral organizations.

VI. The Country Partnership Program Going Forward

20. **The CPS FY12-15 has been extended by one year to include FY16.** The authorities have requested this one year extension, which will allow the CPS to also be aligned with the political cycle, as parliamentary elections are scheduled for mid-2015. The CPS PR includes increased diagnostic work to lay the foundation for the preparation of a Systematic Country Diagnostic in FY16 and transition to a Country Partnership Framework (CPF) in FY17 taking into account priorities of the incoming government and coinciding with the mid-term review of the Tenth NDP.

21. **The CPS pillar structure and the three strategic objectives remain highly relevant.** The CPS design continues to be closely aligned with Turkey's development priorities, as well as synchronized with the new ECA strategy. The CPS is already strongly aligned with the WBG goal of boosting shared prosperity goal and with this PR, areas have been identified to strengthen the focus on addressing remaining pockets of poverty and vulnerability. Analytical work during the remainder of this CPS has been designed to fill information gaps to validate the alignment of the WBG's activities with the Twin Goals and feed into the forthcoming Systematic Country Diagnostic. Annex 5 summarizes the analysis of alignment carried out so far, based on ECA's proposed asset-based framework to understand the drivers of shared prosperity.

22. **The IBRD financing envelope for FY15 and FY16 reflects the additional exposure available following the increase in the Single Borrower Limit.** Lending is expected to be US$1.8

billion in FY15 and US$1.2 billion in FY16, with around one third in DPL and the remainder in investment lending with FILs continuing to having a good share. The total expected CPS envelope is therefore expected to be up to US$6.45 billion. The program includes a programmatic DPL series on Sustaining Shared Growth with a total financing amount of US$1-1.3 billion, with a possible increase in the size of the second operation from US$500 million for the first one depending on the pace of reform implementation. The Investment Project Financing (IPF) program is well defined for FY15, but FY16 operations are only indicative at this stage (see Table 1). The complete financing program for the entire CPS period FY12-FY16 is presented in Annex 6.

Table 1: Turkey Projected Financing Program FY 15-16

FY15	$ (M)	FY16	$ (M)
Sustaining Shared Growth DPL	500	Sustaining Shared Growth DPL 2	500
DPL Subtotal	**500**	**DPL Subtotal**	**500**
Water Basin Management and Rehabilitation	50	National Disaster Mitigation	300
Gas Sector Development (BOTAS) Additional Financing	400		
Sustainable Cities	300	Health	100
Innovative Access to Finance	250	Financial Sector Operation	300
Geo-thermal Energy Development (plus CTF)	300		
Long Term Finance Guarantee (300 Million USD) - tbd			
IPF Subtotal	**1,300**	**IPF Subtotal**	**700**
Total	**1,800**	**Total**	**1200**

23. **IFC will support strategic objectives across all three pillars of the CPS.** IFC will provide financing in the range of US$600-650 million per year in FY15 and FY16 and work directly with Turkish corporates to improve their competitiveness, including in the less developed regions of Turkey. IFC will continue to support the launch of innovative products and explore opportunities to develop the Turkish corporate bond market. It will also work with financial institutions to promote financial inclusion by reaching out to underserved segments of the market, including female entrepreneurs, businesses in less advanced regions and Micro, Small and Medium Enterprises (MSMEs). IFC is also actively pursuing opportunities to support private investors in health and education. IFC will continue to invest in sustainable infrastructure, including in renewable energy, municipal services and in the transport sector.

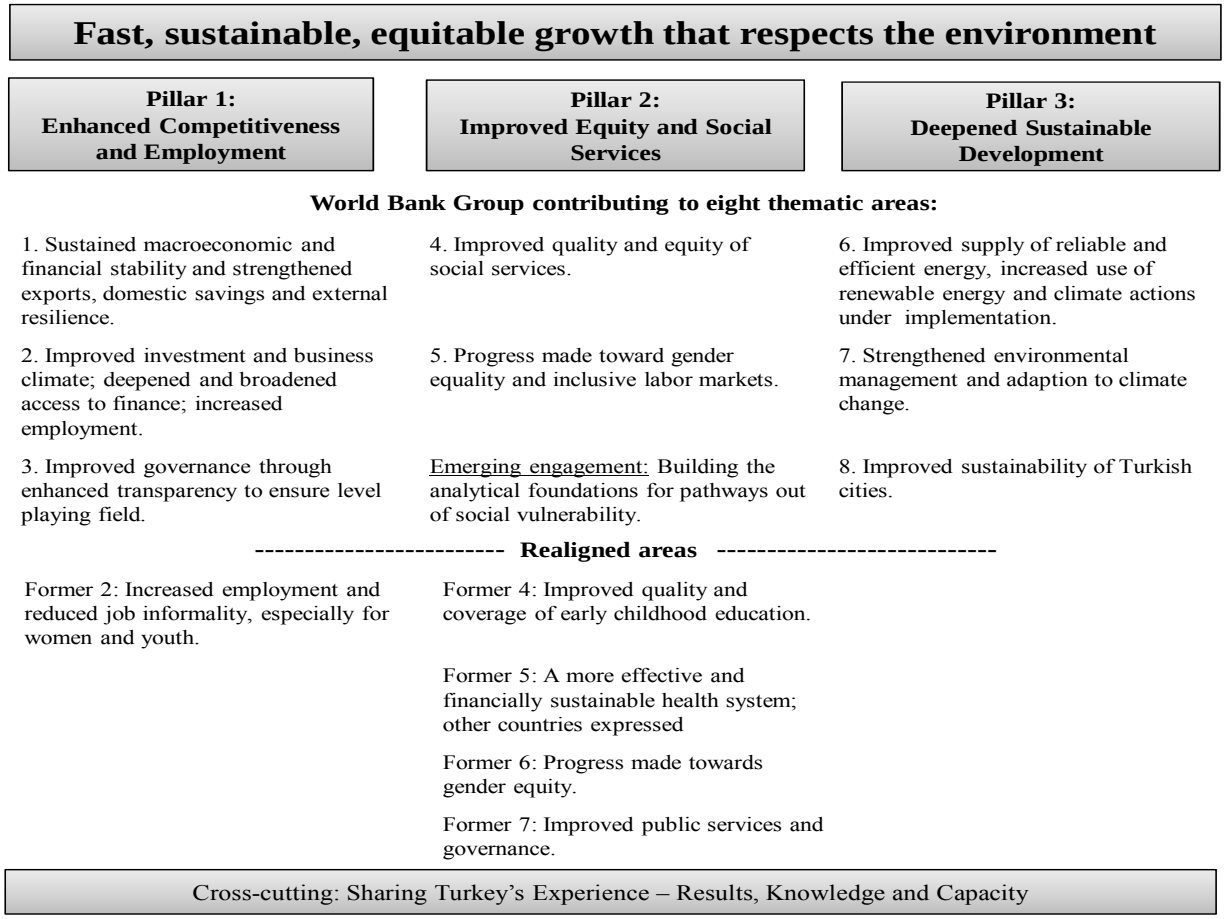
24. **Turkey will be the subject of targeted MIGA business development efforts to unlock opportunities for credit enhancement - as well as political risk insurance (PRI) coverage.** The most promising opportunities for MIGA at this point in time seem to lie in the financial sector (supporting on-lending to Small and Medium Enterprises (SMEs) and exporters), urban transport, as well as public private partnerships (PPPs) in the health care sector. Prospective MIGA support for outgoing Turkish investment, supporting backward linkages with the Turkish economy, is focused on manufacturing projects in the MNA region.

25. **Turkey's development priorities provide ample opportunities for unlocking value from closer cooperation across the WBG.** The energy sector is an example where IBRD work on the regulatory framework has helped unlock significant IFC support private investment to expand renewable energy and energy efficiency. The same opportunity presents itself in the health sector, the railway sector, the municipal sector and in PPPs more generally, with the health sector most advanced. In the financial sector, the combined balance sheet and product range of the WBG will be

mobilized to increase the domestic funding pool and attract longer-term financing, particularly to benefit Turkish exporters and SMEs and infrastructure financing.

26. **While knowledge services will continue to have a central position in the WBG's partnership with Turkey, WBG budget resource constraints will require prioritization and pose some trade-offs.** The availability of additional IBRD headroom and a relatively weak IPF pipeline beyond FY15 require a shift of WBG budget resources towards lending preparation in order to build a stronger IPF pipeline. AAA tasks need to be prioritized around core diagnostics (such as Country Economic Memorandum's (CEMs), Public Financial Management Reviews and Governance related work) and analytical work related to the Twin Goals and support for public goods. A core AAA program has been defined around themes that reflect an urgent development priority, well-articulated client demand and where the public good justification for the use of Bank budget resources is strong. While there is demand for capacity building and TA in other areas, this will increasingly need to be financed through RAS (publicly funded including using EU Instrument for Pre-Accession Assistance (IPA) funds) in line with the trend in other upper Middle Income Countries (MICs). RAS is a nascent business in Turkey and the focus during the remainder of this CPS will be on establishing a framework for selecting tasks and reducing transaction costs.

Figure 3: Turkey CPS FY12-16: Strategic Pillars and CPS Thematic Areas



27. **Changes to the CPS structure: While retaining the three pillar structure, the CPS thematic areas have been tightened**. The number of CPS thematic areas has been reduced from ten to eight. The following are the key changes and considerations behind them:

- The separate Thematic Area covering the employment agenda (former Thematic Area 2) has been integrated into the new Thematic Area 2 on the investment climate and job creation and into the new Thematic Area 5 on gender equality and inclusive labor markets. The rationale is twofold: first, it better reflects the links between job creation and the business climate, and second, it strengthens the focus on gender by bringing the issues of increased female labor force participation together with other aspects of our gender work, previously under Thematic Area 6.
- Improving governance and transparency was moved from Pillar 2 to Pillar 1 and has become the new Thematic Area 3. This is motivated by the realization that the impact of weaknesses in governance and transparency on investor confidence and hence on Turkey's competitiveness has become the key development challenge in this area. While work on improving PFM systems will continue this shift brings together work on financial reporting, auditing, SOE governance, land management, and the investment climate to support Turkey's transition to high income.
- The new Thematic Area 4 brings together several strands of work related to social service delivery under one new consolidated thematic area with an emphasis on health, education and social protection. The planned financial engagement on early childhood education did not materialize but education is expected to be a continued theme in this CPS. (See Annex 1 under Thematic Area 4 for more details)
- A new "Emerging Engagement" is reflected on building the analytical foundations for pathways out of social vulnerability. This engagement brings together existing analytical support to improve Turkey's poverty and shared prosperity measurement and monitoring capacity with new diagnostic work on pockets of vulnerability, including potential avenues to boost shared prosperity in Turkey's less advanced regions. Given that dialogue has only recently started, this is not reflected in a self-standing thematic area.

a. Strategic Pillar 1: Enhanced Competitiveness and Employment

28. **Thematic Area 1: Sustained macroeconomic and financial stability and strengthened exports, domestic savings and external resilience.** The Government's Tenth NDP and the 2014-16 MTP projects robust growth at around 4-5 percent over the coming years, grounded in continued strong economic policies and reforms. The WBG's program includes continued macroeconomic and fiscal dialogue in the context of development policy lending (including the adoption of a new income tax law), a Turkey Regular Economic Note, a CEM on Human and Physical Capital (Investment), support for the roll-out of the new pension system and additional work on boosting trade competitiveness (with a possible focus on services trade).

29. **Thematic Area 2: Improved investment and business climate; deepened and broadened access to finance; increased employment.** WBG support will focus on (i) the design and implementation of structural reforms to boost labor market flexibility, strengthen innovation, and deepen financial inclusion (including through DPL), (ii) innovative funding instruments for SMEs and corporates through the banking sector and the capital markets (iii) RAS-funded TA to improve

management of the PPP cycle and (iv) selective work to improve regional transport links and logistics.

30. **Thematic Area 3: Improved governance through enhanced transparency to ensure a level playing field.** There have been major improvements in Turkey over the past decade in Public Finance Management (PFM), competition policy, the regulatory framework for private investment in infrastructure and the adoption of anti-corruption policies. However, changes de jure have often not been met with similar progress in implementation. Recognizing the close links between improved governance and investor confidence, the CPS PR proposes an expanded governance engagement, focusing on easing business registration, corporate financial reporting and audit, investor protection, land management, and sustaining regulatory reforms in infrastructure, in addition to continued support for PFM reforms, including internal and external audits, State-owned Enterprise governance and public procurement. Specific instruments include a DPL, a Programmatic Governance TA (FY15 and FY16), and a possible RAS on PPPs (FY15/FY16).

31. **Collaboration between IBRD, IFC and MIGA under this pillar is expected to further deepen and linkages across themes will be strengthened**: A Joint Implementation Plan will be prepared to review how IBRD and MIGA credit enhancement and IFC mobilization capabilities can be used to maximize the leverage of commercial term-funding, while at the same time pushing out the financing frontier to underserved segments of the market. Joint opportunities for domestic resource mobilization through the capital markets will be part of this effort, as will efforts to support Turkey's promotion of financial inclusion and Islamic Finance in the context of its upcoming G20 Presidency. MIGA guarantees will continue to be deployed to mitigate any perceived political risks impeding foreign investments into Turkey. In the area of support for entrepreneurship and private investment, a program of joint analytical and advisory activities under the leadership of the Trade and Competitiveness Global Practice is being developed. A CEM of Human and Physical Capital (Investment) will explore factors impeding FDI and domestic investment, including macroeconomic, governance and regulatory risks, where IFC's private sector perspective will be particularly valuable.

32. **Pillar 1 contribution to the WBG's Twin Goals**: Pillar 1 aims to help Turkey lay the foundations for sustained economic growth, led by the private sector, and based on improved competitiveness and continued productive job creation. While the objectives of safeguarding macroeconomic stability and boosting national savings rates (Thematic Area 1) provide a foundation for continued improvements in shared prosperity in Turkey, activities under the first pillar also directly contribute to the twin goals. Specifically, the following channels can be highlighted.[2]

- The Sustaining Shared Growth (SSG) DPL supports policies that are expected to further increase employment rates of women, together with other disadvantaged groups such as youth, disabled people or the long-term unemployed (Thematic Area 5). Specifically, low income wage earners are expected to benefit from targeted measures to increase employment of low-skilled women. This work is flanked by programmatic AAA to help Turkey sustain the rapid pace of job creation in recent years, with a focus on youth and women, and on ensuring new employment opportunities contribute to increasing Turkey's overall productivity.

[2] This summary draws on a comprehensive Poverty and Social Impact Analysis (PSIA) prepared for the Sustaining Shared Growth DPL (SSG-DPL), see Turkey: SSG-DPL Poverty and Social Impact Analysis, May 14, 2014.

- The SSG also assists Government efforts to broaden financial inclusion (see Thematic Area 2) which will have a positive poverty and distributional impact. There are pronounced gaps in access to financial resources across gender, place of residence and social economic status in Turkey. To achieve the most positive distributional effects for the Bottom 40, a financial inclusion strategy needs to complement efforts at developing and deepening financial markets more generally.
- Activities in support of Thematic Area 2 also include new investment lending operations to support the growth of SMEs through access to long-term funding, and through this continued employment creation. SMEs account for 76 percent of employment and the labor market has been key for translating economic growth into improvements in shared prosperity. The SSG DPL and an extensive AAA program complement these efforts in the area of strengthening the investment climate to encourage productive job creation. Provisions to ensure a certain amount of funding goes to disadvantaged regions (Pillar 2) also directly support social inclusion objectives (although the track record of existing lines of credit in this regard could be stronger).

b. Strategic Pillar 2: Improved Equity and Social Services

33. **Thematic Area 4: Improved quality and equity of social services.** Enhancing equitable access to quality social services is a key channel for further reducing poverty and creating an environment for shared prosperity. The restructured results framework helps bring this work into sharper focus and reflects the shift in client demand in the area of education towards an engagement based on analytical and advisory services as well as new demand for advisory support in the area of social assistance.

- In the area of *health,* the CPS supports a sustained engagement. Building on the impressive gains in providing quality health services to its citizens, the emerging challenge to the health of Turkish citizens is the incidence of Non-Communicable Disease (NCD). Future IBRD engagement in this area would focus on supporting the Ministry of Health's (MoH's) strategic health sector goals, including public health awareness, early detection of chronic diseases, and further strengthening of the stewardship functions of the MoH. IBRD and IFC are planning to work jointly on modernizing the delivery of secondary and tertiary care through PPPs. These goals will be supported through the ongoing health investment operation (FY08) and proposed new IBRD and IFC financing in FY15 or FY16.
- In the area of *education,* the CPS envisages AAA engagement to support Turkey in designing reforms that increase school autonomy and accountability as well as move to a more needs-based equitable financing model for schools. The recent Country Opinion Survey FY14 identified that education quality is considered the top development priority in the country and that WBG support is considered most valuable. IFC would support private sector provision of quality education with particular focus on employability.
- In the area of *social protection,* the CPS is seeking a revived engagement. This area was not included in the first half of the CPS. Turkey has a comprehensive set of targeted social assistance programs that cater to the main categories of vulnerable people. These programs aim to support not only household income, but equitable access to health and education services. While apparently well targeted and institutionally coordinated, coverage remains low and programs fragmented. Reforms to increase the effectiveness of the social assistance system as a whole promise to contribute significantly to the goals of ending extreme poverty

and promoting shared prosperity in Turkey. In the remaining CPS period, AAA is envisaged that will help the Government to benchmark its system against relevant county comparators so as to inform future reform directions in the sector.

34. **Thematic Area 5: Progress made toward gender equity and inclusive labor markets.** This area has been strengthened by including the envisaged work on supporting increased female labor force participation as well as active labor market programs. The DPL, in support of labor market reform and the Swedish International Development Cooperation Agency (SIDA) trust funded Women's Access to Economic Opportunities (FY13), are the main Bank instruments in this area. In addition, programmatic TA with the Turkish Employment Agency ISKUR aims to better tailor services to beneficiaries through improved "profiling" as well as strengthening links between social assistance recipients and the labor market in order to promote activation. The work supports improved outcomes for women and a range of other priority groups including youth and the vulnerable[3].

35. **Emerging Engagement on building the analytical foundations for pathways out of social vulnerability**. Motivated by the need to strengthen the diagnostic basis for policies targeted at pockets of vulnerability in line with the WBG's Twin Goals this new engagement would assess the economic resources of lagging regions, their human and social capital, national and municipal government interventions as well as internal connectivity. The engagement strategy foresees a review of policy issues related to regional growth poles, the investment climate, infrastructure and social services (health and education), and municipal services. Lagging regions overlap with the areas where the majority of Syrian refugees are hosted. This critical development challenge for Turkey, which is taking a significant toll not only on the refugees but also on their host communities and local labor markets, provides an additional possible lens for analytical work. The thematic area includes the ongoing work on revising the national official poverty methodology and related work on looking at regional drivers of poverty and shared prosperity.

36. **The proposed analytical work carried out under Pillar 2 of the CPS will feed into a Systematic Country Diagnostic planned to be delivered in FY16.** The SCD is expected to comprehensively analyze the drivers of poverty reduction and shared prosperity in Turkey. Key themes are expected to be Turkey's prospects for stable and inclusive economic growth, the challenge of upgrading economic institutions to be fit for high income, the need to focus on efficiency and quality in the delivery of public services now that issues of coverage have been largely addressed, and the challenge of reconciling environmental and resource management objectives with the need for continued economic expansion and job creation. The proposed analytical work on pathways out of social vulnerability will provide an opportunity to review the scope for deeper sectoral analysis, including on issues of rural development and agriculture, which have not featured prominently in the dialogue to date.

c. Strategic Pillar 3: Deepened Sustainable Development

37. **Thematic Area 6: Improved supply of reliable and efficient energy, increased use of renewable energy and climate actions under implementation.** Several key challenges still remain, including (i) the need for increased capacity to absorb higher volumes of renewable (wind) energy

[3] See also 'Turkey: Towards Gender Equality in Turkey: a summary assessment', November 20, 2012. The Note provides additional information and analysis on gender equality in Turkey and was distributed to the Board of Executive Directors.

generation into the power system; (ii) increased gas storage capacity to promote gas supply security; and (iii) establishment of the new Energy Market Operations Company (EPIAS) for the operation of electricity and gas market trading platforms. This, and the continued support to private investment in renewable energy sources and in energy efficiency, will be the direction of the CPS going forward. A geothermal energy development program is under preparation that is aligned with national energy security and climate change goals. Joint efforts are also under way to explore investments in energy efficient housing and real estate. As coverage of electricity is almost universal in Turkey including remote locations, the distributional impact of investments in strengthening Turkey's electricity generation and transmission capacity is expected to be neutral if there are no tariff increases. Electricity tariff regulation is market based and tariff measures are not part of the Bank's power sector engagement. The development of market based gas sector regulation, as foreseen by Government policy and supported by DPL, could involve upward adjustment of household prices for gas. At the same time, government investments to expand access to piped gas to poorer rural households are socially and environmentally positive as they reduce reliance on coal and wood as sources of fuel.

38. **Thematic area 7**: Strengthened environmental management and adaptation to climate change. Knowledge work in the first two years of the CPS has resulted in a request for financial support for the proposed Integrated River Basin Management Project (IRBM) (FY15). Engagement on natural resource management will be strengthened by Turkey's decision to become a participating member of the World Bank's Wealth Accounting and Valuation Program (WAVE). Natural Capital Accounting (NCA) studies will be piloted for the water and forestry sectors in one river basin. Complementary technical assistance to the Ministry of Forestry and Water Affairs (MoFWA) will provide help to promote integrated urban water management practices at the municipal utilities. It is also expected that the Forestry NCA will contribute to an updating of Turkey's Forestry Sector Strategy. The IRBM project will pilot a model of integrated multi-sectoral water resources management in two selected river basins of Turkey. This project will contribute directly to the twin goals, because global experience has shown that improving water resources management is a critical upstream action for achieving productivity improvements in various sectors such as industries, agriculture, and urban, as well as enhancing income and livelihood opportunities for local poor populations. IFC will continue to focus on financing projects that mitigate the Climate Change through investing directly in the private companies or indirectly through investing in the financial institutions.

39. **Thematic Area 8: Improved sustainability of Turkish cities.** Turkey's Tenth NDP calls for promoting livable cities, sustainable environment, and social cohesion in cities as top priority objectives of the Government. In addition to investment lending support through the Sustainable Cities Project (SCP) (FY15) the following activities are planned: (i) preparation of Sustainable Cities Action Plans, including priority investments, with a Urban Database Platform for eight participating metropolitan municipalities; (ii) supporting the Disaster and Emergency Management Agency (AFAD) in developing a Multi-Hazard Risk Strategy and Platform, and exploring ways of expanding Istanbul Seismic Risk Mitigation and Emergency Preparedness Project (ISMEP) experience on a national scale; (iii) enhancing policies governing property valuation with potential for scaling up mass property valuation pilots; and (iv) programmatic TA to promote social cohesion at the city/community level, including in host communities of Syrian refugees. The SCP would contribute directly to addressing the twin goals by (i) targeting second-tier metropolitan municipalities primarily in the less-developed central and eastern parts of the country; (ii) supporting

expansion of municipal service coverage to low-income, underserved settlements within the extended boundaries of the municipality; and (iii) increasing access to public transit for low income households seeking affordable transport to jobs.

40. **IBRD and IFC have been working collaboratively with multiple stakeholders to enhance the municipal credit market.** This has involved support to Treasury and Iller Bank in reviewing their municipal credit and risk analysis and the preparation of two shadow credit ratings for selected metropolitan municipalities seeking to participate in the Sustainable Cities Project. This joint work is being funded by Public-Private Infrastructure Advisory Facility (PPIAF). In addition, IFC continues providing financing without a sovereign guarantee to bankable municipalities to help diversify their funding sources.

d. Additional Considerations

41. **The three CPS pillars are mutually reinforcing and linkages across thematic areas are strong.** Thus support for sustainable cities feeds into improved competitiveness and inclusion, as cities account for 85 percent of the value added produced in Turkey and are at the center of job creation and improved access to services. Labor market reforms not only make labor markets more flexible, but also facilitate greater opportunities for women and youth. Reforms to social assistance and social security are a factor in determining domestic savings rates, and energy efficiency feeds into reduced external imbalances. Issues of regional and rural vulnerability are often related to issues of natural resource management. The CPS thus provides ample opportunities for collaboration across themes and Global Practices.

42. **The cross-cutting theme of knowledge sharing has developed into an overall strong and well mainstreamed engagement.** Highlights of this work include: (i) the now operational Knowledge Hub on Islamic Finance in Istanbul supported with Turkish funding; (ii) a Flagship Report 'Turkey's Transitions: Integration, Inclusion, Institutions' covering the development experience over the past three decades; and (iii) sector specific notes and background papers on Turkey's health and energy sector reforms. The challenge ahead is to design a more systematic approach to capturing and sharing knowledge through the WBG's new Global Practice structure.

43. **Gender inclusion will be further strengthened in the entire country program beyond the specific gender outcome under Pillar 2**. A gender portfolio review demonstrated that the Turkey operational program is at the same level as the ECA region with five of the projects approved in FY12-13 having been gender informed in analysis. Going forward, however, additional efforts need to be undertaken to meet all three dimensions under the new WBG Corporate Scorecard 2014: (a) analysis, (b) actions, and (c) results framework. All pipeline projects are undergoing a systematic gender inclusion screening to identify opportunities early on.

44. **Turkey's civil society, private sector and development partner representatives continue to welcome the WBG strategic directions and changes as laid out in the CPS PR**. Stakeholder consultations in preparation of this CPS PR highlighted the need for continued emphasis on education (in particular early childhood education), sustainable environmental management and strengthened work in the area of governance. The private sector pointed at the low levels of foreign direct investments to Turkey and welcomed the emphasis on the investment climate and specifically the related transparency and governance agenda. Areas identified for future close collaboration included financial inclusion and PPPs. The recent Turkey Country Opinion Survey FY14 showed that the WBG is considered relevant and overall effective and aligned with the country's priorities with overall significant improvements since the FY11 survey. The Bank's engagement is seen as

positive, and partners appreciate the Bank's openness, straightforward messaging and long-term partnership. Relatively lower ratings, but not low, relate to the Bank's flexibility and speed. Looking forward, stakeholders believe that the Bank should reach out more to groups outside government, followed by increasing its support to capacity development in country.

VII. Risks

45. The risks identified in the CPS continue to remain relevant. The following changes in circumstances and risk levels deserve to be highlighted:

46. **Changes in economic risks:** Macroeconomic risks have not fundamentally changed since the CPS was prepared in FY12, although the unwinding of extraordinary monetary stimulus in the US has highlighted Turkey's vulnerability to shifts in global liquidity conditions and investor sentiment. However fiscal and financial buffers remain sufficient to make an economic crisis during the remainder of the CPS unlikely. The DPL program remains the key anchor for dialogue on macroeconomic management to mitigate these risks, together with a Turkey Regular Economic Note, published quarterly. In the context of recent financial market volatility, this dialogue has been intensified and is expected to remain at the core of the WBG's engagement during the CPS. Should the macroeconomic environment deteriorate due to external shocks, this could trigger demand for additional Bank support and a shift in the type of engagement.

47. **Changes in political risks:** Continued improvements in the investment climate, and more broadly good governance are critical to the achievement of Turkey's objectives of sustained growth in the range of 4-5 percent annually, driven by improvements in competitiveness. Recent developments have served to highlight the risks to development outcomes from implementation weaknesses in key areas of governance. A further increase in political tensions in the run-up to parliamentary elections in mid-2015 could make investors more cautious, accentuating economic risks, but also divert policy makers' attention from structural reform priorities. Overall, implementation capacity in Turkey is high but the risk is that the heavy electoral cycle translates into administrative caution and delayed decision making.

48. **While the Bank can do little to mitigate the political risks,** the program has been designed to anchor structural reform efforts during the current electoral cycle. The Programmatic Sustaining Shared Growth DPL supports a sequence of key reforms during 2014 and 2015, and is flanked by programmatic AAA in the key areas of competitiveness, investment climate, and improved private and public sector governance. The WBG will seek to use evidence-based analysis, its convening power across the public and private sectors, and its credibility as an honest broker to create opportunities for constructive policy debate. A key component of the WBG's risk mitigation effort in the remaining CPS period will be a carefully designed outreach and communication strategy. Moreover, the WBG has been putting greater resources into rebuilding a pipeline of investment lending in sectors where a strong policy and regulatory framework is in place (such as in the energy sector). Financial and administrative resources in support of these efforts could be expanded, should the demand and scope for policy-based engagement decline. Proactive management of the portfolio will be needed to mitigate implementation risks. The new coordination mechanisms (CPS Steering Committee and CPS Working Group Committee) set up between the Bank and the Government for strategic management provides an excellent platform for such proactive engagement.

49. **Changes in regional risks***:* Security risks related to the continued civil war in neighboring Syria, the deterioration of the situation in Iraq, the burden of the refugee crisis on host communities,

and an overall challenging regional environment could hamper progress towards target CPS outcomes through outright conflict or by forcing the Government to divert its attention from medium-term development challenges. The WBG stands ready to support the Government and national stakeholders to address these risks. For example, the WBG would be willing to provide analytical support to assess the economic impact of the Syrian refugee crisis on host communities in Turkey's Southeast region and share related international experience; as well as support investments in the private sector and in local infrastructure. This is a high risk but potentially transformative engagement that will be explored in response to Government requirements as developments unfold. Internal WBG coordination across Regions, in particular with MNA, will be strengthened to explore these opportunities and leverage the Bank Group's convening power to facilitate regionally-based solutions to the economic consequences of regional security developments.

Annex 1: Reporting Back: A Narrative by Thematic Area on Progress Achieved
(complementing the Results Framework "Reporting Back FY12-15 in Annex 2)

Thematic Area 1: Sustained macroeconomic and financial stability and strengthened exports, domestic savings and external resilience.

The outcome indicators are broadly on track: However, the economic environment has become more fragile. Turkey has been experiencing a re-pricing of assets as investor sentiment has been changing since May 2013 in part due to the U.S. Fed's announced tapering. The impact on the domestic economy was initially limited thanks in part to accommodative monetary policies allowing Turkey to grow at 4 percent in 2013, up from 2.2 percent in 2012 as a whole. However, a second round of emerging market jitters accompanied by domestic political turmoil put renewed pressure on Turkey's financial markets in late 2013, forcing a sharp monetary tightening in early 2014. External imbalances, financed largely by short-term capital inflows, remain elevated as well, and constitute Turkey's key vulnerability. The Medium-Term Program (MTP) with is rolling targets has incorporated policies on growth, employment, competitiveness and savings in line with WBG analytic work and policy recommendations. Other country-level indicators like the domestic savings rate, the non-agricultural job informality rate and the public debt levels have performed satisfactorily with the data available. Note: All original outcome indicators in this area are moved to country-level indicators in the revised Results matrix forward-going as the Bank cannot be held accountable for their progress.

The milestones measuring progress were all completed with significant impact:

A new and innovative Private Pension System was introduced in January 2013[4] *aiming to improve the incentives for voluntary retirement savings thus raising the saving rate and making savings longer-term*. A low domestic saving rate has adversely affected Turkey's growth prospects by making the country dependent on volatile external capital flows. DPM Babacan launched a "Savings Policy Package" in March 2012 which was based on the policy recommendations developed under the Domestic Savings CEM, jointly prepared with the Ministry of Development. The immediate focus of the Government's policy reform has been in the area of private pensions, in line with the report's recommendations. Reform efforts have also targeted financial literacy, and a new *National Financial Education Strategy* has been published in August 2014 which has been informed through a financial capability survey in Turkey, the first of its kind. The Bank has been a firm partner throughout the three-year long process and specific instruments have included: Competitiveness and Savings DPL (FY13), Sustaining Shared Growth DPL (FY15), CEM on Domestic Savings (FY12), and TA on Financial Literacy (FY12).

A new Income Tax Law was submitted to Parliament in mid-2013 reforming property taxes and broadening the income taxation base. Improving the linkages between fiscal policies and economic growth, especially on the revenue side, has been the focus of a comprehensive Public Finance Review of the macroeconomic implications of fiscal policy over the last decade. It identified how adjustments in overall tax and spending levels and the structure of public finances might further support private savings, investment, employment, productivity, and growth in the future. The work included capacity building at the Ministry of Development for medium-term

[4] Law no. 6327 amending the Private Pension Saving and Investment System Law no. 4632 was published in the Official Gazette dated June 29, 2012, numbered 28338. All required secondary legislation was published by the Undersecretariat of Treasury between November 9, 2012 and December 29, 2012. The law introducing the amendments came into effect on January 1, 2013.

planning, including the use of computable general equilibrium modeling, to understand the macroeconomic effects of fiscal policy changes.

The policy options in trade competitiveness and regional trade integration were successfully developed through the CEM on Foreign Trade and have been shared and discussed in the country. The study identified specific reforms and investments required in the areas of employment skills and innovation through broad-based Research & Development (R&D) as well as attracting more FDI. To achieve high income status, Turkey needs to upgrade the value-added chain in its exports. The report was prepared in very close collaboration with the counterparts in the MoE and included a capacity building program for relevant ministry staff to establish a database of export incentives and to conduct impact assessments.

International Knowledge Sharing on public debt management. Turkey was selected as a case study for a WBG toolkit on public debt management and capital market development. The Turkish Treasury hosted a study tour from Belarus to share Turkish Debt Management experience in December 2012.

Thematic Area 2: Increased employment and reduced job informality, especially for women and youth.

The outcome indicators are mostly on track. Employment creation has been the most important driver for shared prosperity and Turkey created nearly 5 million jobs between January 2009 and December 2013. Country-level indicators like Turkey's Employment Protection Legislation Index, however, has stayed constant since 2008 with a score of 3.43. Given the low employment rates for women and youth and the expected further increase in labor supply, more work is needed to ensure Turkey makes full use of its demographic dividend. This thematic area represents a particularly challenging and ongoing structural reform.

IFC's investments put a substantial emphasis on new jobs as well as linking education to job preparedness. Through its Education for Employment (E4E) initiative IFC aims to support job-oriented education as one of the highest priorities in the region. Implementing this strategy, IFC invested in three education sector projects in Turkey, including financing a vocational education provider to support the company's expansion in Turkey, Central Asia, and MNA. The number of jobs sustained through IFC's real sector portfolio clients increased from 68,000 in 2011 to 100,000 in 2013. In addition, IFC has created new jobs through its financial sector portfolio banks, especially for women by enabling banks to focus on women-owned SME's. The outcome result is therefore well on track to meet the CPS target of about 70,000 jobs. Note: The first two original outcome indicators in this area are moved to country-level indicators in the revised Results matrix forward-going as the Bank cannot be held accountable for their progress. The IFC indicator remains.

The milestones measuring progress are mostly on track.

The National Employment Strategy has been approved in May 2014 and implementation is the agenda going forward. This critical reform area has been in the making for the last five years and includes:

- Severance pay reform, although no consensus has yet emerged on the reform program. The planned introduction of pre-funded severance pay accounts has not moved forward.

- Increased unemployment insurance coverage. Current levels of coverage for unemployment insurance remain very low by international standards. The government aims to increase the ratio of individuals benefiting from unemployment compensation to all unemployed to 25 percent by 2023 as compared with its 2012 level of 14.5 percent.
- With the goal of extending flexible working arrangements, the Ministry of Labor and Social Security (MoLSS) is presently working on a proposal which is expected to include provisions to expand the use of flexible contracting while also making these compatible with access to the current social security system; increased use of private employment agencies and incentives for mothers who would like to work part-time are also being considered as part of the package. This would require amendments to the current labor legislation.

The Bank has been a long-time partner in this reform area under the Programmatic Human Development TA since FY09.

Turkey's employment activation programs for low skilled youth and women have been reformed and female participation to workforce training courses has doubled (from 97,306 in 2010 to 187,744 in 2012). A Turkish Public Employment Agency (ISKUR) regulation was published in March 2013 introducing a number of important initiatives to improve the effectiveness of vocational training including new job search skills, interview techniques, and basic skills training modules to improve participants' employability. Also, with the 2011 legal amendment (Law no: 6111, article 74) employers are incentivized to hire young people and females as the Unemployment Insurance Fund subsidizes social security contributions for a period up to 56 months. WB knowledge work under the ISKUR Impact Evaluation and the Programmatic Human Development TA delivered supported these results.

A new Informality Action Plan continues to be under development by Turkey's Revenue Administration. It builds on a previous Action Plan that was completed in 2013. The new plan includes measures to improve audit coordination, eliminate tax losses (i.e., controls on actual invoices and receipts POS (point of sale) devices). The work is on track.

Knowledge sharing on employment activation policies: Turkey has received international attention with its employment activation policies and shared its experience at a global conference that was jointly organized with OECD and IZA in Istanbul in May 2012. Furthermore, establishing a knowledge-sharing platform is under discussion initiated by Colombia which includes Turkey, Australia, UK, USA and a few other countries on the management of Public Employment Offices.

Proposed changes going forward: This thematic area will be merged with the thematic area on investment climate and access to finance. The results around informality and employment flexibility are directly related to increased competitiveness and thus recognize the micro dimension that is needed to generate jobs. The gender dimension will be used to strengthen the outcome on gender equality by adding female labor force participation to that Thematic Area – a central policy area for the government.

Thematic Area 3: Improved investment and business climate; deepened and broadened access to finance

Investment and business climate:

The outcome indicator for Doing Business is on track. Turkey has been making steady but slow progress in business environment reforms. Despite recent reforms, Turkey ranks 69th among 185 countries in the World Bank's Doing Business indicators. In the 2014 Report Turkey managed to improve its ranking in Investors Protection by 33 places. Streamlining the process of issuing licenses is progressing with simplifications implemented, particularly with respect to construction permits, and for that sub-category Turkey is still ranked 148 out of 185 countries in the 2014 Doing Business Report. The Bank has been a continued partner in this on-going reform process and is currently working with the government on issues such as insolvency reform and industrial land allocation to try and address some of the grievances of private business. Specific activities include: Competitiveness and Savings DPL (FY13), SSG DPL (FY15), Reforms for Competitiveness, and TA on Private Sector Development. The outcome indicator relying on data from the Investment Climate Assessment is not available yet. Note: Both original outcome indicators in this area are moved to country-level indicators in the revised Results matrix forward-going as the Bank cannot be held accountable for their progress.

In addition, promoting partnerships between private sector players in developing countries is a crucial element of IFC's approach. IFC has been supporting Turkish companies as they expand into other developing countries contributing to the private sector development in the region by increasing the flow of capital, technology, management expertise, and job creation. During FY12-14, IFC invested US$226 million to support six Turkish companies to expand into other developing countries.

The milestones measuring progress are mostly on track.

Turkey has made significant progress in enforcing competition law effectively, but it still faces challenges in achieving a comprehensive and coherent policy framework to promote product market competition. The reforms have been informed through a review of the national competition policy framework (Fostering Open and Efficient Markets through Effective Competition Policies Report). Despite not being a complete functional review, the report developed policy recommendations in the areas of sector-level barriers to entry and competition, mainly in the services sector, and anti-trust framework. In parallel, the National Competition Authority focused its annual report on government intervention in the market from the perspective of the competition policy.

The Government of Turkey has been taking concrete steps to put innovation and research commercialization on the top of the policy agenda. The Tenth NDP clearly prioritizes increasing R&D spending and efficiency of public programs in order to increase the commercialization of research. A draft Patent Law is in Congress and establishes a comprehensive new framework to foster the commercialization of public research and for rebalancing incentives for private research. The WBG is strengthening its engagement with the different agencies and Ministries in charge of innovation through TA on Private Sector Development.

Turkey's regions have historically shown diverging development rates, and more balanced and equitable growth process across regions is an objective pursued by the Government. A key step in this regard is expanding the information base, to allow the realization of better informed

diagnostics. Lack of data is one of the main problems to work at the sub national/regional level in MIC, and helping strengthening the information set is a way to support evidence-based interventions in lagging regions. The WB has been trying to support initiatives of this type in Turkey in recent years, including a sub-regional Investment Climate Assessment (covering all 26 regions in the country) and a sub-national Doing Business, to be carried out in seven municipalities. Despite efforts from the WB and some counterparts (Ministry of Development and Ministry of Economy), difficulties to reach an agreement on how to fund these activities by IPA resources have prevented them to materialize.

Access to finance

The outcome indicators are mostly on track. SMEs play an important role in the Turkish economy yet face significant access to finance issues and are the first casualties of financing pressures. SMEs are estimated to account for 99.9 percent of all enterprises, 76 percent of employment, 54 percent of investments, and 63 percent of exports. The last Investment Climate Assessment -From Crisis to Private Sector Led Growth (May 2010) - found strong evidence that SMEs face disproportionately severe constraints in accessing finance. Lack of cash flow based financing and high collateral requirements acutely constrain their access to funding. Overall, they receive only 25 percent of total loans and grow slower relative to both large enterprises in Turkey and SMEs in comparison countries. Furthermore SME loans are subject to sharp boom and bust cycles- increasing when the economy grows and severely cut once a downturn starts. Notably, their share in total credit declined in the aftermath of the global crisis by about 5 percentage points to just over 20 percent in 2009, the sharp fall demonstrating how SMEs are among the first and most affected casualties of a financing crunch.

Deeper and broader financial markets are key to promoting investment and competitiveness in Turkey. The Turkish financial sector lacks the depth one would expect given the size of the economy. Financial markets increased almost six fold, from TL461 billion in 2003 to about TL2.8 billion in December 2013. Despite such growth, total financial system assets amounted to just 178 percent of GDP in 2013, whereas emerging market economies average stood at about 190, and newly industrialized Asian economies at 611. Banks represent 87 percent of the financial services sector and about 111 percent of GDP (with banking sector credit and deposits at 67 and 61 percent of GDP, respectively). The banking system remains highly-capitalized (Capital Adequacy Ratio (CAR) of 15.3 percent as of December 2013) and profitable (ROA and ROE of 1.6 percent and 14.2 percent, respectively), with a significant improvement in asset quality (NPL ratio of 2.7 percent in December 2013, after reaching 5 percent in 2009). Nevertheless, maturity mismatches prevent banks from offering long-term lending to the corporate sector, and particularly to SMEs. Access to long-term funding for SMEs is even more constrained due to their inability to meet tighter credit standards, like collateral requirements and credit information.

Improving access to medium to long-term finance particularly for SMEs and exporters continues to be a major development objective in Turkey. IBRD financing focused on Lines of Credit to SMEs and exporters and their design increasingly embraced innovative features for more development impact. Country level indicators like export growth and sales growth of firms benefiting from IBRD financing has been satisfactory. The performance of gross non-performing loans (NPL) ratios for financial institutions benefiting from IBRD financing has been mixed in 2012.

IFC has invested US$1.4 billion in the financial sector, above the US$800 million projected for the entire FY12-15 CPS period. IFC's financing addressed financial inclusion by enabling banks to focus on women-owned companies, support MSMEs and expand in poorer areas and underserved sectors such as the agribusiness sector.

IFC used securitization structures to increase the depth and competition of the Turkish banking sector. After the asset-backed security legislation enacted in 2009, IFC helped its client Şekerbank issue a covered bond, the first such bond issued in Turkey. In FY13, based on best international practices, IFC helped again Sekerbank as well as Denizbank issue covered bonds, with the proceeds to be used to fund SMEs and agribusiness sectors. Other banks can replicate and issue covered bonds with longer tenors and higher ratings than they could otherwise achieve on their own. In 2010, IFC introduced an innovative product through Akbank, helping to revive the Diversified Payment Rights (DPR) securitization market, which had been dormant since the start of the financial crisis in 2008. Since then, IFC has used the same financing structure to provide a total of US$295 million to leading Turkish banks, including Denizbank (2011), Yapı Kredi Bank (2012), and Finansbank (2013), for on-lending to agribusiness, small farmers, MSMEs, and sustainable energy projects. More recently, IFC participated as an anchor investor in Sisecam and Mersin International Port bond issues to help these companies access the capital markets to finance their capital expenditure needs, which is expected to have strong demonstration effect and facilitate access to local and international bond markets for other Turkish issuers.

The milestones measuring progress are mostly on track.

Turkey's Bank Regulation and Supervision Agency has improved capacity to monitor and supervise financial market risks. It now has new policies, internal guidance on supervisory - approach and scope for consolidated supervision. More than 30 sworn bank auditors participated and were trained in international good practices in Hong Kong SAR, China, Canada, US and EU and in applying international standards (BCBS, FSB). Other regulators, like the Capital Markets Board, participated in the study which enhanced the cooperation between regulators. This result was achieved through TA on Financial Sector Development.

A new risk-based appraisal of investment projects will provide financing with longer maturity profiles. Financial intermediaries (Exim Bank, TSKB, Ziraat Bank, Vakif Bank and TKB) of the WB-financed Lines of Credit to SMEs and Exporters are implementing these new appraisal guidelines. They are conducting a cash flow analysis for SME's and exporters' long-term risks rather than only relying on the collateral. Exim Bank, in addition, developed sector specific guidelines for machinery and ship-building that is leading to a stronger investment portfolio with fewer risks and in line with international good practice. This result of capacity building of financial intermediaries was achieved through lines of credit operations and TA.

The development of capital markets in Turkey is a challenging but critical endeavor to ensure stable sources of long-term financing and secure sustainable growth. High dependency on external (and volatile) financing, a bank centric model and strong demand for investments in areas such as infrastructure are just some of the several reasons underpinning the rationale for deepening Turkey's capital markets. The new Capital Markets Law (approved in December 2012) broadens the investor base for private securities by strengthening the mutual funds industry and separating asset management from commercial banking. The EU and other international regulations have been taken as a basis in the preparation of this new important law,

also informed through WBG technical assistance to the Capital Markets Board. Technical assistance included mutual funds industry through a Report on Mutual Funds Development which identified policy as well as legislative action. In addition, technical notes were provided to inform drafting of selected secondary legislation (Secondary legislation on Real Estate Investment Trusts, Companies with Variable Capital, and Fund Performance Rating) (TA on Financial Sector Development). The law is currently being implemented, with critical secondary legislation being issued. IFC has significantly ramped up its activities in supporting bond issuance of its clients by investing US$360 million in 6 projects. IBRD and IFC jointly worked with the Government and in partnership with the Capital Markets Board, the Treasury, and the Banking Regulation and Supervision Agency, to develop the corporate bond market, improve the security settlement systems, strengthen supervision, and develop the micro finance industry.

Knowledge Sharing Activities focused on SME and Export Lines of Credit with an Ethiopian delegation and South-South Knowledge Exchange with cross-country technical missions on development of long-term fixed income with Brazil and on telecommunications sector reform with Mauritania and Tunisia.

Thematic Area 4: Improved quality and coverage of early childhood education

The outcome indicator was not developed. The planned engagement on Early Childhood Education (ECE) remained in the area of knowledge engagement and an expected substantial financing engagement did not emerge. Going forward this thematic area will be dropped. All activities related to education will be covered under a new Outcome on 'Improved Equity and Social Services'.

The milestones measuring progress, however, are mostly on track

National goals on ECE are included in the new Tenth NDP (2014-2018) a comprehensive ECE strategy is under development and standards for early childhood education have been developed. The national policy-setting Ministry of Development (MoD), in collaboration with the Ministry of Education (MoNE) and the Ministry for Family and Social Policies (MoFSP), has taken leadership on the ECE agenda. A clear organizational framework for ECD has been developed and standards between MoNE and MoFSP, which cover different age groups, are being harmonized. The new standards and associated regulations that cover monitoring and auditing of institutions have been prepared but not yet approved. The WB has achieved its objective of supporting the development of a program for expanding and improving early childhood education through a programmatic education series that includes two substantial studies: 'Improving the Quality and Equity of Basic Education' and 'Closing the Gaps to Improve Early Childhood Education Programs'. Government policy has focused on first increasing ECE enrolment in provinces with higher established supply capacity. While this ensures more rapid progress in nationwide implementation it does not address socio-economic inequities. Therefore, mechanisms for targeting resources to disadvantaged children and provinces with low early childhood education enrollment have not progressed as much as anticipated. The WB is working with MoFSP, MoNE, and the United Nations Children's Fund (UNICEF) to develop a model that will be piloted with support of the SIDA Gender TF to increase access to affordable, quality childcare, consistent with the standards being developed for the sector. Implementation of the pilot has not yet begun.

Knowledge Sharing Activities: The WBG facilitated an Iraqi delegation visit to Turkey to learn about Turkey's education reform at various levels, ranging from early childhood education

through upper secondary education, including technical and vocational education. These experiences will feed into the implementation of the newly completed Iraq National Education Strategy and will contribute to its further development.

Thematic Area 5: A more effective and financially sustainable health system; other countries expressed interest to learn from Turkey's experience.

Both outcome indicators are completed. Over the last ten years reforms in the health sector have been truly transformational and they continue to bear fruit. The importance of Turkey's health reforms for global knowledge in this sector is evidenced by the continued interest in learning from Turkey, which continues apace.

The milestones measuring progress are either completed or on track.

The MoH has been restructured and focuses now exclusively on the health sector's stewardship functions. In developing this new capacity, the MoH is applying a 'learning by doing' approach and providing staff with management and policy making courses and relevant higher education. This is a further important result of the 10 year long national Health Transformation Program in which the WB has been a long-term partner through financing and technical assistance.

Quality health care is provided while increasingly containing its costs. All public hospitals have been organized in public hospital unions and are paid on the basis of performance contracts within a global budget. Key measures as part of this change include: (i) Global caps for hospital spending have been introduced; (ii) a first step of moving away from line-item budgeting towards Diagnosis Related Groups (DRGs) payment has been made with the global budgeting for hospitals as well as capitation payments for out-patient services; (iii) spending on drugs has been reduced based on negotiations with the pharmaceutical companies and the introduction of global spending caps; and (iv) positive incentives for NCD screening by family doctors are being evaluated before national roll-out. These results have been achieved under programmatic knowledge work on health including 'Performance-based contracting in Family Medicine' and various policy notes under 'Sharing Lessons in Health Sector Reform'.

Turkey is receiving international recognition for its national health reform and is actively sharing its experience. A proud highlight was the International Conference for the 10th Anniversary of the Health Transformation Program in June 2013, which was attended by international dignitaries including from the UN and the WBG Managing Director, Ms. Sri Mulyani Indrawati. The publication of the Lancet's June 2013 Turkey Volume, included articles on "Turkey's Democratic Transition to Universal Health Insurance" and "Universal Health Coverage in Turkey: Enhancement of Equity" that spelled out in detail how the transformational agenda was implemented along the concept of 'science of delivery'. Turkey is further sharing its experience in international fora like the Global Conference on Sustainable and Equitable Growth through Universal Health Coverage held in Tokyo in December 2013 as well as through knowledge exchanges with countries like Kosovo, Malaysia, and Afghanistan. These results have been achieved under the Project in Support of Restructuring Health and technical assistance.

IFC: The Government is looking to private investors to help modernize the existing public health care services, including through PPPs. IFC is supporting the PPP program of the Ministry of Health and has entered into mandates for health PPPs for a total financing of up to US$200 million. IFC's investments in the health sector focus on improving access to quality private health care services, especially in the underserved and frontier regions outside major urban areas,

as well as on health care companies looking for growth potential in the region. In 2012, IFC invested US$30 million to support a leading molecular imaging and oncology services provider to expand its oncology treatment and diagnostics services in underserved areas in Turkey as well as in Eastern Europe and the Middle East countries. This project will disseminate best practices and will raise the bar for public and private providers.

Knowledge Sharing Activities: The WB has facilitated exchanges with Egypt, Kosovo (Turkey and Kosovo have signed a Memorandum of Understanding (MoU) and agreed on a project of contracting out diagnostic services at hospitals), Uzbekistan and Malaysia. The restructured Health Restructuring Support Project includes a new sub-component to support the Ministry's efforts to review and draw lessons from 10 years of health sector reform in Turkey.

Thematic Area 6: Progress made toward gender equity

The outcome indicators are on track. Gender equity is a core development objective for Turkey in its aim to reach high-income status. Improving female labor force participation (FLP) is the main avenue of WBG support. The new National Employment Strategy is a major vehicle to promote this agenda, which included specific targets in this regard. Achievements so far include the successful introduction of a Gender Equity Certification for the private sector and IFC's success in targeted support for women-owned SMEs.

The milestones measuring progress are on track.

A new Gender Equity Certification to promote gender equality in the workplace has been completed for 14 out of planned 20 companies. The contracting process for another 6 companies is ongoing. This result has been achieved under TA Gender Equity Certification in the Private Sector.

The Government has developed a policy package to increase female formal employment that will include further policies related to flexible contracting, employment activation programs and access to childcare. The package is currently being finalized and is expected to be approved in 2014. The result has been achieved under 'Programmatic Jobs: Activation of Low Skilled Youth and Women'. In addition, the MoFSP is in the process of launching a pilot community-based child-care model with the aim of increasing access to quality and affordable child care. The WB is working with MoFSP, MoNE, and UNICEF to develop a model that will be piloted with support of the SIDA Gender TF to increase access to affordable, quality childcare, consistent with the standards being developed for the sector. Implementation of the pilot has not yet begun. (Result added).

Obstacles for female entrepreneurship are being identified through a gender module as part of the BEEPS survey for Turkey. The survey has been initiated with 1300 companies and expected to be completed in August/September 2014. An additional four qualitative and quantitative background studies on female entrepreneurship have also been completed. This work is implemented under TA Gender Equity Certification in the Private Sector. IFC has rolled out a "Banking on Women" program in Turkey. In 2011, IFC partnered with FMO, the development bank of the Netherlands, to provide a US$40 million loan to Akbank to increase financing to women-owned SMEs. As part of the same program, in FY12-FY13, IFC provided a US$115 million loan to three local banks for lending to women-owned MSMEs. In March 2014, IFC hosted a conference "Investing in Turkey's Women Entrepreneurs", as part of its broader effort to help remove barriers to women entrepreneurship in Turkey.

Knowledge Sharing Activities: Turkey has been an active member of the WB-sponsored international Gender Advisory committee, where Turkey has been represented by the Ex-Minister of Family and Social Policies, Mrs. Fatma Sahin. Also, the Women Entrepreneurs Association of Turkey, KAGIDER, presented the Equal Opportunities Model during the 56th Meeting of the UN Commission on the Status of Women (March 2012, New York, USA), developed for the Turkish Private Sector under the Gender TA.

Thematic Area 7: Improved public services and governance

The outcome indicators are all on track. The CPS Thematic Area was originally designed rather narrowly on public financial management and on governance in state-owned-enterprises, sub-national government and in the education sector. The respective outcome indicators all improved. For the second half of the CPS, however, this Thematic Area is under comprehensive review for a re-design of our nature of engagement and the new title shall be 'Improved governance through enhanced transparency to ensure a level playing field'. The results in the area of education shall merge with the new Thematic Area on 'Improved access and quality to social services'. In substance the future activities would address the reforms under the government's planned anti-corruption package.

The milestones measuring progress are on track.

The introduction of the Citizen Report Card has been a success in Turkey and is expanding. The format is well accepted among citizens and public institutions hand has triggered interest across the country. The target of 6 municipalities (Adana, Mardin, Antalya, Malatya, Trabzon and Gaziantep) has been achieved and their results have been publically shared on a website. In addition, 23 cities benefitted from training on citizen reports cards financed by a EU project that used the framework developed for Manisa. Motivated by these report cards, public institutions have embraced the competition to receive higher rating. Manisa, however, did not self-finance its 2012 survey as anticipated.

Improving the financial management and governance of public institutions has been designed in the CPS in an umbrella format with a number of different tasks including in the areas of education, state-owned enterprises and the transport sector:

- The development of mechanisms for targeting resources to disadvantaged children and provinces with low early childhood education enrollment has not progressed as anticipated. As noted under Thematic Area 4, Government policy has focused on first increasing ECE enrolment in provinces with higher established supply capacity. While this ensures more rapid progress in nationwide implementation it does not address socio-economic inequities. The World Bank is working with MoFSP, MoNE, and UNICEF to develop a model that will be piloted with support of the SIDA Gender Trust Fund (TF) to increase access to affordable, quality childcare, consistent with the standards being developed for the sector. Implementation of the pilot has not yet begun.
- The milestone 'local administrations' financial management structure and fiscal position has improved' has been dropped as no work program has been developed in this area.
- Policy options for improved state-owned enterprises governance have been developed, a priority area highlighted in the Tenth Development Plan. The first phase of a programmatic PFM TA has been completed and covered: (i) benchmarking SOE governance in Turkey using the OECD Guidelines for the Corporate Governance of SOEs – draft SOE governance

assessment was completed in FY13; (ii) technical assistance on strategic management in the public sector through improving the link between plans, programs and budget; and (iii) PFM reform implementation at the central government level and continued capacity building activities in the areas of Parliamentary oversight, external audit, internal audit and strategic budget allocation.

- An expenditure analysis on the transport sector has contributed to the enactment of the Turkish State Railways (TCDD) restructuring legislation separating infrastructure and operation.

A National Modernization Plan for Food Safety has been developed which aligns Turkey's food industry with EU standards. Through a three-year programmatic technical assistance engagement the WB delivered this result.

IFC launched its Corporate Governance (CG) project for Turkey in 2013 (the program also includes Russia and Ukraine) to provide fee-based services to IFC's investment and pipeline clients. IFC has been supporting the Corporate Governance Association of Turkey (TKYD) in holding Corporate Governance Seminars in Anatolia region and disseminating the concept of CG in Turkey through publications and changes in the legislation.

International Knowledge Sharing Activities on the role of parliament in public financial management oversight included visiting delegations from twelve countries the Middle East, North Africa region and from Tajikistan visited Turkey and laid the foundations of a practitioner's network.

International Knowledge Sharing Activities on Social Assistance included visiting delegations from Iraq and Afghanistan especially to learn on the conditional cash transfer program. Turkey is an active member of the WB-sponsored Community of Practice (CoP) on social safety nets, presenting its new Integrated Social Assistance Information System to the CoP in April. 2012.

Thematic Area 8: Improved supply of reliable and efficient energy, increased use of renewable energy sources and climate actions under implementation

All three outcome indicators are on track. Turkey's energy sector has achieved a transformational shift over the last ten years from reliance on public investments and state guarantees towards market-based instruments. The result has been improved supply security and increased sustainability. The WBG has been a long-time partner in this reform process and the present CPS has built on these achievements. In the first half of the present CPS the supply of reliable and efficient energy has further improved and the share of renewable energy (now at 27.8 percent) is already close to its 2015 target of 30 percent.

IFC has invested US$2.3 billion in the energy sector since 2008, including over US$1.6 billion through mobilization, in five projects across the country, including the construction of gas, hydro, and wind power plants. Through its investments in the power sector IFC has reached 7.9 million customers. In 2013, IFC invested in a US$125 million loan for financing a green-field 805 megawatt (MW) combined cycle natural gas fired power plant.

The private sector has further strengthened its role in electricity supply, having invested US$12.7 billion in new electric distribution companies. To reduce Turkey's dependence on imported gas, IFC invested US$40 million to support an emerging Turkey based oil-field services company expanding its operation in Turkey, Iraq, Eastern Europe and Northern Africa. Also, IFC invested

US$50 million in the largest private sector oil and gas producer in Turkey, to expand its investment program and increase oil and gas production from the frontier provinces in the southeast of Turkey.

The milestones measuring progress are on track.

Turkey adopted an Energy Efficiency Strategy in February 2012 that was prepared by the Ministry of Energy and Natural Resources. The Strategy elaborates a framework for promoting energy efficiency across multiple sectors and was informed through technical assistance support and dialogue, including from ESMAP support for energy efficiency in Turkey.

The implementation of the Climate Change Action Plan has begun. The action plan's approval was supported by the ESES DPL3 (FY12) and since then substantial implementation progress is observed in renewable energy (RE) and energy efficiency (EE) development through supportive lines of credit. Bank activities include public and private investments in renewable energy and energy efficiency, which have a cumulative energy savings target of 4,372 GWh, or 1.5 percent of annual demand, as well as capacity building on water basin management.

IFC supported a number of climate change related projects through its financing in both financial and real sectors. IFC provided a US$150 million loan to TSKB to invest in projects that will reduce GHG emission, improve waste management practices, and increase efficiency of raw materials for processing and manufacturing. Also, IFC partnered with Is Leasing by investing US$35 million to promote energy efficiency and renewable energy projects in various sectors in Turkey through a wholesale approach. The project was co-financed by CTF. In the real sector IFC financed projects with a focus on energy efficiency, including in the cardboard industry, textile, agribusiness, and packaging film industry.

Progress towards adoption of a market-based mechanism for green-house gas emissions is well on track. A regulation on monitoring, reporting and verification of emissions from major GHG sources has been issued and market-based carbon pricing instruments are being explored under the Partnership for Market Readiness.

Turkey's vision of greening its economy has been articulated in the new Tenth National Development Plan and presented at the Rio+20 Conference. Policy options to implement this vision have been developed and the analytical outputs include: First, benchmarking of Turkey on green policies across strategic sectors of the economy (automotive, electronics, white goods, iron and steel, machine industry, construction, and agriculture). Second, informing policy makers on the impact of green policies (e.g., pollution taxes, resource efficiency, and promotion of green production) on growth, employment, fiscal impact, and emissions reductions, through pilot economic modeling. The Bank worked with the MoD in preparing a Green Growth Policy Note as part of a set of analytical activities and stakeholder consultations.

International Knowledge Sharing Activities include delegation visits from Iraq to learn from Turkey's successful distribution sector reform process and from Russia on Turkey's experience with energy efficiency credit lines.

Thematic Area 9: Strengthened environmental management and adaptation to climate change

The two outcome indicators are completed and on track. Turkey has embarked on harmonization and alignment with the EU-Aquis on Environment when this chapter was opened in 2009. It triggered a comprehensive set of reforms including on regulation of permits and licenses and for eligible industrial facilities to employ certified environmental officials which are well on track. Good progress is also observed in the area of waste, air pollution, water pollution management areas since 2009. Water scarcity is the looming challenge for Turkey which is addressed through improved water basin management. Protection Action Plans for all 25 river basins taking into account the EU Water Framework Directive have been prepared. These plans identify the locations of the pollution sources and provide advice on the number, type and scale of treatment facilities

The milestones measuring progress are on track.

Implementing the EU-Environmental Chapter which includes (i) the transposition and implementation of the Directive 85/337/EEC as amended with 97/11/EC and 2003/35/EC on EIA - well on track; (ii) transparency and public participation in environmental decision making through implementation of the EIA regulation – off track: while a new EIA has been published in October 2013 and all steps of the EIA process and draft-final documents will be available on website, selected large scale PPP projects have been exempted from such EIA obligations; and (iii) the establishment of an integrated system for environmental permitting, monitoring and inspection in provincial directorates – completed: since 2011 all facilities under Annex 1 of the Environmental Permitting Regulation have applied for an integrated environmental permit (e-permit). The Bank has contributed to these results through the Environmental Sustainability and Energy Sector (ESES) DPL series as well as advisory services and technical assistance.

A new National Water Basin Management Strategy (NWBMS) has been prepared through a national consultative coordination process. It includes official regulation for strengthening the country's regulatory framework and implementation capacity to address the cumulative environmental impacts of hydropower development, consistent with EU environmental and other global management standards. Institutions have started preparing action plans in line with this new Basin Management Strategy. Formal approval of the NWBMS by the High Planning Council and the respective legislation on cumulative impact assessment for water usage installations in river basins is the next step in this process that is overall on track. The World Bank has been a long-time partner in this reform through programmatic TA Water Dialogue/Watershed Management since FY09, and is now engaged in preparation of the Integrated Basin Management Project, which will pilot the adoption of the integrated basin management approach in a selected river basin. GOT has established a Steering Committee and Working Group to support preparation of this project and to ensure effective inter-agency coordination. Informing Turkey's Water Policy formulation process has been an important milestone through the first half of the CPS. Through ongoing technical assistance (Water Policy Dialogue TA), the Bank has brought international experience to Turkey on drinking water protection, water allocation, and water pricing.

In addition, Turkey's vision of shifting the industrial sectors towards cleaner production is advancing as policy options have been developed under the Green Growth study and have subsequently informed the Tenth National Development Plan. Efforts for eco-labeling and life

cycle analysis have been undertaken by Ministry of Environment and Urbanization (MoEU) and Ministry of Science, Industry, and Technology.

Thematic Area 10: Improved sustainability of Turkish cities

All outcome indicators are on track or completed. Turkey has experienced very rapid urbanization over the last sixty years. During this period, the urban share of Turkey's population has risen dramatically from 25 percent in 1950 to nearly 75 percent today, and these urbanization pressures continue, particularly in secondary cities. Significant legislative reforms have been introduced through an amendment to the Municipality Law in December, 2012. These reforms are intended in part to improve the efficiency and effectiveness of local administrations by expanding the number of metropolitan municipalities from 16 to 30 and thereby consolidating the local administrative regime. However, many of the 14 new metropolitan municipalities are located in the central and eastern parts of the country, many of which have a lower economic base, will need to prepare new territorial plans, establish new corporatized water utilities, and expand services to provincial boundaries as prescribed by the new law, which poses a critical challenge for sustainable city development. The WBG has contributed toward improving city sustainability outcomes through support in developing a framework for integrated metropolitan municipality planning to enhance existing legal and regulatory planning mechanisms, and the provision of financing for investments in urban water, sanitation, seismic risk retrofitting of public buildings, and solid waste management bringing environmental service improvements in population coverage and environmental protection.

The CPS results indicator on resilience to seismic risk in Istanbul Metropolitan area has been completed with a total of 750 public buildings retrofitted under the Istanbul Seismic Risk mitigation and Emergency Preparedness Project. Also, a national level seismic risk assessment has been completed to identify provinces and settlements with the highest seismic risk profile across the country taking into account basic social and economic aspects. The study also included developing a methodology of prioritizing the vulnerability of public buildings which was tested on a limited number of buildings in the city of Tokat.

The milestones measuring progress are on track.

Under the preparation of the *Sustainable Cities Project,* planned for delivery in FY15, three dimensions of sustainability will be promoted at the city level – environmental, financial, and social – consistent with the Tenth NDP. A critical cross-cutting element to support achievement of all three will be the integration of these elements into the existing strategic and spatial planning of metropolitan municipalities. Appraisal tools and project identification matrices have been developed for all municipal investment areas, and these have been tested in the appraisal of a proposed zero-emission Trolley-Bus System in the City of Sanliurfa. In addition, Treasury and Iller Bank are being assisted in updating their municipal credit/risk analysis methodologies to be followed by implementation of two pilot municipal shadow credit ratings.

IFC's financing in addition increased access to finance for municipalities and made it possible to accelerating the completion of essential infrastructure projects without a sovereign guarantee. During 2012-2014, IFC has been supporting the Municipality of Izmir to implement important projects contributing to İzmir's development as a sustainable, environmentally friendly and modern city, including improvement of the wastewater management, modernization of the traffic management system, improvement of the emergency response system and public transport. IFC is increasing cooperation with Iller Bank to support PPPs in municipal infrastructure projects.

The *development of urbanization policies* is on track through a series of workshops and discussions on five Urbanization Review Discussion Notes covering the topics of City Competitiveness, Housing Market Analysis, Urban Transport, Municipal Finance and Interagency Coordination. These notes and the policy discussions on them have been incorporated into a synthesized draft Urbanization Review report, issued to the Government in May 2014, with potential follow up work on housing market analysis at the request of Ministry of Development. Under a related follow up activity, MOEU is being assisted in developing a Guide for Urban Transformation in Risky Areas, including a process mapping analysis of its current operations, identification of global best practices to draw upon, preparation of a Guide for Urban Transformation Services of MOEU, and piloting two Design Charrettes in identified project areas to promote community consultations.

Real property cadaster and registry information systems are being modernized in digitally-accessible format with progress towards targets well on track. Customer service improvements have improved dramatically from 40 percent satisfaction at project start to 85 percent satisfaction by 2013. Average time in delivering cadastral data has been reduced from 7 days at project start to two hours. Over 100 external users now have online/offline access to cadastral data. This result has been achieved with support from the Land Registry and Cadaster Modernization (IBRD) Project.

International Knowledge Sharing Activities on *Disaster Risk Mitigation:* Turkey's success was shared with countries at 45 international conferences, and 30 delegations visited Istanbul for knowledge exchange events. A global conference in Istanbul on the 10th anniversary of the Marmara earthquake in December 2009 issued a declaration calling for active knowledge and experience sharing stating Turkey as a regional and global good practice. The Bank strongly supports this initiative and will continue to work with the Government to support innovative knowledge sharing.

Annex 2: Reporting Back: Original CPS Results Framework FY 12-15

Fast, sustainable, equitable growth that respects the environment

Pillar 1: Enhanced Competitiveness and Employment	Pillar 2: Improved Equity and Public Services	Pillar 3: Deepened Sustainable Development

World Bank Group contributing to the following 10 thematic areas (outcomes):

1. Sustained macroeconomic and financial stability and strengthened exports, domestic savings and external resilience.	4. Improved quality and coverage of early childhood education.	8. Improved supply of reliable and efficient energy, increased use of renewable energy and climate actions under implementation.
2. Increased employment and reduced job informality, especially for women and youth.	5. A more effective and financially sustainable health system; other countries expressed interest to learn from Turkey's good experience.	9. Strengthened environmental management and adaption to climate change.
3. Improved investment and business climate; deepened and broadened access to finance.	6. Progress made toward gender equity.	10. Improved sustainability of Turkish cities.
	7. Improved public services and governance.	

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

<table>
<tr><th colspan="3">Strategic Pillar 1: Enhanced Competitiveness and Employment</th></tr>
<tr><th>Country Development Outcomes to which CPS Contributes</th><th colspan="2">Milestones and Outputs of the CPS Program</th></tr>
<tr><td colspan="3">Country-level Indicators:
• Average economic growth of 4.5% through 2015. Update: The economy grew by 5.5 percent on average in 2011 and 2012 and estimated to have grown by 4.3% in 2013. Forecast for 2014 is considerably lower growth.
• Employment rate increased from 41.3% in 2010 to 45% in 2015. Update: 43.6% in 2013.
• Expand the coverage and increased relevance of ISKUR's (Turkish Employment Agency) vocational training. Update: No. of participants; 211.627 in 2010, 250.026 in 2011, 464.645 in 2012, 220.075 in 2013
• OECD Product Market Regulation Indicator of Barriers to Entrepreneurship reduced from 2.44 in 2008. Update: 2.89 in 2013 (source: Government).
• Business sector share in research and development expenditures increases from 43% in 2010.Update: Share increased marginally in 2011 (43.2%) and is estimated at 46% for 2013.
• Loans to SME increased from 23.8% in 2011 (correction) & Size of financial investor base (assets of insurance, mutual funds and private pension funds) increased from 5.5% of GDP in 2010. Update: Loans to SMEs increased to 25.1% of the total loans by the end of 2012 and 25.9% of the total loans by the end of 2013.
• Investor base's (insurance, pension and mutual funds) share in the GDP has increased to 5.5% by the end of 2011, 5.8% by the end of 2012 and 5.9% by the end of 2013.</td></tr>
<tr><td><u>Thematic Area (Outcome) 1:</u> Sustained macroeconomic and financial stability and strengthened exports, domestic savings, and external resilience through:
• Implementation of the Medium-Term Program (MTP), including policies on growth, employment, competitiveness and savings.
ON TRACK. The MTPs have incorporated policies on growth, employment, competitiveness and savings in line with WBG analytic work and policy recommendations. MTPs are rolling targets.
• Domestic savings rate increases from 13.9% in 2010. ON TRACK. Domestic savings rate has increased:
2011: 14.4%; 2012: 14.5%
2013: 12.6% (estimated)
• Non-agricultural job informality rate reduced from 29.1% in 2010. ON TRACK. The rate has declined to 27.3% in 2013.
• Public debt levels continue to decline.
ON TRACK. Gross public debt stock as percent of GDP has decreased: 2010: 45.2%; 2011: 42.1%; 2012: 39.7%; 2013: 40%</td><td>• Development of policy options on trade competitiveness and regional trade integration as identified in AAA, including trade outcome and firm level analysis of constraints to trade.
COMPLETED. Achieved under CEM on Foreign Trade.
• Government/WBG continued discussions and implementation of policies to increase domestic savings as identified in the CEM Savings (FY11), including a benchmarking survey on level of household financial literacy in view of the national financial education strategy published in August 2014.
COMPLETED Achieved under two DPLs (CSDPL and Sustaining Shared Growth), Savings CEM, and TA on financial literacy.
• Development of policy options for improving the linkages between fiscal policies and economic growth especially on the revenue side. [Revised indicator previously 'Development of policy options for improving the efficiency of public spending'.]
COMPLETED. Achieved under Public Finance Review.</td><td>Financing:
• Development Policy Loan - Competitiveness and Savings (CSDPL) (FY13) P127787
• IFC invested US$2.8 billion (as of end of FY14); US$2.5 billion IFC's own account and US$309 million mobilization), in 51 projects vs. expected investments of US$1.7 to US$2 billion for the entire FY12-15 period.
Knowledge:
• Public Finance Review (FY14) P130699
• Country Economic Memorandum on Foreign Trade (FY14) P129350
• Customs Union Evaluation (FY14) P144290
• Country Economic Memorandum on Domestic Savings (FY12) P124687
• TA on Poverty Measurement (FY14) P133649
• TA Justice Sector Performance (FY14) P 145480
• TA Regular Economic Update (FY14) P146343
• TA Financial Literacy (follow-up to Programmatic Country Economic Memorandum on Savings) (FY12) P127354</td></tr>
</table>

Thematic Area (Outcome) 2: Increased employment and reduced job informality especially for women and youth through: • Increased female non-agriculture employment rate (14.8% in 2011). [Revised and before: Increased share of youth and women with less than high school education in ISKUR vocational training from 21% in 2011.] ON TRACK. Increase to 16% in 2012 and 17.2% in November 2013. • Decrease in Turkey's Employment Protection Legislation Index score from 3.43% in 2008. (Correction: previous figure was 3.46% in 2008). WATCH. The EPL index (average of regular and temporary employment) has stayed constant since 2008 at the level of 3.59. In 2013 EPL index scored also 3.59. • IFC's real sector portfolio companies will provide about additional 70,000 jobs. Baseline: 68 000 jobs ON TRACK. 2013: 100 000 jobs provided.	• Support to the implementation of the National Employment Strategy, including: (i) progress towards the introduction of pre-funded severance accounts; (ii) increased unemployment insurance coverage; (iii) reduced restrictions on disincentives to part-time, fixed-term, and temporary work. ON TRACK. Supported through Sustaining Shared Growth DPL and Programmatic Human Development TA. • Development of policy options for improving the cost-effectiveness of employment activation programs for low skilled youth and women. COMPLETED. Achieved under ISKUR Impact Evaluation and Programmatic Human Development Technical Assistance. • Expansion of number of participants in employment activation programs for youth and women. Baseline: 97,306 in 2010. [Revised and before: Expansion of employment activation programs for low skilled youth and women.] ON TRACK. Achieved under ISKUR Impact Evaluation and continued dialogue and support under HD Technical Assistance. • Implementation of renewed Informality Action Plan to reduce informality, including measures to improve audit coordination. ON TRACK. Achieved under the CSDPL.	**Financing:** • Development Policy Loan - Competitiveness and Savings (CSDPL) (FY13) P127787 • As of end of FY14, IFC has invested $2.5 billion for its own account allocated in the following sectors: (i) Financial Markets: US$1.4 billion in 21 projects, (ii) Infrastructure: US$573million in 10 projects, (iii) Manufacturing, agribusiness and services: US$518 million in 20 projects. **Knowledge:** • Programmatic Jobs: Activation of Low Skilled Youth and Women (FY14) P131099 • Programmatic Jobs: Managing Labor Markets through the Business Cycle (FY12) P123771 • Impact Evaluation of ISKUR's (Turkish Employment Agency) Vocational Training Programs (FY14) P120514 • TA Programmatic Human Development (FY13) P133668 • TA Programmatic Human Development (FY12) P128493 • IFC supported a vocational education provider to open 17 new vocational training centers in Turkey and outside the country.
Thematic Area (Outcome) 3: Improved investment and business climate; deepened and broadened access to finance through: **(a) Improved investment and business climate:** • The number of days for a company in the manufacturing sector to obtain an operating license is reduced from 62 (2010 ICA). WATCH. No new ICA data is available to date (new ICA results expected in March 2014) • The Doing Business Strength of Investor Protection Index increases from 5.7 (2012 Report). ON TRACK. 2014 Report: improve ranking by 33 places. It improved its distance to frontier by 6.6 percentage points which accounts for more than half of the improvement since DB 2006. **(b) Improved access to finance:** • Export growth in firms benefiting from IBRD financing relative to sector export growth is greater than zero. ON TRACK. Impressive growth of 13.98% from 2011 to 2012. • Sales growth in SMEs benefiting from IBRD	**(a) Investment and business climate: - Watch** • Reforms streamlining the process of issuing licenses is put in place.(Revised indicator from 'A one-stop shop simplified administration for licenses in place') ON TRACK. Supported by the DPL dialogue, both under CSDPL and Sustaining Shared Growth, as well as TA Private Sector Development. • Completion of an assessment of the national competition policy framework. COMPLETED. Supported under the Competition Study (FY14) • Revised legal framework (patent law) to help foster the commercialization of public research and for rebalancing incentives for private research. WATCH. WBG is reengaging on this dialogue under TA Private Sector Development. • Identification of regional dimensions of the challenges and opportunities facing the private sector to inform future policy. WATCH. Delays related to EU financial support. **(b) Access to finance – On track** • The capacity of the Banking Regulation and Supervision Agency to monitor market risks has been enhanced. COMPLETED. Supported under TA Financial Sector Development.	**IBRD Financing:** • Development Policy Loan - Competitiveness and Savings (CSDPL) (FY13) P127787 • Third Access to Finance for SMEs (FY13) P130864 • Second Access to Finance for Small and Medium Enterprises Project (FY10) P118308 • First Access to Finance for Small and Medium Enterprises Project (FY06) • Fourth Export Finance Intermediation Loan (EFIL IV) (FY08) P096858 **IFC and MIGA Financing:** • As of end of FY14,IFC has invested US$1.4 billion in 21 projects in the financial markets, including bond issuance and DPR securitization structure, long-term financing to the banking sector for on-lending to SMEs, women owned business, agribusiness and renewable energy and climate change related projects and short-term trade finance. • MIGA underwriting of financial sector project **Knowledge:** • ESW Reform for Competitiveness (FY14) P127856 • TA Financial Sector Development II (FY14) P132968 • TA Public-Private Partnership (FY14) P145352

financing greater than zero adjusted for inflation. ON TRACK. Sales growth at 8.2% from 2011 to 2012 • Gross non-performing loans (NPL) ratios for financial institutions benefiting from IBRD financing do not exceed the average for the banking sector (2.7% as of end-2011, BRSA). WATCH. In 2011 a mixed performance: Above average: TKB: 5.1%, Vakif Bank: 3.8%; and Halk Bank: 3%. Below average: Ziraat Bank:1.2%, Exim Bank: 1.4%, and TSKB: 0.4%. • IFC estimates leveraging through local financial intermediaries financing to about 100,000 SME clients and 120,000 farmers. COMPLETED. In 2013, IFC estimates 844,000 SMEs and 270,000 farmers have been reached through its financial intermediaries.	• Capacity of intermediaries to appraise investment projects with longer maturity profiles is enhanced. COMPLETED. Supported under Lines of Credit to SMEs. • Policy actions to broaden the investor base for private securities adopted /start implementation. ON TRACK. The Report on Mutual Funds Development in Turkey as part of TA on Financial Sector Development identified policy action and legislative action.	• TA Financial Sector Development I (FY12) P128383

<table>
<tr><th colspan="3">Strategic Pillar 2: Improved Equity and Public Services</th></tr>
<tr><th>Country Development Outcomes to which CPS Contributes</th><th colspan="2">Milestones and Outputs of the CPS Program</th></tr>
<tr><td colspan="3">Country-level Indicators:
• Increased preschool gross enrollment (4-5 ages) from 30% in 2011-12 to 70% in 2018. Update: Pre-school enrollment was 44% in 2012-13. It decreased to 38% (4-5 ages gross) in 2013-14.
• Improvement in resource allocation for health by reducing Social Security Institution's (SSI) drug expenditures as a share of total from 41.6% in 2010 to 31.2% in 2014
Update: Being dropped as an indicator because the component is dropped from the investment project in health.
• Ministry of Health is reorganized and focuses exclusively on the health sector's stewardship functions by 2015. Update: Reform completed.
• Increase female labor force participation rate from 27.6% (TUIK 2010). Update: increased to 29.5% in 2012 (TUIK) and 30.6% in 2013.
• Significantly reduce the gender gap in secondary school enrollment from 6 percentage points (2010). Update: Secondary gender gap substantially reduced to 1.5% in 2012/2013 (MoNE) The next data point will be 2013/2014.
• Significantly reduce the gender gap in secondary school enrollment from 5 (correction) percentage points (2010). Update: Secondary gender gap substantially reduced to 1.5% in 2012 and to 1.2% in 2013 (MoNE)/2013 (MoNE).</td></tr>
<tr><td><u>Thematic Area (Outcome 4)</u>: Improved quality and coverage of early childhood education (ECE) through:
• Improved quality and coverage of early childhood education.
No WBG supported program was developed and this outcome is dropped.</td><td>• Development of a program for expanding and improving early childhood education, informed by ESW.
COMPLETED. Achieved under the programmatic education series 'Improving the Quality and Equity of Basic Education' and 'Closing the Gaps to Improve Early Childhood Education Programs'.
• Introduction of quality assurance system for early childhood education, including clear education standards and mechanisms for monitoring and enforcing those standards.
ON TRACK.
• Introduction of mechanisms for targeting resources to disadvantaged children and provinces with low early childhood education enrollment. WATCH.</td><td>Knowledge:
• Improving Educational Outcomes (FY14) P132094
• Promoting Excellence in Turkish Schools (FY13) P 129423
• Improving the Quality and Equity of Basic Education (FY12) P122445</td></tr>
<tr><td><u>Thematic Area (Outcome) 5:</u> A more effective and financially sustainable health system; other countries expressed interest to learn from Turkey's experience through:
• MOh is reorganized and focuses exclusively on the health sector's stewardship functions by 2015.
COMPLETED.
• All public hospitals organized in public hospital unions and paid on the basis of performance contracts within a global budget.
COMPLETED in November 2012.</td><td>• Increased capacity of the MoH to carry out stewardship functions.
COMPLETED: This is a result of the Health Transformation and Social Security Reform Project.
• Development/adoption of policy options for the provision of quality health care while containing costs. Options could include: (i) revision of mechanisms for setting global expenditure caps for Social Security Institution health expenditure categories; (ii) diagnosis-related group (DRG) payments for hospital inpatient and outpatient services in all MoH hospitals; (iii) reduction of pharmaceutical spending and promotion of rational use of drugs; and (iv) gradual introduction of incentives linked to preventive interventions among family doctors. ON TRACK.
• Sharing of Turkey's health reform experience with other countries in the region and beyond – under discussion with the Government.
COMPLETED.</td><td>Financing:
• Project in Support of Restructuring of Health previous name: Health Transformation and Social Security Reform Project APL 2 (FY09) P102172
• Health Transformation and Social Security Reform (FY09) TF Governance Partnership Facility
• IFC support for Ministry of Health's PPP program
• IFC financing molecular imaging and oncology services provider
Knowledge:
• TA Pharmaceuticals (FY14) P133309
• TA Support to Sharing Lessons in Health Sector Reform including policy notes on the political economy of health reform, hospital restructuring, and health financing. (FY14) P144940
• ESW Performance-based contracting in Family Medicine (FY13) P129248</td></tr>
</table>

Thematic Area (Outcome) 6: Progress made toward gender equity through: • At least 20 companies granted new Gender Equity Certification by end of 2015. Baseline: zero in 2011. ON TRACK. Certification for 14 firms has been completed and is ongoing for another 6. • Contribution to increased female labor force participation through support to 900 women owned SMEs through IFC financed SMEs. COMPLETED. IFC invested US$115 million in three banks estimated to support 4800 women owned SMEs. • Indicator deleted: Increased share of youth and women with less than high school education in ISKUR vocational training from 21% in 2011. [Reason: Historical data on this indicator does not exist although it is available from 2012 onwards we cannot reconstruct (nor does ISKUR have) 2011 data.]	• Gender certification program to promote gender equality in the workplace developed and implemented in 11 firms by July 2012. ON TRACK: Certification for 14 companies has been completed and the contracting process for 6 companies is ongoing. • Development of policy options to increase female formal employment through (i) flexible contracting; (ii) employment activation programs; and (iii) access to child care. ON TRACK: Achieved under 'Programmatic Jobs: Activation of Low Skilled Youth and Women' • Obstacles for women in the investment climate are identified. ON TRACK: Achieved under TA Gender Equity Certification in the Private Sector.	**Financing:** • TF SIDA: Increasing Women's Access to Economic Opportunity (approved FY12, closing FY16) P146215 • IFC long-term finance to three banks to support lending to women-owned MSMEs. **Knowledge:** • ESW Programmatic Jobs: Activation of Low Skilled Youth and Women (FY14) P131099 • TA Gender Equity Certification in the Private Sector (FY12 P129435 and FY13 P133741) • Impact Evaluation of ISKUR's (Turkish Employment Agency) Vocational Training Programs (FY14) P120514
Thematic Area (Outcome) 7: Improved public services and governance through: • Turkey's benchmarking against other countries in the areas of education financing, teachers policies, school autonomy and accountability improved as measured by the System Assessment and Benchmarking for Education Results (SABER). ON TRACK. SABER benchmarking in teacher policies (2011), school autonomy and accountability (2012), and work force development (2013) have been completed. Turkey receives an overall rating of 2.6 (Established) on teacher policies, 1.3 (Latent) in school autonomy and accountability, and 2.4 (Emerging) on work force development. Note: This score is the average of the ratings for the underlying Policy Goals in each SABER exercise where core polices in each area are rated on a grade of 1 (Latent) to 4 (Advanced). • Strong competition among public institutions to receive higher rating based on Citizen Report Card. Baseline: 1 pilot municipality (Manisa). Target: 6 municipalities. ON TRACK. Citizen Report Card well accepted	Development of policy options to improve financial management and governance of public institutions, with focus on: • Development of a program for expanding and improving early childhood education, informed by ESW COMPLETED. Achieved under the programmatic education series 'Improving the Quality and Equity of Basic Education' and 'Closing the Gaps to Improve Early Childhood Education Programs'. • Local administrations' financial management structure and fiscal position. Milestone dropped as this area of work did not develop. • State-owned enterprises governance. ON TRACK through the programmatic PPFM TA and capacity building on parliamentary oversight, external audit, internal audit and strategic budget allocation. • Transport sector expenditures reviewed. COMPLETED through Transport Public Expenditure Review. • Expenditure Citizen Report Card format produced and municipality of Manisa self-financed its 2012 survey. ON TRACK.	**Financing:** • Capacity Building for the Parliament and Parliamentary Budget Office in the New Public Financial Management Framework (FY 09 – FY14) P131181 TF GPF (Governance Partnership Facility) • Capacity Building for Internal Audit. TF Institutional Development Fund • TF SAFE (Strengthening Accountability and Fiduciary Environment): Enhancing the Supreme Audit Function of the Turkish Courts of Accounts (FY14) P128598 • Secondary Education Project (FY05) • IFC Municipal Finance for Wastewater Management, Modern Traffic Management System, Emergency Response System, and Public Transport Projects. **Knowledge**: • TA Programmatic Food Safety (FY14) P145557 • ESW Promoting Excellence in Turkish Schools (FY13) P129423 • TA Programmatic Public Financial Management (PPFM) Study: (i) SOE Governance and (ii) Capacity building (FY13) P130537 • ESW Transport Public Expenditure Review (FY12) P123074

among citizens and public institutions triggering interest across the country. Target of 6 municipalities met and results publically (website) shared. • A new SOE framework legislation is prepared to improve governance at SOEs. ON TRACK. Corporate Governance levels of SOEs continue to improve. a) The establishment of internal control systems in SOEs has been endorsed in Council of Minister's Decree for 2014 Annual Investment and Financing Program (date 30/09/2013 No.: 2013/5503). b) The external auditing has become mandatory for SOEs starting from January 1, 2015 with the Council of Ministers Decree for Determining Enterprises to be subjected to External Auditing (Date: 29/11/2012 No: 2012/4213). Note: Going forward this indicator is moved to the country-level.		

<table>
<tr><th colspan="3">Strategic Pillar 3: Deepened Sustainable Development</th></tr>
<tr><th>Country Development Outcomes to which CPS Contributes</th><th colspan="2">Milestones and Outputs of the CPS Program</th></tr>
<tr><td colspan="3">Country-level Indicators:
Implementation of the 2011 National Climate Change Action Plan. Update: A bylaw on Monitoring of Greenhouse Gas Emissions has been adopted and greenhouse gas inventories are regularly submitted to UNFCCC.
Make progress toward increased energy efficiency through reducing primary energy intensity by 20% compared to 2011(baseline: 0.26 toe/000 US$) by 2023 as a result of implemented and planned policies and measures. Update: 2012: 0.27 toe/000US$. However, the trend towards reduction continues to be anticipated with the reforms undertaken. Energy Efficiency Institutional Analysis and Technical Assistance provide support to rationalize institutional roles and enhance policy impact.
Improved adaptation to climate change through improved water resources management as part of a Water Law to be approved before 2013. Update: A progressive update of the Water Law is in draft and has been submitted for Parliamentary consideration. ‘Efficient use of water in agriculture’ is included as a high priority in the new 10th Development Plan demonstrating the commitment for efforts in this area. In line with the new Water Framework Directive, River Basin Management Plans are being prepared which will include climate change adaptation measures for water basins.
Increased sustainability of Turkish cities; to be measured by the Integrated Urban Development Strategy and Action Plan (KENTGES). Update: An Urban Database to establish baselines and benchmarks for performance improvement and monitoring on sustainability indicators is under preparation. Pilot Sustainable City Action Plans are set to be completed by September 2014 for two pilot municipalities and will thereafter be used as a city-based tool to populate the Urban Database. Municipality survey is held every two years in accordance with KENTGES actions in monitoring the sustainability of cities. Revision of the KENTGES document is also been undertaken considering the institutional and legal changes in Turkey.</td></tr>
<tr><td><u>Thematic Area (Outcome 8)</u>: Improved supply of reliable and efficient energy, increased use of renewable energy sources and climate actions under implementation
through:
Improved supply of reliable and efficient energy by adding at least 10,000 MW new generation capacity by 2015.
ON TRACK. About 9,000 MW has been added in 2012-2013 alone.
Renewable electricity generation as a percentage of total generation increased from 19.7% (correction from 18%) in 2009 to 30% or more in 2015.
ON TRACK: The share in 2010: 26.4%; 2011: 25.2%; 2012: 27.8%. Two WBG loans for Renewable Energy contributed and ESES DPL series.
IFC reached through its portfolio companies about 6 million electricity customers by FY15 Baseline: 2.6 million customers in FY11.
ON TRACK. IFC has reached 4.5 million electricity customers as of Nov. 2013. IFC’s portfolio includes US$2.3 billion in 5 power projects contributing to 4GW new generation capacity, 3 wind farms, 19 HPP, and a 835 MW combined cycle power plant.</td><td>Energy Efficiency Strategy adopted.
COMPLETED. Strategy adopted in February 2012. Supported by ESES DPL3 and technical assistance on electricity market and ESMAP support in energy efficiency.
Action Plan to increase energy efficiency in existing buildings developed by 2014.
Note: The engagement did not materialize and milestone is deleted.
Start implementation of the Climate Change Action Plan.
ON TRACK. Supported under the ESES DPL3.
Market-based mechanism for greenhouse gas emissions adopted.
ON TRACK. Supported through the Partnership for Market Readiness.
Policy options developed to implement Turkey’s vision of ‘sustainable development’ through increased energy efficiency and renewable energy, with ‘climate action’ as a possible focus.
ON TRACK. Developed under ‘Policy Note on Green Growth’.</td><td>Financing:
Renewable Energy Infrastructure (TEIAS) (FY14) P144534
SME Energy Efficiency (FY13) P122178 and GEF contribution P132189
Private Sector Renewable Energy and Energy Efficiency Project – Additional Financing (FY12)
Development Policy Loan - Third Programmatic Environmental Sustainability and Energy Sector (ESES) (FY12) P121651
Energy Community of South East Europe (ECSEE) APL6 Project (FY11) P110841
Private Sector Renewable Energy and Energy Efficiency Project (FY09) P112578
Electricity Distribution Rehabilitation Project (FY07)
Gas Sector Development Project (FY06) P093765
TF EU/IPA Energy Sector Technical Assistance (approval FY14, closing FY16) P131921 and P130264
TF PMR (Partnership for Market Readiness): Carbon Markets Initiatives (approval FY14) P126101
TF CTF (Clean Technology Fund): Private Sector Renewable Energy and Energy Efficiency Project (FY09)
TF IFC GeoFund (Geothermal Energy Development Program): Technical Assistance (FY11)
IFC pollution abatement and energy efficiency financing in the real sector and through intermediaries.
IFC Financing for 805 MW combined cycle natural gas fired power plant</td></tr>
</table>

		• IFC investments with junior exploration companies in the gas and oil exploration sector in frontier regions of Turkey. **Knowledge:** • TA Social Monitoring in Energy Sector (FY14) P147496 • TA on Electricity Market (FY12) P114534 • TF Facilitating Energy Efficiency (ESMAP) (FY12) P130578
Thematic Area (Outcome) 9: **Strengthened environmental management and adaptation to climate change** through: • Fifty percent of all companies subject to the 'Regulation on Permits and Licenses in accordance with the Environmental Law' employ certified environmental officials. ON TRACK: 3222 industrial facilities have been granted e-environmental permits and employ environmental officials (November 2013) Note: this outcome indicator is replaced forward-going with an indicator on the number of firms obtaining integrated environmental permit "e-permit. • Improved water basin management: Protection action plans prepared for Turkey's 25 river basins, taking into account principles of the Water Framework Directive. Baseline: 4 in 2009; Target: at least 20 by end-2012. COMPLETED through policy support under the ESES DPL.	• EU-Environmental Chapter opened in 2009 and negotiations remain underway. ON TRACK. Various advisory services and technical assistance by the WB informed these efforts. Most importantly the ESW Rio+20/Cleaner Production. • Transposition and implementation of Directive 85/337/EEC as amended with 97/11/EC and 2003/35/EC on Environmental Impact Assessment (EIA) into legislation. ON TRACK. The regulation is informed by ESES DPL series. • Transparency and public participation in environmental decision making is being achieved through implementation of the EIA regulation. EIA decisions are disclosed on the Ministry of Environment and Urbanization website. WATCH. It has been informed through the ESES DPL series. • An integrated system for environmental permitting, monitoring and inspection in provincial directorates will be established. COMPLETED. Supported by Third Programmatic Environmental Sustainability and Energy Sector (ESES) Development Policy Loan. • National Water Basin Management Strategy approved by the High Planning Council and implementation started. ON TRACK. Informed through on Programmatic TA on Watershed Management. • Capacity of MOEU was enhanced (correction; before Legislation update to include) to implement cumulative impact assessments for water usage installations in river basins. ON TRACK. Informed through Water Policy Dialogue TA.	**Financing:** • Development Policy Loan - Third Programmatic Environmental Sustainability and Energy Sector (ESES) (FY12) P121651 • Anatolia Watershed Rehabilitation Project plus GEF Project (FY04) • TF GEF3 Full-Sized Project: Turkey Anatolia Watershed Rehabilitation Project (FY05) **Knowledge:** • TA Water Dialogue (FY14) P146361 • ESW Rio+20/Cleaner Production (FY12) P127675 • TA National Watershed Management (FY12) P129244

<u>Thematic Area (Outcome) 10:</u> Improved sustainability of Turkish cities through: • An additional 420,000 people in four cities under the Municipal Services Project have gained access to enhanced urban services, e.g., water supply, sewerage, and solid waste management. ON TRACK. Achieved under the Municipal Services Project (MSP) and MSP Additional Financing Project. • Four pilot cities meet Sustainable Cities Index performance targets by increasing energy efficiency, reducing carbon emissions, and/or improving financial sustainability. ON TRACK under SCD project preparation and Urbanization Review. • At least a total of 750 public buildings in the Istanbul Metropolitan Area retrofitted/reconstructed to resist a major earthquake compared to 595 building in 2011. COMPLETED under Istanbul Seismic Risk Mitigation and Emergency Preparedness Project.	• Program on key urban areas developed and discussed to: (i) improve urban transport and housing; (ii) expand cities' capacity building, including financial capacity; (iii) monitor city sustainability and livability based on international experience; and (iv) finance investment through Iller Bank, for environmental and energy efficiency investments in cities. ON TRACK. Supported by Sustainable Cities Project (SCP) project preparation. • Modalities (correction from 'policy options') developed for supporting cities to adopt energy efficiency improvement standards [into building permits and construction licensing]. ON TRACK: Supported by Sustainable Cities Project preparation. • Real property cadaster and registry information systems modernized in digitally accessible format for at least 3.1 million parcels in five priority regions (Ankara, Antalya, Istanbul, Izmir and Gaziantep) by 2014. ON TRACK: Supported by the Land Registration and Cadaster Modernization Project. • Support development of urbanization policy. ON TRACK: Supported by the Urbanization Review. • Policy options developed to implement Turkey's vision of shifting the industrial sectors towards cleaner production. ON TRACK. Supported by the Green Growth study and WAVES Program.	**Financing:** • Municipal Services Project (FY05) plus Additional Financing (FY10) P081880 • Istanbul Seismic Risk Mitigation and Emergency Preparedness Project (FY05) plus Additional Financing (FY10) P078359 • Land Registration and Cadaster Modernization Project (FY08) P106284 • IFC Municipal Finance for wastewater management, modern traffic management system, emergency response system, and public transport projects. • MIGA underwriting of infrastructure projects including Istanbul Metro • TF GFDRR (Global Facility for Disaster Reduction and Recovery): Disaster Mitigation and Preparedness (FY09) • TF PPIAF (Public-Private Infrastructure Advisory Facility): Sustainable Cities (Municipal Credit Ratings Transaction Structuring) (FY14) P133345 **Knowledge:** • Urbanization Review (FY14) P128606

Annex 3: Looking Ahead - Revised CPS Results Framework FY 12-16

Fast, sustainable, equitable growth that respects the environment

Pillar 1: Enhanced Competitiveness and Employment	Pillar 2: Improved Equity and Social Services	Pillar 3: Deepened Sustainable Development

World Bank Group contributing to eight thematic areas:

1. Sustained macroeconomic and financial stability and strengthened exports, domestic savings and external resilience.	4. Improved quality and equity of social services.	6. Improved supply of reliable and efficient energy, increased use of renewable energy and climate actions under implementation.
2. Improved investment and business climate; deepened and broadened access to finance; increased employment.	5. Progress made toward gender equality and inclusive labor markets.	7. Strengthened environmental management and adaption to climate change.
3. Improved governance through enhanced transparency to ensure level playing field.	Emerging engagement: Building the analytical foundations for pathways out of social vulnerability.	8. Improved sustainability of Turkish cities.

---------- Realigned areas ----------

Former 2: Increased employment and reduced job informality, especially for women and youth.	Former 4: Improved quality and coverage of early childhood education.
	Former 5: A more effective and financially sustainable health system; other countries expressed
	Former 6: Progress made towards gender equity.
	Former 7: Improved public services and governance.

Cross-cutting: Sharing Turkey's Experience – Results, Knowledge and Capacity

Pillar 1: Enhanced Competitiveness and Employment		
Thematic Area 1: **Sustained macroeconomic and financial stability and strengthened exports, domestic savings, and external resilience**.		
Country-level indicators: • Implementation of the Medium-Term Program, including policies on growth, employment, competitiveness and savings. Update: The MTPs have incorporated policies on growth, employment, competitiveness and savings in line with WBG analytic work and policy recommendations. MTPs are rolling targets. • Average economic growth of 4.5% through 2015. Update: The economy grew by 5.5 percent on average in 2011 and 2012; and by 4.0% in 2013. Forecast for 2014 is considerably lower growth. • Domestic savings rate increases from 13.9% in 2010. Update: Domestic savings rate has not increased: 2011: 14.4 percent; 2012: 14.5%; 2013: 12.6% (estimate) • Public debt levels continue to decline. Update: Gross public debt stock as percent of GDP has decreased except a slight increase in 2013: 2010: 45.2%; 2011: 42.1%; 2012: 39.7%; 2013: 40.0%		
WBG Outcome Indicators: Improved domestic resource mobilization to strengthen domestic savings: • New: Increased uptake of new voluntary pension scheme. Baseline: 3.1 mil participants in 2012 and 4.4 mil participants as of Q1 2014. • New: New income tax law results in increased number of taxpayers file income tax. Baseline: 523,982 in 2012. Target:10% increase by 2016	**Milestones:** • Development of policy options on trade competitiveness and regional trade integration as identified in AAA, including trade outcome and firm level analysis of constraints to trade. COMPLETED. • Government/WBG continued discussions and implementation of policies to increase domestic savings as identified in the CEM Savings (FY11), including a benchmarking survey on level of household financial literacy in view of the national financial education strategy published in August 2014. COMPLETED. • Development of policy options for improving the linkages between fiscal policies and economic growth especially on the revenue side. COMPLETED. • New: Financial stability report lays out credible framework to maintain banking stability. • New: Competitiveness program as part of the 10th NDP action plan lays out clear targets for increasing value added exports. • New: A new and innovative pension system was introduced in 2013. • New: Turkey is sharing experience on its achievements in economic growth and shared prosperity internationally. • New: Enactment of a new income tax law and implementation including through enactment of the tax procedures code.	**Financing:** • DPL – Sustaining Shared Growth II (FY16) • DPL – Sustaining Shared Growth I (FY15) P146322 • DPL - Competitiveness and Savings (CSDPL) (FY13) P127787 • IFC long-term financing to increase competitiveness of private companies • IFC trade finance **Knowledge:** • ESW on Value Chain Trade, Services and Logistics (programmatic beginning FY15) • Country Economic Memorandum on Human and Physical Capital (Investments) (FY15) P148205 • Turkey's Transitions: Integration, Inclusion, Institutions/Country Economic Memorandum (FY15) (P133570) • Public Finance Review (FY14) P130699 • Country Economic Memorandum on Foreign Trade (FY14) P129350 • Customs Union Evaluation (FY14) P144290 TF European Commission: • TA Justice Sector Performance (FY14) P145480 • TA Regular Economic Update (FY14) P146343 • TA Financial Literacy (which is follow-up to Programmatic Country Economic Memorandum on Savings) (FY12) P127354

Thematic Area 2: Improved investment and business climate; deepened and broadened access to finance; increased employment.

Country-level indicators:

Entrepreneurship:

- OECD Product Market Regulation Indicator of Barriers to Entrepreneurship reduced from 2.44 in 2008. Update: 2.89 in 2013 (source: Government).
- The Doing Business Strength of Investor Protection Index increases from 5.7 (2012 Report). Update: index increase to 6.3 (2014 Report)
- Business sector share in research and development expenditures increases from 43% in 2010.Update: Share increased marginally in 2011 (43.2%) and is estimated at 46% for 2013.
- The number of days for a company in the manufacturing sector to obtain an operating license is reduced from 62 (2010 Investment Climate Assessment). Update: No BEEPS data is available to date (new BEEPS results expected in August/September 2014)

Access to finance:

- Loans to SME increased from 23.8% in 2011 (correction) & Size of financial investor base (assets of insurance, mutual funds and private pension funds) increased from 5.5% of GDP in 2010. Update: Loans to SMEs increased to 25.1% of the total loans by the end of 2012 and 25.9% of the total loans by the end of 2013.
- Investor base's (insurance, pension and mutual funds) share in the GDP has increased to 5.5% by the end of 2011, 5.8% by the end of 2012 and 5.9% by the end of 2013.

Employment:

- Employment rate increased from 43% in 2010 to 45% in 2015. Update: 45.4% in 2012
- Female employment increased from 24% in 2010 to 28% in 2015.
- Non-agricultural job informality rate reduced from 29.1% in 2010. Update: Non-agricultural job informality rate has declined to 27.3% in 2013. Plan is 21.4% by November 2014 (source: Government)
- Decrease in Turkey's Employment Protection Legislation Index score from 3.43% in 2008. Update: The EPL index (average of regular and temporary employment) has stayed constant since 2008 at the level of 3.59. In 2013 EPL index scored also 3.59

WBG Outcome Indicators:

(a) Reduced entry barriers and improved intellectual property rights promote entrepreneurship:

- New: Increase in new patent applications. Baseline: 5,600 in 2013.
- New: Implementation of integrated company regulation system (MERSIS) leading to inclusion of all companies in all of the [238] registries across Turkey. Baseline: 204 companies registered in 2012.

(b) Improved access to finance promote inclusive private sector growth:

- Export growth in firms benefiting from IBRD financing relative to sector export growth is greater than zero. ON TRACK
- Sales growth in SMEs benefiting from IBRD financing greater than zero adjusted for inflation. ON TRACK
- Gross non-performing loans (NPL) ratios for financial institutions benefiting from IBRD financing do not exceed the average for the banking sector (2.7

Milestones:

(a) Investment and business climate:

- Reforms streamlining the process of issuing licenses are put in place. ON TRACK.
- Completion of an assessment of the national competition policy framework. COMPLETED.
- Revised legal framework to help foster the commercialization of public research and for rebalancing incentives for private research. WATCH. The draft patent law is pending in the parliament.
- Identification of regional dimensions of the challenges and opportunities facing the private sector to inform future policy. WATCH. Dependent on EU IPA funding.
- New: Establishment of an Impact Evaluation framework for innovation policy.

(b) Access to finance:

- The capacity of the Banking Regulation and Supervision Agency to monitor market risks has been enhanced. COMPLETED.
- Capacity of intermediaries to appraise investment projects with longer maturity profiles is enhanced. COMPLETED.
- Policy actions to broaden the investor base for private securities adopted /start implementation. ON TRACK.

IBRD Financing:

- Financial Sector Lending Operation (indicatively programmed FY16)
- DPL – Sustaining Shared Growth II (FY16)
- DPL – Sustaining Shared Growth I (FY15) P146322
- Long Term Finance Guarantee (programmed FY15/16) P148858
- Innovative Access to Finance Project (FY15) P147183 plus TF015830
- Competitiveness and Savings DPL (CSDPL) (FY13) P127787
- Third Access to Finance for SMEs (FY13) P130864
- Second Access to Finance for Small and Medium Enterprises Project (FY10) P118308
- First Access to Finance for Small and Medium Enterprises Project (FY06)
- Fourth Export Finance Intermediation Loan (EFIL IV) (FY08) P096858

Planned IFC and MIGA Financing:

- IFC Investments in the real sector
- IFC use of securitization structure to increase the depth and competition of the Turkish banking sector
- IFC long-term financing to the banking sector for on-

percent as of end-2011, BRSA). WATCH • IFC estimates leveraging through local financial intermediaries financing to about 100,000 SME clients and 120,000 farmers. COMPLETED and going forward: to about 150 000 more SMEs by end FY16. • New: Increase in corporate bond issuance. Baseline: TL 43 bn (2013). Target: 50 bn (2015). • New: percentage of woman saved at a financial institution in the past year, female (% age 15+) Baseline 2 % (Findex 2011) Target: 3.3% (Findex 2015) (c) Greater labor market flexibility and direct investment support lead to continued private sector employment creation: • IFC's real sector portfolio companies will provide about additional 70,000 jobs. Baseline: 68 000 jobs. ON TRACK.	• New: Knowledge Hub on Islamic Finance in Istanbul opened. COMPLETED. • New: Self-regulating capital markets intermediary institution strengthened under the new capital market regulations. • New: Strategy for Financial Inclusion issued. (c) Employment: • Approval of the National Employment Strategy to enable: (i) introduction of pre-funded severance accounts; (ii) increased unemployment insurance coverage; (iii) reduced restrictions on disincentives to part-time, fixed-term, and temporary work. ON TRACK. • Implementation of renewed Informality Action Plan to reduce informality, including measures to improve audit coordination. ON TRACK.	lending to underserved segments of the economy including female entrepreneurs, MSMEs and the poorer regions • IFC Short-term financing and trade • MIGA underwriting of financial sector project **Knowledge:** • TF: Strengthening Solvency Supervision (FY14) (P131766) • Country Economic Memorandum Human and Physical Capital (Investments)(FY15) P148205 • ESW Turkey's Transitions: Integration, Inclusion, Institutions/Country Economic Memorandum (FY15) P133570 • TA Private Sector Development (FY15) P146494 • TA Financial Inclusion and Deepening (FY15) P146626 • ESW Reform for Competitiveness (FY14) P127856 • TA Financial Sector Development II (FY14) P132968 • TA Public-Private Partnership (FY14) P145352 and P148135 forward-going. • ESW on Value Chain Trade, Services and Logistics (programmatic beginning FY15) • ESW on Innovation and Business Climate (programmatic beginning FY15) • TF: Trade Finance (PF015830) • Joint MNA/ECA cross-regional knowledge sharing initiative on the 'How-to of Technology Acquisition, Innovation and Entrepreneurship' • Programmatic Jobs Series: 1) Programmatic Jobs: Managing Labor Markets through the Business Cycle (FY12) P 123771 2) Programmatic Jobs: Activation of Low Skilled Youth and Women (FY14) P131099 3) Programmatic Jobs: Creating Good Jobs (FY15) P147432 • Impact Evaluation of ISKUR's (Turkish Employment Agency) Vocational Training Programs (FY14) P120514 • TA Programmatic Human Development (FY13) P133668 • TA Programmatic Human Development (FY12) P 128493 • IFC Support for vocational education

<table>
<tr><th colspan="3">Thematic Area 3: Improved governance through enhanced transparency to ensure a level playing field.</th></tr>
<tr><td colspan="3">Country-level indicators:
• A new SOE framework legislation is prepared to improve governance at SOEs. Update: Corporate Governance levels of SOEs continue to improve.(a) The establishment of internal control systems in SOEs has been endorsed in Council of Minister's Decree for 2014 Annual Investment and Financing Program (date 30/09/2013 No.: 2013/5503). (b) The external auditing has become mandatory for SOEs starting from January 1, 2015 with the Council of Ministers Decree for Determining Enterprises to be subjected to External Auditing (Date: 29/11/2012 No: 2012/4213).
• New: Enterprises using e-government services; 2012: 81.5%; Target 2018: 90% (source: 10th NDP)
• New: Number of e-government Gateway registered users. 2012: 13.8 million persons. Target 2018: 30 million persons (source: 10th NDP)</td></tr>
<tr><td>WBG Outcome Indicators:
Improved corporate governance by aligning Turkish to international standards:
• New: Increase in number of firms with independent audit: Baseline: 2500 in 2013. Target: 3500 in 2015</td><td>Milestones:
• Development of policy options to improve financial management and governance of public institutions, with focus on:
o Transport sector expenditures reviewed. COMPLETED
o State-owned enterprises governance. ON TRACK.
o New: Completion of two pilot projects in enhancing accounting and reporting practices in line with the new commercial Code in two SOEs.
o New: Improving reporting framework of the Turkish Court of Accounts for the financial audits conducted in 2014.
• New: Publication by the Public Oversight Authority of the Full Set of Turkish Standards on accounting and auditing foreseen by the Commercial Code, in line with international standards.</td><td>Financing:
• DPL – Sustaining Shared Growth II (FY16)
• DPL – Sustaining Shared Growth I (FY15) P146322
• TF GPF (Governance Partnership Facility): Capacity Building for the Parliament and Parliamentary Budget Office in the New Public Financial Management Framework) (FY 09 – FY14) P131181
• TF IDF (Institutional Development Fund): Strengthening Public Internal Audit Function (P128662)
• TF SAFE (Strengthening Accountability and Fiduciary Environment): Enhancing the Supreme Audit Function of the Turkish Courts of Accounts (FY 14) P128598
Knowledge:
• ESW Turkey's Transitions: Integration, Inclusion, Institutions/Country Economic Memorandum (FY15) (P133570)
• ESW Transport Public Expenditure Review (FY12) P123074
• TA: Public Financial Management and Governance (FY14) P147805
• TA Programmatic Public Financial Management (PPFM) Study. (FY13) P130537.
• TA: Programmatic Governance (FY15/16)
• IFC Corporate Governance advisory project
• IFC, through its investments, will continue to offer corporate governance advice to its clients</td></tr>
</table>

Pillar 2: Improved Equity and Social Services

Thematic Area 4: Improved quality and equity of social services

Country-level indicators:

- Ministry of Health is reorganized and focuses exclusively on the health sector's stewardship functions by 2015. Update: Reform completed.
- Increased preschool gross enrollment (4-5 ages) from 30% in 2011-12 to 70% in 2018. Update: Pre-school enrollment was 44% in 2012-13. It decreased to 38% (4-5 ages gross) in 2013-14.
- Significantly reduce the gender gap in secondary school enrollment from 5 (correction) percentage points (2010). Update: Secondary gender gap substantially reduced to 1.5% in 2012 and to 1.2% in 2013 (MoNE).

WBG Outcome Indicators:

Strategic foundation laid for further health outcome improvements:

- Ministry of Health is reorganized and focuses exclusively on the health sector's stewardship functions by 2015. COMPLETED.
- All public hospitals organized in public hospital unions and paid on the basis of performance contracts within a global budget. COMPLETED.
- New: Cervical cancer screening among women aged 20-69 increased.
  Baseline: 19% in 2012
  Target: increase by 30% by 2016

Education and social policy informed by WB Economic and Sector Work:

- AAA client feedback survey results confirm the usefulness for policy dialogue of the following studies on: (i) early childhood education, (ii) school-based management, (iii) school autonomy and financing, and (v) social assistance efficiency and effectiveness.

Milestones:

Health:

- Increased capacity of the Ministry of Health to carry out stewardship functions. COMPLETED.
- Development/adoption of policy options for the provision of quality health care while containing costs. ON TRACK.
- Sharing of Turkey's health reform experience with other countries in the region and beyond – under discussion with the Government. COMPLETED.
- New: Agreement reached for Government to introduce effective screening for early detection of chronic disease through improvements at the primary care level by ensuring availability of equipment, pharmaceuticals and well trained health personnel

Education:

- Development of a program for expanding and improving early childhood education, informed by ESW. COMPLETED.
- Development of policy options to explore (i) introduction of an objective and transparent education financing system (ii) increased school financial autonomy; and (iii) increased accountability at all levels of the education system.
- New: Policy makers informed about the overall efficiency of delivery of education in Turkey including regional and income inequalities.

Social Protection:

- New: Development of policy options on social assistance programs for consolidation and improving efficiency and effectiveness.

Financing in Health:

- Public Health (possibly in FY15/16)
- Project in Support of Restructuring of Health previous name: Health Transformation and Social Security Reform Project APL 2 (FY09) P102172
- TF Governance Partnership Facility (GPF): Health Transformation and Social Security Reform (FY09)
- Adana Health Project (FY15), IFC's first PPP project in the healthcare sector and a first for Turkey.

Knowledge in Health:

- Impact Evaluation HRBF Grant Health (programmed FY15/FY16) P130373
- TA Pharmaceuticals (FY14) P133309
- TA Support to Sharing Lessons in Health Sector Reform including policy notes on the political economy of health reform, hospital restructuring, and health financing. (FY14) P144940
- ESW Performance-based contracting in Family Medicine (FY13) P129248
- IFC's investments to improve access to high-quality private health care services

Knowledge in Education:

- Programmatic work likely covering school autonomy and financing is planned for FY15/16.
- Improving Educational Outcomes (FY14) P132094
- Promoting Excellence in Turkish Schools (FY 13) P129423
- Improving the Quality and Equity of Basic Education (FY12) P122445
- School Based Management in Turkey (FY15) P148207

<table>
<tr><th colspan="3">Thematic Area 5: Progress made toward gender equality and inclusive labor markets</th></tr>
<tr><td colspan="3">Country level indicators:
• Increase female labor force participation rate from 276 % (TUIK 2010) and target is 32.6% in 2015.Update: increased to 29.5% in 2012 (TUIK) and 30.6% in 2013.
Expand the coverage and increased relevance of ISKUR's (Turkish Employment Agency) vocational training. Update: No. of participants; 211.627 in 2010, 250.026 in 2011, 464.645 in 2012, and 220.075 in 2013.</td></tr>
<tr><td>WBG Outcome Indicators:
Gender gaps in entrepreneurship and employment reduced through targeted support:
• At least 20 companies granted new Gender Equity Certification by end of 2015. Baseline: zero in 2011.
ON TRACK.
• Contribution to increased female labor force participation through support to 900 women owned SMEs through IFC financed SMEs. COMPLETED.
• New: Improved access for Social Assistance beneficiaries to Active Labor Market Programs as measured by the number of people enrolled in ISKUR programs through social solidarity foundations (semi-autonomous public agencies)
Baseline 2012: 9500
Target: 40000 by end FY15.</td><td>Milestones:
• Gender certification program to promote gender equality in the workplace developed and implemented in 11 firms by July 2012. ON TRACK.
• Development of policy options to increase female formal employment through (i) flexible contracting; (ii) employment activation programs; and (iii) access to child care. ON TRACK.
• Obstacles for women in the investment climate are identified. ON TRACK.
• New: Development of policy options to improve the cost-effectiveness of ISKUR services, including developing more effective targeting to needs of beneficiaries, including low skilled women and youth. ON TRACK.
• New: MoFSP launches a pilot community-based child-care model with the aim of increasing access to quality, affordable child care.</td><td>Financing:
• DPL – Sustaining Shared Growth II (FY16)
• DPL – Sustaining Shared Growth I (FY15)
• Increasing Women's Access to Economic Opportunity P146215;TF SIDA
• IFC support for women-owned SMEs through its portfolio banks
Knowledge:
• ESW Programmatic Jobs: Activation of Low Skilled Youth and Women (FY14) P131099
• TA Gender Equity Certification in the Private Sector (FY12 P129435 and FY13 P 133741)
• Impact Evaluation of ISKUR's (Turkish Employment Agency) Vocational Training Programs (FY14) P120514</td></tr>
</table>

Pillar 3: Deepened Sustainable Development		
Thematic Area 6: Improved supply of reliable and efficient energy, increased use of renewable energy sources and climate actions under implementation.		
Country-level indicators: • Implementation of the 2011 National Climate Change Action Plan. Update: A bylaw on Monitoring of Greenhouse Gas Emissions has been adopted and greenhouse gas inventories are regularly submitted to UNFCCC. • Make progress toward increased energy efficiency through reducing primary energy intensity by 20% compared to 2011(baseline: 0.26 toe/000 US$) by 2023 as a result of implemented and planned policies and measures. Update: 2012: 0.27 toe/000US$. However, the trend towards reduction continues to be anticipated with the reforms undertaken.		
WBG Outcome Indicators: Improved supply of reliable and efficient energy, increased use of renewable energy sources and climate action under implementation: • Improved supply of reliable and efficient energy by adding at least 10,000 MW new generation capacity by 2015. ON TRACK. • Renewable electricity generation as a percentage of total generation increased from 19.7% (correction from 18%) in 2009 to 30% or more in 2015. ON TRACK. • IFC reaching through its power generation/distribution portfolio companies about 7.2 million electricity customers by FY15 Baseline: 4.1 million customers in FY11. ON TRACK. • New: Cumulative energy savings of 4,372 GWh or 1.5% of 2013total annual demand by 2016 to be achieved through SME EE and RE credit lines. • New: Increasing gas storage is critical for Turkey's energy security. Baseline: 2.6 bcm in 2013 Target:19% increase by 2016 and 38% increase by 2020 with the completion of phase 1 and phase 2 of the Tuz Golu gas storage project, respectively.	**Milestones:** • Energy Efficiency Strategy adopted. COMPLETED. • Start implementation of the Climate Change Action Plan. ON TRACK. • Market-based mechanism for greenhouse gas emissions adopted. ON TRACK. • Policy options developed to implement Turkey's vision of 'sustainable development' through increased energy efficiency and renewable energy, with 'climate action' as a possible focus. ON TRACK. • New: Modernization of legal framework of electricity sector through enactment of new Electricity Market Law and issuance of critical secondary legislation, including for EPIAS. • New: Modernization of gas market through amendment of Natural Gas Market Law and issuance of related regulations for the development of a gas trading platform, laying basis for restructuring of BOTAS as provided for in the amendment of Natural Gas Market Law. • New: Social protection policy recommendations developed to mitigate impacts of electricity privatization on poor households based on impact monitoring as agreed under ESES DPL 3.	**Financing:** • DPL – Sustaining Shared Growth I (FY15) P146322 • Gas Sector Development Project – Additional Financing (FY15) P133565 plus CTF • Renewable Energy Infrastructure (TEIAS) (FY14) P144534 • SME Energy Efficiency (FY13) P122178 and GEF contribution P132189 • Private Sector Renewable Energy and Energy Efficiency Project – Additional Financing (FY12) P112578 • Third Programmatic Environmental Sustainability and Energy Sector (ESES) DPL (FY12) P121651 • Energy Community of South East Europe (ECSEE) APL6 Project (FY11) P110841 • Private Sector Renewable Energy and Energy Efficiency Project (FY09) P112578 • Electricity Distribution Rehabilitation Project (FY07) • Gas Sector Development Project (FY06) P093765 • TF EU/IPA Energy Sector Technical Assistance (FY14) P131921 • TF PMR (Partnership for Market Readiness): Carbon Markets Initiatives (approval FY14) P126101 • TF CTF (Clean Technology Fund): Private Sector Renewable Energy and Energy Efficiency Project (FY09) • TF IFC GeoFund (Geothermal Energy Development Program): Technical Assistance (FY11) • IFC Sustainable Energy financing • IFC financing for renewable energy projects (geothermal, hydro and wind power) • IFC financing for power distribution companies • IFC financing energy efficiency projects **Knowledge:** • Energy Reform Milestones and Challenges (FY15) P149638 • TA Energy Efficiency Institutions (FY15) P146501 • TA Social Monitoring in Energy Sector (FY15) P147496 • TA on Electricity Market (FY12) P114534 • TF Facilitating Energy Efficiency (ESMAP) (FY12) P130578

Thematic Area 7: **Strengthened environmental management and adaptation to climate change.**

Country-level indicators:

- Improved adaptation to climate change through enhanced water resources management as part of a Water Law to be approved before 2015 (correction: before 2013). Update: A progressive update of the Water Law is in draft and has been submitted for Parliamentary consideration. 'Efficient use of water in agriculture' is included as a high priority in the new 10th Development Plan demonstrating the commitment to efforts in this area.
- Revised and moved to country level: Turkey strengthened its environmental permitting system for industrial facilities. A new regulation on 'Environmental Permits and Licenses' now requires such facilities to obtain an integrated 'e-permit' (2,394 issued as of 2012 and 3,222 by end 2013), as well as the hiring of an environmental officer who is responsible for the environmental permitting process for the facility.
- New: River Basin Management Plans (comprehensive plans that build on completed Protection action plans) are being prepared, which will include climate change adaptation measures for water basins. Baseline: none in mid-2014. Target: Five River Basin Management Plans prepared out of 25 basins projected by end-2017.

WBG Outcome Indicators:

Improved water resource planning and management; and introduction of Natural Capital Valuation:

- Improved Water Basin Management:

(a) Improved water basin management: Protection action plans prepared for Turkey's 25 river basins, taking into account principles of the Water Framework Directive. Baseline: 4 in 2009; Target: at least 20 by end-2012. COMPLETED through policy support under the ESES DPL.

(b) New: One draft Integrated Water Basin Management Plan completed and Basin Commission established in selected pilot basin by end-2017 through Integrated Basin Management Project.

- New: Two Natural Capital Accounts established in selected water basins.

Milestones:

- EU-Environmental Chapter opened in 2009 and negotiations remain underway. ON TRACK.
- Transposition and implementation of Directive 85/337/EEC as amended with 97/11/EC and 2003/35/EC on Environmental Impact Assessment (EIA) into legislation. ON TRACK.
- Transparency and public participation in environmental decision making is being achieved through implementation of the EIA regulation. EIA decisions are disclosed on the Ministry of Environment and Urbanization website. WATCH.
- An integrated system for environmental permitting, monitoring and inspection in provincial directorates will be established. COMPLETED.
- National Water Basin Management Strategy approved by the High Planning Council and implementation started. ON TRACK.
- Regulations (correction from legislation) updated by supplemental guidelines to include cumulative impact assessment for EIA process of water usage installations. ON TRACK.
- Policy options developed to implement Turkey's vision of shifting the industrial sectors towards cleaner production. ON TRACK.
- New: Methodology for Natural Capital Accounting established for water and forestry sectors and piloted in one river basin.
- New: Framework adopted for coordinated multi-sectoral preparation of integrated basin management in one pilot basin.
- New: Integrated urban water management framework adopted to promote water conservation practices in one pilot basin.
- New: Government policies on water quality, allocation and pricing informed by international experience presented through policy notes and workshops.

Financing:

- DPL - Third Programmatic Environmental Sustainability and Energy Sector (ESES) (FY12) P121651
- Integrated Basin Management (programmed FY15) P127683
- Anatolia Watershed Rehabilitation Project plus GEF Project (FY04)
- TF GEF3 Full-Sized Project: Turkey Anatolia Watershed Rehabilitation Project (FY05)

Knowledge:

- ESW Rio+20/Cleaner Production (FY12) P127675
- TA Food Safety Programmatic TA (FY14) P145557
- TA Water Dialogue (FY15) P146361
- TA National Watershed Management (FY12) P129244
- Diagnostic of Natural Capital Saving and Sustainable Growth (FY15) P149686
- Environmental and Natural Resource Management Programmatic TA (FY15/FY16)

Thematic Area 8: Improved sustainability of Turkish cities.

Country-level indicators:

- Increased sustainability of Turkish cities; to be measured by the Integrated Urban Development Strategy and Action Plan (KENTGES). Update: An Urban Database to establish baselines and benchmarks for performance improvement and monitoring on sustainability indicators is under preparation. Pilot Sustainable City Action Plans are set to be completed by September 2014 for two pilot municipalities and will thereafter be used as a city-based tool to populate the Urban Database. Municipality survey is held every two years in accordance with KENTGES actions in monitoring the sustainability of cities. Revision of the KENTGES document is also been undertaken considering the institutional and legal changes in Turkey.
- New: Turkey National Disaster Strategy prepared establishing a multi-hazard policy framework and detailed plans for response, recovery and risk reduction. To be completed by 2015.
- New: Increased share of urban population served by sanitary landfills. Baseline: 55% served at end 2012. 74% at end of 2013. Target: 90% by 2016.
- New: A harmonized market-based real estate valuation system is developed to increase efficiency and accuracy of land records.

WBG Outcome Indicators:

Improved municipal environmental infrastructure and improved access to public services:

- An additional 420,000 people in four cities under the Municipal Services Project have gained access to enhanced urban services, e.g., water supply, sewerage, and solid waste management. Update: Total of 800,000 people in a total of six cities. ON TRACK.
- Municipal governance: Performance improvement efforts and competition underway among local public administrations to receive higher rating based on Citizen Report Card. Baseline: 1 pilot municipality (Manisa). Target: 6 municipalities. (updated formulation). ON TRACK.
- New: Access to urban transport services increased through IFC support:
  a. New Istanbul Kardikoy-Kartal Metro commuter line. Additional 419 000 people benefit from improved services by 2016. Baseline: 150,000 people in 2013.
  b. Two new Izmir electrified tramway lines and improved traffic management. Construction to be completed by 2017; additional 240,000 people have access. [Note: measurable impact falls outside of CPS period]

Milestones:

Municipal:

- Program on key urban policy areas developed and frameworks adopted to: (i) improve territorial planning; (ii) expand cities' capacity to enhance environmental, financial and social sustainability; (iii) monitor city sustainability and livability based on international experience; and (iv) develop a pipeline of sustainable city investments to be financed by Iller Bank. (Indicator updated). WATCH.
- Modalities (correction from 'policy options') developed for supporting cities to adopt energy efficiency improvement standards [into building permits and construction licensing]. ON TRACK.
- Municipal governance: Citizen Report Card format produced and municipality of Manisa self-financed its 2012 survey. ON TRACK.
- New: Improved Municipal Financial Sustainability through updated municipal credit/risk assessment methodologies by Treasury and Iller Bank; two pilot Municipal Shadow Credit Rating Assessments carried out.
- New: New guidelines for Urban Transformation in Risky Areas adopted by MOEU

Cadaster Management:

- Real property cadaster and registry information systems modernized in digitally accessible format for at least 4 million parcels in five priority regions (Ankara, Antalya, Istanbul, Izmir and Gaziantep) by 2013. ON TRACK.
- New: Property valuation policies informed and updated based on findings of mass property valuation pilots completed in two city districts.

Financing:

- Sustainable Cities (programmed FY15) P128605
- National Disaster Risk Management (programmed FY16)
- Municipal Services Project (FY05) plus Additional Financing (FY10) P081880
- Istanbul Seismic Risk Mitigation and Emergency Preparedness Project (FY05) plus Additional Financing (FY10) P078359
- Land Registration and Cadaster Modernization Project (FY08) P106284
- IFC Municipal Finance to improve municipal infrastructure
- IFC partnership with Illerbank to support municipal infrastructure PPPs
- IFC Investments in transport logistics
- MIGA underwriting of infrastructure projects including Istanbul Metro

Knowledge:

- TF GFDRR (Global Facility for Disaster Reduction and Recovery): Disaster Mitigation and Preparedness (FY09)
- TF PPIAF (Public-Private Infrastructure Advisory Facility): Sustainable Cities (Municipal Credit Ratings Transaction Structuring) (FY15) P133345
- ESW Turkey's Transitions: Integration, Inclusion, Institutions/Country Economic Memorandum (FY15) (P133570)
- ESW Urbanization Review (FY15) P128606
- Environmental and Natural Resource Management Programmatic TA.

• New: Discharge of untreated wastewater reduction into the Aegean Sea through expansion of the IFC financed Izmir Waste Water Treatment Plant. Baseline: 605,000m3 /day treated in 2012 Target: 821,000m3/day treated by 2016 Better seismic risk preparedness in Istanbul: • At least a total of 750 public buildings in the Istanbul Metropolitan Area retrofitted/reconstructed to resist a major earthquake compared to 595 building in 2011. COMPLETED. Improved cadaster management: • New: Customer satisfaction rate for Land Registry services improved. Baseline: 40% in 2008. Target: 80% by end-2014.		

Annex 4: Additional Economic Background

I. Recent Economic Developments

The economy expanded by 4.0 percent in 2013 supported by strong domestic demand (Table A4.1). With FX-adjusted credit growth of about 26 percent year-on-year (y-o-y) and a strong boost to public investment, domestic demand contributed 6.4 percentage points (pps) to growth while net exports subtracted 2.3 pps. After declining for six consecutive quarters, private investment grew by 3.6 percent y-o-y in the third quarter of 2013. On the production side, financial services contributed to GDP growth by 1.2 pps followed by the manufacturing sector's 0.9 pps. Relatively robust growth in 2013 followed a year of economic rebalancing in 2012 when policy makers delivered strong monetary and macro-prudential tightening to contain Turkey's large external imbalances.

The key to sustaining Turkey's recent gains in poverty reduction and shared prosperity lies in the labor market. The Turkish economy created nearly 5 million jobs between January 2009 and December 2013, supporting a turnaround in female labor force participation and reduced informality. In 2012, unemployment fell to a record low of 8.4 percent after peaking at 13.1 percent during the 2008-09 global crises. However, the economic slowdown in 2012 affected the labor market with a lag and unemployment increased from 8.4 to 9.0 percent in 2013. Turkey's female labor force participation rate at 30.8 percent in 2013 remains significantly lower than the OECD average of 62.3 percent. Sustaining shared growth in Turkey will *inter alia* require further increases in the female labor force participation rate.

External adjustment has continued at the beginning of 2014 thanks to the recovery in the EU and lower energy prices, but imbalances remain high. Adjusting for net gold sales, which subtracted 0.7 percent of GDP from current account deficit in 2012 and added 1.4 percent of GDP to current account deficit in 2013, the 12-month rolling current account deficit eased to a still high 6.3 percent of GDP in February 2014 (from 6.9 percent in the same month of 2013). The nascent recovery in the EU was the main driver of the 6.8 percent y-o-y increase in 12-month rolling gold-adjusted exports in February along with the 14.8 percent y-o-y depreciation of the real effective exchange rate. Tourism revenues, which increased by 8.6 percent y-o-y, as well as lower energy prices, contributed further to the improvement of the non-gold current account deficit.

The share of short-term inflows in the financing of the current account deficit remains high, contributing to investor concerns. Short-term inflows account for almost half of current account deficit financing in 2013. Yet, the roll-over rates of both the corporate and banking sectors have remained comfortably above 100 percent, even after May 2013. Overall, Turkey's total annual financing needs in 2014 are estimated to be about US$212 billion (26 percent of GDP) compared to the CBRT's gross foreign exchange (FX) reserves[5] of US$108.9 billion (equal to 5.3 months of imports as of April 2014).

Together with the elevated food prices, exchange rate depreciation kept inflation well above the CBRT's 5 percent target. Twelve-month inflation rose to 9.7 percent in May 2014 from 6.5 percent a year earlier. Core inflation (which excludes prices for food, energy, tobacco, alcohol and gold) rose to 9.8 percent, the highest level in the last seven years. Exchange rate pass-through and high unprocessed food prices were the main drivers of the higher than targeted price increases. Both effects are expected to weaken over the course of the year.

[5] The CBRT's net foreign exchange reserves (gross reserves less foreign deposits and foreign short term borrowings) amounted to US$39.5 as of April 2014.

Table A4.1: Key Macroeconomic Indicators and Projections

	2010	2011	2012	2013 (est)	2014	2015	2016	2017
Real Economy	Annual percentage change, unless otherwise indicated							
Real Gross Domestic Product (GDP)	9.2	8.8	2.1	4	3.5	3.5	3.7	3.9
Per capita GNI (US$ Atlas Method)	9980	10510	10810	10950	11030	11300	11730	12260
Contributions (in percentage points)								
Consumption	4.9	5.8	0.3	3.7	1.8	2.9	3.1	2.9
Investment	6.1	4.3	-0.7	1.1	0.2	0.5	0.6	0.7
Net exports	-4.4	-1.1	4	-2.3	1.5	0.1	0	0.4
Exports	3.4	7.9	16.3	0.1	5.8	5.2	5.6	6
Imports	20.7	10.7	-0.4	8.5	0	4.1	4.8	4
Unemployment rate	11.1	9.1	8.4	9	9.8	10	10.1	9.9
Consumer Price Index (12-month, eop)	6.4	10.4	6.2	7.4	8.2	6.2	5	5
Fiscal Accounts	Percent of GDP, unless otherwise indicated							
Expenditures	38.5	36.8	38.9	40.8	42.1	42.3	42.1	41.9
Revenues	35.5	36.4	37.8	39.7	40.1	40.7	40.3	40
General Government Balance	-3	-0.4	-1	-1	-1.9	-1.5	-1.7	-1.8
Public Sector Primary Balance	0.7	1.8	0.8	0.9	0.6	1.2	1	0.9
Gross Public Debt	45.2	42.1	39.7	39.9	39.1	37.8	36.6	35.1
Selected Monetary Accounts	Annual percentage change, unless otherwise indicated							
Broad Money	18.3	13.7	13.1	20.1	..	..	..	..
Credit to Non-government (eop)	31.9	22.8	18	25.5	..	..	..	..
Interest (key policy interest rate, eop)	6.5	5.75	5.5	4.5	..	..	..	..
Balance of Payments	Percent of GDP, unless otherwise indicated							
Current Account Balance	-6.2	-9.7	-6.2	-7.9	-6.3	-6.2	-6	-5.6
Exports	21.5	23.8	26.2	25.6	27	27.3	27.7	28.3
Imports	26.9	32.7	31.7	32.5	32.3	32.2	32.1	32.1
FDI (net)	1	1.8	1.2	1.2	1.2	1.4	1.4	1.2
Gross Reserves (in billions of US$, eop)	80.7	78.5	99.9	110.9	..	..	..	..
In months of imports	0.9	3.7	4.9	5.1	..	..	..	..
External Debt	39.9	39.3	43	47.3	48	48.3	48.6	48.7
Exchange rate (average, per dollar)	1.5	1.68	1.8	1.91	..	..	..	..
Memorandum item								
GDP nominal (billion US$)	731.6	774	786.3	820	832.7	873.9	924.4	970

Source: World Bank projections, International Monetary Fund (IMF), Turkish Statistical Institute (TurkStat), Central Bank of the Republic of Turkey (CBRT), Ministry of Finance (MOF), Ministry of Development (MOD).

Turkish financial markets came under severe pressure following the emergence of corruption allegations against high-level government officials on December 17, 2013. The lira depreciated by almost 15 percent against the dollar after December 17, 2013 and reached a record low of TL2.34 per dollar on January 27, 2014. Meanwhile, during the same period, the main equity price index eased by 13.7 percent and the benchmark (2-year) government bond yield surged by almost 200 basis points (bps) to 11 percent, up from a record low of 4.67 percent in May 2013.

In response to rising inflation and exchange rate volatility, the CBRT moved away from its unconventional policy framework in an interim Monetary Policy Committee (MPC) meeting on January 28, 2014.[6] The CBRT reacted to increased exchange rate volatility during 2013 initially through adjustments to the unorthodox policy framework, involving increased volatility of effective interest rates and around US$23 billion of FX interventions, of which US$3.2 billion was direct intervention, between June 11, 2013 and January 27, 2014. As these failed to contain TL depreciation, the CBRT held an interim MPC meeting on January 28, 2014 in which the Committee increased the policy rate (1-week repo) by 550 bps to 10 percent. In addition to the hikes of short-term rates, by canceling the additional tightening days, the Committee also implicitly declared a shift towards a more conventional monetary policy by simplifying operational framework.[7] With the exchange rate stabilizing, and credit growth coming down sharply, the CBRT decided to lower interest rate cumulatively by 175 bps between May 22 and July 17, 2014. Given an inflation outlook well above the CBRT's target, these moves seem to be premature. Inflation is predicted to decline gradually in the second half of the year but a tight monetary stance continues to be warranted given the risk that inflationary expectations may permanently shift up.

The banking sector remains well capitalized and profitable with vulnerabilities concentrated in the corporate sector given its large FX position. The capital adequacy ratio of the Turkish banking sector is higher than most of its peers at 16.3 percent as of May 2014. The sector also managed to keep its profits high in 2013 thanks to rapid credit growth (25 percent in 2013) and low level of NPLs (2.8 percent as of May 2014). The open FX positions of the corporate sector reached US$169.7 billion (21 percent of GDP) in April 2014. Together with increases in credit interest rates, the strong depreciation trend in the lira could delay investment decisions and aggravate loan repayments. This and falling interest margins is likely to hurt bank profitability in 2014, but capital buffers should remain comfortable.

Fiscal performance was solid in 2013 thanks to rising revenues on the back of the recovery in domestic demand. In line with the budget target, the central government budget deficit narrowed to 1.2 percent of GDP in 2013 from 2.1 percent in 2012. Tax revenues rose by nearly 9 percent in real terms in 2013 and accounted for two-thirds of the reduction in the deficit. Interest expenditures eased by more than ¼ percent of GDP, while capital expenditures and capital transfers rose by almost as much, providing a helpful boost to growth. Solid budget performance has continued in the first six months of 2014 and the year-to-date budget surplus reached TL23.1 billion (US$10.7 billion). At the general government level, increased expenditures in recent years are linked to higher social security spending. Moreover, revenues remain highly dependent

[6] The policy framework includes a lower policy rate, higher reserve requirements and a wider interest rate corridor (the corridor between overnight (O/N) lending and O/N borrowing rates). It was introduced in November 2010 The goal was to discourage capital inflows and increase flexibility with a lower base rate and a wider interest rate corridor while keeping domestic demand under control through raising reserve requirements.

[7] On the additional tightening days, CBRT did not offer any money through repo auctions, which made the policy rate irrelevant to the average funding costs. As the CBRT holds the net lender position in the financial system, the banking sector had to use the secondary market, which offers funding with a higher cost (around the overnight lending rate).

on domestic consumption. The cyclicality of revenues and the increasing prevalence of rigid non-discretionary spending in total pose fiscal risks going forward.

II. Macroeconomic Outlook and Debt Sustainability

Because of monetary tightening and higher interest rates, economic growth is projected to slow down in 2014 with the current account deficit improving on the back of stronger exports while inflation is set to remain above the CBRT target. Political uncertainty, the sharp depreciation of the lira and the monetary tightening have negatively affected both consumer and investor confidence. Private consumption is estimated to lose considerable momentum partly as a result of significantly slower consumer loan growth due to macro-prudential tightening measures,[8] while the recovery in private investment is likely to be delayed on the back of higher borrowing costs. The weaker lira and a further pickup in EU demand should help support exports. All in all, economic growth is forecast to ease to about 3.5 percent in 2014 and the current account deficit to decline to 6.3 percent of GDP. The inflation rate is expected to close the year slightly above 8 percent, reflecting the rise in inflation during the first half of the year on the back of exchange rate pass-through and higher food prices.

Growth is likely to remain below recent historical averages over the medium-term as normalization of global liquidity conditions and another round of risk re-pricing makes external financing dearer. The structural reforms supported by this operation will help the current account deficit adjust over the medium term by improving the economy's competitiveness. In our baseline scenario, Turkey may be able to finance a current account deficit of about 6.0 percent of GDP, albeit at higher cost. Assuming only modest declines in global energy prices, this deficit level is in line with a growth rate of close to 4 percent in the medium term. Meanwhile, inflation is projected to ease towards the official target of 5 percent in the medium term, helping limit real exchange rate appreciation.

Monetary policy aims to focus on price and exchange rate stability going forward, while fiscal policy is likely to remain conservative. The room for monetary policy to support growth is constrained by inflation running well above the CBRT's target range. The CBRT is thus not expected to further loosen monetary policy until headline inflation comes down. Fiscal buffers would allow some room for public spending to support the economy, but with lower growth reducing revenues, and with social spending commitments providing some automatic stabilizers, the Government's commitment to maintaining low fiscal deficits does not leave much room for additional discretionary spending. Strong public support to investments is however expected to continue.

Turkey's dependence on external financing and the corporate sector's large open FX position are the main risks to the baseline economic outlook. Turkey's external financing needs over the coming five years are high due to the country's large current account deficit. In addition, the composition of financing remains a critical concern, as the dependency on short-term inflows remains large. Structural reforms supported by this DPL will help the current account deficit adjust over the medium term, but further structural reforms will be needed to reduce Turkey's dependence on external financing over the medium term. In an adverse scenario of more rapidly than expected tightening of global liquidity conditions and reduced investor confidence, Turkey could experience renewed exchange rate pressures and lower GDP growth, with corresponding strains on corporate and financial sector balance sheets. On April 11, 2014,

[8] The Banking Regulation and Supervision Agency implemented restrictions on credit card installments at the end of 2013. Following the restrictions, the growth rate of consumer loans eased to 20.1 percent in April 2014 from 27.7 percent in December 2013.

citing the similar risk factors, credit rating agency Moody's changed Turkey's rating outlook from stable to negative.[9]

External debt is expected to continue to rise in the coming years, an increase that bears careful watch. After declining from 56 percent of GDP in 2002 to 35 percent in 2005, external debt rose to 47.3 percent in 2013 as a result of the wider current account deficit and depreciation in the lira. In our baseline scenario, we project external debt rising to almost 49.0 percent by the end of 2017, albeit with a declining pace given the relatively subdued growth prospects (Figure A4.1). Despite this upward trend, the external debt sustainability analysis shows that the debt dynamics are relatively robust. In a combined permanent shock that includes ¼ standard deviation shocks in growth (equals 1.3 pps reduction) and real interest rate and current account deficit, the external debt to GDP ratio could still remain below 55 percent in the medium term.

Figure A4.1: External Debt Sustainability

(Percent of GDP)

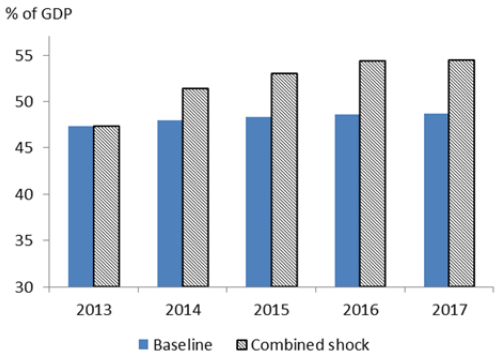
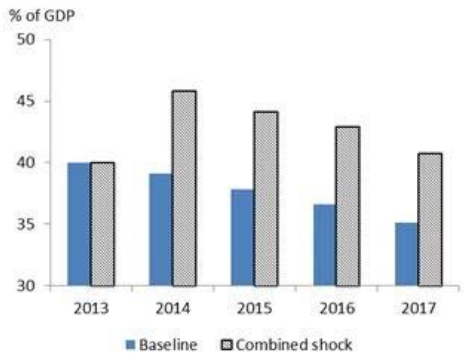


Figure A4.2: Public Debt Sustainability

(Percent of GDP)



Source: The World Bank staff calculations

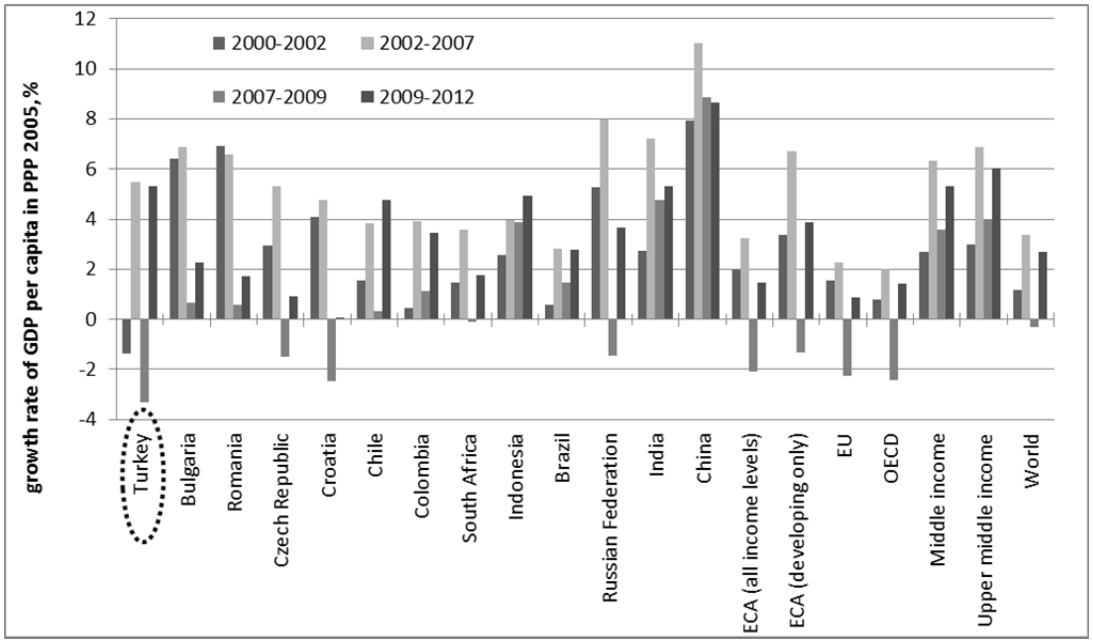
Public debt has eased significantly in recent years and should remain on a downward trend over the medium term, even in an extreme case with a large one-time increase. The public debt sustainability analysis suggests that the risks to the sustainability of Turkey's debt burden are moderate in the baseline scenario (Figure A4.2). Under the baseline macroeconomic scenario, gross public debt is forecast to decline from a 40.0 percent of GDP at the end of 2013 to an estimated 36.6 percent of GDP by 2016. However, in an extreme downside scenario, domestic interest rates would go up, the exchange rate would depreciate, GDP would contract, and fiscal performance would deteriorate. In such a scenario, public debt would rise in 2014 before resuming its downward trend and declining to 40.7 percent by 2017.

[9] Moody's and Fitch rate Turkey at investment grade while S&P rates the country one notch below the investment rate.

Annex 5: Twin Goals in Turkey: Poverty Reduction and Shared Prosperity[10]

Sound macroeconomic policies and structural reforms over the past decade have yielded robust economic growth in Turkey. While the country experienced an average growth rate of 3 percent during 2000-2012, this average masks substantial volatility across different time periods (Figure A5.1). Due to internal crisis in 2001, the average growth rate was negative during 2000-2002. This was followed by a period of rapid growth at an average rate of about 5.5 percent during 2002-2007. Another episode of negative growth was then observed during 2007-2009 due to the world economic crisis. Following this second crisis, a period of strong economic growth resumed again in Turkey, this time with an average growth rate of 5.3 percent during 2009-2012.

Figure A5.1: GDP Per capita Growth in Selected Countries



Source: WDI, authors' calculations.

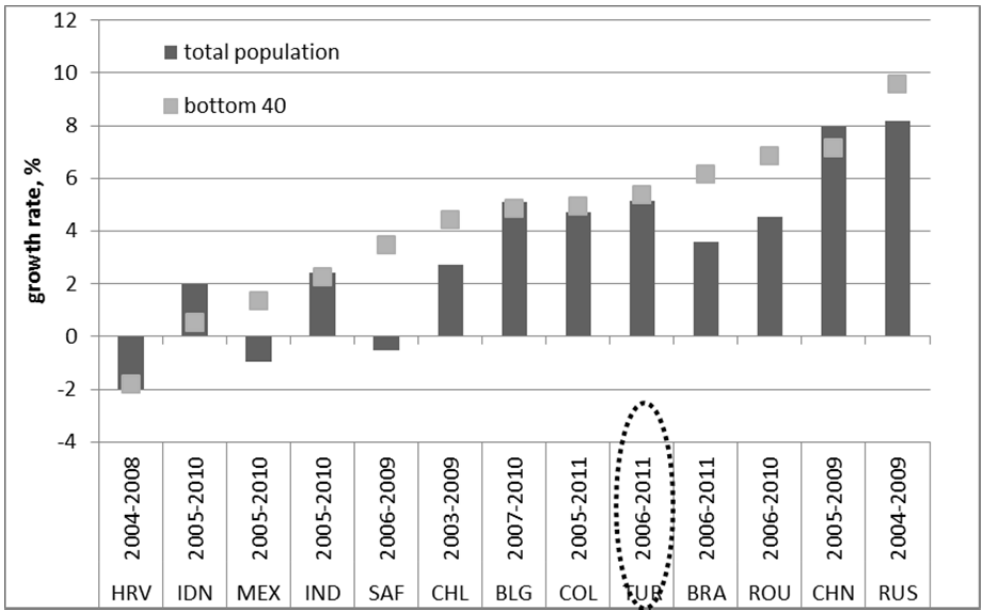
Notes: GDP per capita in Purchasing Power Parities, constant 2005 prices. Yearly average is calculated as geometric mean using the following formula m= (GDPt2/GDPt1)^1/(t2-t1)-1, where m is growth rate, t2 is second period, t1 is the first period. WDI data was accessed on the 16th of October 2013.

[10] All Purchasing Power Parities figures used in this Annex are based in the 2008 International Comparison Project (ICP) round. All Poverty rates based on the dollar-per-day measures are also based on the Purchasing Power Parities conversations factors from the 2008 ICP round.
As ICP estimates are revised, they are of five data sources that are used to compute the incidence of poverty using the "dollar a day" poverty line methodology. The use of the 2011 Purchasing Power Parities in the calculation of global or regional poverty estimates requires additional analysis. One issue that warrants consideration is that people who live at or below the poverty line likely have different patterns of consumption than the total population (which is the basis for the Purchasing Power Parities). The representation of price data in rural areas (where many of the poor live), from local markets (where the poor shop) and of poorer quality goods also warrants closer examination. DEC economists engaged in the global poverty calculations will obtain detailed data and metadata from the ICP *Global Office*, regional coordinating agencies, and participating economies in order to assess whether the new Purchasing Power Parities estimates can be used for poverty measurement purposes, or whether adjustments will be needed. These data will take some time to acquire and assess and so DEC will not incorporate the new Purchasing Power Parities into the poverty measure calculations immediately. This is consistent with past practice: when the 2005 Purchasing Power Parities were released in 2007, DEC analyzed the Purchasing Power Parities in detail and made additional adjustments before incorporating them into the poverty measures two years later."

Compared with other countries in the world, Turkey's performance during the growth periods was similar to what was observed in middle and upper-middle income countries and much better than what was observed in OECD and EU countries. However, Turkey was hit much harder than upper MIC on average. The level of recession in Turkey during 2007-2009 was comparable and even higher than in EU and OECD countries with much higher levels of GDP per capita. The only emerging middle income country which experienced greater recession during 2007-2009 was Mexico.

The benefits from economic growth were widely shared in Turkey. The bottom 40 percent of the population benefited from economic growth by as much as the average population (Figure A5.2). Mean consumption growth of the bottom 40 percent (the indicator of "shared prosperity" used by the World Bank) of the population was positive during all sub-periods and across different welfare aggregates (see Azevedo and Atamanov, 2014 for more details). Compared to other countries in the world, Turkey's performance in shared prosperity was average and close to what was observed in Colombia and Bulgaria (Figure 2).

Figure A5.2: Shared Prosperity Indicator for Selected Countries



Source: Provisional World Bank data on shared prosperity, as of October 25, 2013. Welfare aggregate is consumption per capita including durables, health and rent.

Notes: Shared prosperity is measured as annualized consumption per capita growth of the bottom 40 percent of the population. Annualized average is calculated as geometric mean.

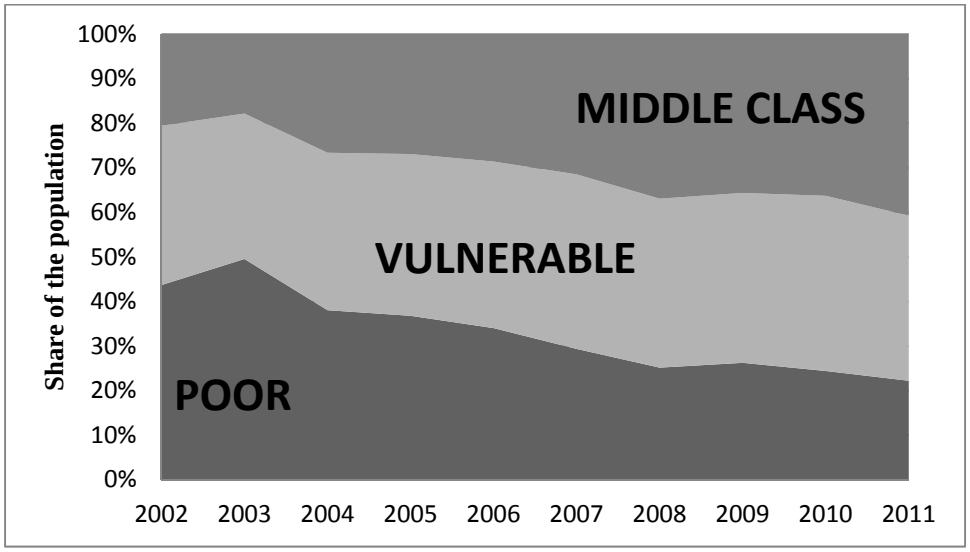
The country has demonstrated a strong performance in poverty reduction from 2002 to 2011. Poverty (defined using the regional 5 US$/ Purchasing Power Parities 2005 per day poverty line) declined by 22 percentage points during 2002-2011, falling from 44 percent to 22 percent. Most of this poverty reduction (89 percent) has been driven by growth, a performance consistent with most ECA countries. This is substantially different from the recent performance in other regions, such as Latin America, where redistribution contributed to poverty reduction almost four times as much as in Turkey (Azevedo et al., 2014).

Benchmarking Turkey's performance in poverty reduction from 2008 to 2011 has been better than its expected value given a set of observable characteristics. The poverty

benchmarking exercise shows that Turkey's conditional performance in poverty reduction when controlling for a range of country characteristics has been systematically higher than its unconditional performance.

As a result, there was strong upward intra-generational mobility expanding the size of the middle class in the country (Figure A5.3). The main drivers of these positive changes were through the labor market, social assistance, and pensions (Azevedo and Atamanov, 2014). Continuing this performance in the future will require several challenges to be addressed including: (i) improving access to markets with a focus on reducing gender and rural/urban gaps, (ii) increasing female labor force participation, and (iii) reducing intergenerational inequality by weakening the link between people's initial life circumstances and their future socio-economic outcomes.

Figure A5.3: Poor, Vulnerable and Middle Class in Turkey during 2002-2011



Source: Azevedo and Atamanov (2014)

The key to sustaining Turkey's recent gains in poverty reduction and shared prosperity lies in the labor market. Turkey achieved remarkable success in creating new jobs after the global economic crisis and this contributed to continued welfare improvements. However, given demographic changes Turkey will need to sustain the pace of job creation and increase productivity, all the more so if more women begin entering the labor market. Turks are becoming better educated and evidence suggests that returns to education in Turkey are still high. However, the decline in returns to education over the last decade is of concern, especially if it foreshadows difficulties among the youth to find jobs that match their skills. Creating good jobs is thus an enduring challenge for both growth and shared prosperity (Grun et al., 2013).

Female labor force participation is very low in Turkey and female contribution to poverty and inequality reduction has been rather limited. According to Uraz et al. (2010), such a low level of female labor force participation can be associated with a combination of different supply and demand factors: (i) there is a large gap in earnings for low skilled men and low skilled women, which reduces the incentive to join the labor market; (ii) urban low-skilled women face high opportunity costs of working because of the absence of affordable childcare; and (iii) urban

low skilled women are less likely to work if the wealth of the household increases and the education of the head of household is higher. Increasing female participation in the economy could be one of the important drivers for boosting shared prosperity and reducing poverty. Initially, more educated women and hence more middle class households will tend to benefit, but over time, rising female labor force participation and reduced inequalities in access to education should become equalizing forces. Policies in this area are thus important for social inclusion as well as for growth. The main areas of policy focus include increasing (i) access to quality education, (ii) access to affordable child care, and (iii) access to flexible work arrangements that allow women to achieve a better work life balance.

Equal access to markets is one of the preconditions to sustainable and shared economic growth. As data on financial inclusion demonstrates, access to financial services (measured by access to banking accounts and loans) is slightly higher in Turkey than the average for the ECA region. However, compared to the EU, access to financial services in Turkey is lagging behind. For example, 58 percent of the population older than 15 in Turkey has accounts in formal financial institutions. The average for ECA is 45 percent and 91 percent for the EU. Moreover, there continues to be an important gender dimension to this; the gap between men and women in terms of account ownership is 49 percentage points, the highest gap among all middle-income countries.

Further poverty reduction in Turkey will depend tremendously not only on intra-generational class mobility, but also on intergenerational mobility. Hentschel et al. (2010) demonstrated that intergenerational transmission of inequity is powerfully affecting Turkey's youngest generation today. The authors show that initial circumstances or factors that are beyond the control of the individual are very important in determining life chances in Turkey. In particular, factors such as one's area of birth and parental education explain two-thirds of the inequality of opportunity related to the wealth distribution in the country. The socioeconomic background of families is an important factor driving inequality of opportunities in education as well. While Turkey has been making progress in reducing the importance of socio-economic background for education outcomes (see OECD, 2013), it still ranks among the countries in the OECD with the largest effect of these factors on individual achievement. Early childhood education, which remains very low by international standards, and measures to improve the quality of education particularly in schools in disadvantaged regions and districts are important to sustain and accelerate recent improvements.

Turkey will continue to benefit from demographic dividends, but after 2025 the situation will change. Turkey has been benefiting from a demographic dividend since the 1980s. The share of children and elderly was declining, while the share of working age population was increasing, reaching its highest point in the 2020s. However, once the window closes, Turkey will face the challenge of an aging population and Turkey will see a tripling of the percentage of elderly in its population over the coming 40 years. While the elderly are not among those most likely to be affected by poverty (children are more at risk) and pensions in fact contribute significantly to income growth in the bottom 40 percent, the pension system is projected to continue to run significant deficits long into the future given a low effective retirement age and relatively generous replacement rates. Rising health care costs will add to the fiscal burden of aging. Encouraging longer working lives will be important to manage these costs as well as to ensure resources can be concentrated on reducing vulnerability in old age.

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Annex 6: IBRD Lending Program FY 12-16 including Planned Versus Actual FY 12-16

	CPS FY12-16 Planned	IBRD US$ (M)		CPS FY12-16 Actual	IBRD US$ (M)
FY12	***Development Policy Lending:***		FY12	***Development Policy Lending:***	
	Third Programmatic Environmental Sustainability and Energy Sector DPL	600		Third Programmatic Environmental Sustainability and Energy Sector DPL	600
	Investment Project Financing:			***Investment Project Financing:***	
	Private Sector Renewable Energy and Energy Efficiency Additional Financing	500		Private Sector Renewable Energy and Energy Efficiency Additional Financing	500
	Sub-total	**1,100**		***Sub-total***	**1,100**
FY13	***Development Policy Lending:***		FY13	***Development Policy Lending:***	
	Programmatic DPL Growth, Competitiveness and Employment	600		Competitiveness and Savings DPL	800
	Investment Project Financing:			***Investment Project Financing:***	
	Private Sector Energy Efficiency	200		SME Energy Efficiency	201
	SME Access to Finance (Food Safety)	200		SME Access to Finance III	300
	Project on Health	200			
	Allocation to be decided	100			
	Sub-total	**1,300**		***Sub-total***	**1,301**
FY14	***Development Policy Lending:***		FY14	***Development Policy Lending:***	
	Development Policy Loan - tbd	350		(moved to FY15)	
	Investment Project Financing:			***Investment Project Financing:***	
	Areas of Access to Finance: SME or exporters	700		Renewable Energy Integration	300
	Areas of Education / Employment				
	Areas of Sustainable Cities / Disaster / Watershed / Energy				
	Sub-total	***1,050***		***Sub-total***	***300***
				Sub-total FY12-14	**2,701**
FY15	***Development Policy Lending:***		FY15	**Development Policy Lending:**	
	Sustaining Shared Growth DPL- 1	500		Sustaining Shared Growth DPL- 1	500
	Investment Project Financing:			**Investment Project Financing:**	
	Gas Sector Development (BOTAS) Additional Financing	400		Gas Sector Development (BOTAS) Additional Financing	400
	Innovative Access to Finance	250		Innovative Access to Finance	250
	Water Basin Management and Rehabilitation	50			
	Geothermal Energy Development (plus CTF)	300			
	Sustainable Cities	300			
	Long Term Finance Gurantee - $300 m (tbd)				
	Sub-total	**1,800**		***Sub-total (as of August 2014)***	**1,150**
FY16	***Development Policy Lending:***		FY16		
	Sustaining Shared Growth DPL-2	500			
	Investment Project Financing:				
	National Disaster Risk Mitigation	300			
	Health	100			
	Financial Sector Operation	300			
	Sub-total	**1,200**			
	Total Planned	**6,450**		**Total Actual (as of August 2014)**	**3,851**

Annex 7: Knowledge Program FY 12-16 including Planned Versus Actual FY 12-16

	CPS FY12-16 Planned	CPS FY12-16 Actual
FY12	ESW: Programmatic Public Expenditure and Financial Management 3 – Transport Public Expenditure Review	ESW: Transport Public Expenditure Review (P123074)
	ESW: Rio+20/Cleaner Production	ESW: Rio+20/Cleaner Production (P127675)
	TA: Programmatic Human Development	TA: Programmatic Human Development (P128493)
	TA: Financial Literacy	TA: Financial Literacy (P127354)
	TA: Gender Equity in the Private Sector 1	TA: Promoting Gender Equity (P129435)
	ESW: Country Economic Memorandum on Trade 1	Delivered in FY14 as Country Economic Memorandum on Foreign Trade (P129350)
	ESW: Programmatic Health 1: Family Medicine	Delivered in FY13 as Programmatic Health 1: Family Medicine (P129248)
	ESW: Programmatic Public Expenditure and Financial Management 4 - General PER	Delivered in FY13 Programmatic PFM Study (P130537)
	ESW: Programmatic Education: Financing and Accountability 1	Delivered in FY13 as Promoting Excellence in Turkish Schools (P129423)
	ESW: Sustainable Cities 1	To be delivered in FY15 as Urbanization Review (P128606)
	TA: Programmatic Food Safety	Delivered in FY14 as Programmatic Food Safety (P145557)
	TA: National Watershed Management	Delivered in FY14 as National Watershed Management (P129244)
	TA: Financial Sector Development	Delivered in FY13 as Financial Sector Development (P128383)
	TA: Investment Climate and Competitiveness including Regional ICAs	Delayed due to EU Funding Arrangements
	TA: National Disaster Risk Mitigation	Dropped
	TA: SOE Governance	Delivered in FY13 as TA Programmatic Public Financial Management (PPFM) Study (P130537)
	IE: Impact Evaluation of ISKUR's (Turkish Employment Agency) Vocational Training Programs	Delivered in FY14 Impact Evaluation of ISKUR's (Turkish Employment Agency) Vocational Training Programs (P120514)
		Additional Actual Products:
		TA: Capacity Building for Electricity Market (P114534)
FY13	ESW: Programmatic Public Expenditure and Financial Management 4 - continued	TA Programmatic Public Financial Management (PPFM) Study (P130537)
	ESW: Programmatic Education: Financing and Accountability 2	ESW Promoting Excellence in Turkish Schools (P129423)
	TA: Programmatic Human Development 2	TA: Programmatic Human Development 2 (P133668)
	ESW: Programmatic Jobs 1: Managing Labor Markets through the Business Cycle	ESW: Crisis Recovery & Jobs (P123771)
	ESW: Country Economic Memorandum on Trade 2	Delivered in FY14 as Country Economic Memorandum on Foreign Trade (P129350)
	ESW: Programmatic Jobs 2: Activation of Low Skilled Youth and Women	Delivered in FY14 as Programmatic Jobs: Activation of Low Skilled Youth and Women (P131099)
	ESW: Sustainable Cities 2	To be delivered in FY15 as Urbanization Review (P128606)
	ESW: Programmatic Health 2: Pharmaceuticals	Delivered in FY14 as Pharmaceuticals (P133309)
	TA: Gender Equity in the Private Sector 2	Delivered in FY14 as Gender Equity Certification in the Private Sector (P133741)
	TA: Energy Efficiency and Renewable Energy	To be delivered in FY15 as Energy Efficiency Institutional Review (ESMAP) (P146501)
	Planned in FY12	TA: Financial Sector Development (P128383)
	Planned in FY12	ESW: Programmatic Health 1: Family Medicine (P129248)
	Planned in FY12	TA: National Watershed Management (P129244)
	TA: Regional AAA: Regional Trade – Economic Integration in Turkey, Caucasus, and the Mashreq Region	Dropped

FY14	ESW: Programmatic Jobs 3 - Labor Mobility	ESW: Programmatic Jobs: Activation of Low Skilled Youth and Women (P131099)
	Planned in FY 13	ESW: Improving Educational Outcomes (P132094)
	Planned in FY12	ESW: Country Economic Memorandum on Foreign Trade (P129350)
	New planning*	ESW: Programmatic Public Expenditure Review (P130699)
	New planning	ESW: Customs Union Evaluation (P144290)
	New planning	ESW: Reform for Competitiveness (P127856)
	Planned in FY12	IE: Impact Evaluation of ISKUR's (Turkish Employment Agency) Vocational Training Programs (P120514)
	Planned in FY12	TA: Programmatic Food Safety (P145557)
	Planned in FY13	TA: Pharmaceuticals (P133309)
	New planning	TA: Public-Private Partnership (P145352)
	New planning	TF: TCA Strengthening (P128598)
	New planning	TA: Financial Sector Development II (P132968)
	New planning	TA: Turkey Green Growth Follow-up (P145065)
	New planning	TA: Justice Sector Performance (P145480)
	Planned in FY13	TA: Gender Equity Certification in the Private Sector (P133741)
	New planning	TA: Poverty Measurement (P133649)
	New planning	TA: Regular Economic Update (P146343)
	New planning	TA: Support to Sharing Lessons in Health Sector Reform (P144940)
	New planning	TF: Capacity Building for Parliament (P131181)
	New planning	TE: Workshop on Procurement and FM (P148513)
	New planning	TF: Strengthening Solvency Supervision (P131766)
FY15 & FY16	ESW: School Based Management in Turkey (P148207)	
	ESW: Urbanization Review (P128606)	
	TA: Public Financial Management and Governance (FY14) (P147805)	
	TA: Water Dialogue (P146361)	
	ESW: Turkey Lessons Flagship (P133570)	
	ESW: Country Economic Memorandum Human and Physical Capital (P148205)	
	ESW: Energy Reform Milestones and Challenges (P149638)	
	ESW: Strategic Country Diagnostics (FY16)	
	TA: Urban Transformation Guidebook	
	TA: Social Monitoring - Energy (P147496)	
	TF: Energy Efficiency Institutional Review (ESMAP) (P146501)	
	TA: Diagnosis of Natural Capital Accounting (P149686)	
	TF: SIDA Women Access to Economic Opportunities (P146215)	
	Programmatic School Autonomy and financing	
	Programmatic Regional development and vulnerability	
	Programmatic Natural Resources Management	
	Programmatic Financial Inclusion	
	Programmatic Savings and Capital Markets	
	Programmatic Governance	
	Programmatic Macro monitoring	
	Programmatic Poverty:Twin Goals-Measurement to Operations	
	Programmatic Social Protection Diagnostic and Reform	
	Programmatic Jobs-Creating Good Jobs (P147432)	
	Programmatic Innovation and Business Climate	
	Programmatic Value Chain Trade Services and Logistics	
	Programmatic PPP	

* New planning term is used to indicate the AAAs that are not envisaged in the original CPS Document for FY12-FY15.

Annex 8: Trust Funds Overview

Program	Project ID	Project Name	Trust Fund No	Trust Fund Name	Closing Date	Grant Amount USD
Strategic Pillar 1: Enhanced Competitivenes and Employment						
IDF	P128662	IDF-Public Sector Internal Audit	TF011904	Strengthening the Public Sector Internal Audit Function	06/29/2015	494,000
GPF	P131181	Parliamentary Technical Assistance	TF094510	W2-Capacity Building for the Parliament and Parliamentary Budget Office in the New Public Financial Management Framework	02/28/2014	575,000
FIRST	P131766	Turkey #10269 Strength Solvency Superv.	TF012462	Turkey 10269 Strengthening Solvency Supervision	04/30/2014	353,246
TRTA	P147183	Frontier Finance	TF015830	Diagnostic Review of Trade Finance Facilities in Turkey	12/31/2014	75,000
EPFM	P147805	Programmatic Public Financial Management	TF014123	Turkey: Enhanced SOE Governance Framework	04/30/2015	250,000
GENTF	P148717	PREM Expertise	TF016287	PREM Expertise- Turkey Women's Access to Economic Opportunities	12/31/2015	313,000
CNGDR	IFC-599538	Corporate Governance Advisory	TF014444 TF010294 TF096283	ECA SBA RLMB Funds, CG Ramp up Funds, Client Fees	06/03/2016	610,000
Strategic Pillar 2: Improved Equity and Public Services						
HRBF	P130373	Turkey HRBF Evaluation Grant Health	TF011859	Turkey HRBF Evaluation Grant	06/30/2015	600,000
GENTF	P146215	Increasing Women's Access to Economic Opportunities in Turkey	TF013841	Increasing Women's Access to Economic Opportunities in Turkey	12/10/2015	3,962,000
GENTF	P147432	Programmatic Jobs-Activation	TF017051	A Profiling of Employment Services Beneficiaries in Armenia and Turkey with a Focus on Female Workers	06/30/2015	35,000
Strategic Pillar 3: Deepened Sustainable Development						
GFDRR	P078359	Seismic Risk Mitigation	TF011914	ECA: Technical Support to Mainstreaming Disaster Risk Reduction in Europe and Central Asia (GFDRR: Tk2 TA Core)	12/30/2014	325,000
GFDRR	P078359	Seismic Risk Mitigation	TF093638	Turkey: Disaster Mitigation and Preparedness (TRACK II - TA CORE)	12/30/2014	400,000
CCTFIA	P112578	Private Sector RE and EE	TF094498	CTF-Turkey Private Sector Renewable Energy and Energy Efficiency	12/31/2014	70,000,000
CCTFIA	P112578	Private Sector RE and EE	TF094499	CTF-Turkey Private Sector Renewable Energy and Energy Efficiency	12/31/2014	30,000,000
CCTFIA	P112578	Private Sector RE and EE	TF097805	Turkey: Private Sector Renewable Energy and Energy Efficiency - Projects fees	12/31/2014	158,827
IDF	P124429	IDF-One Health	TF098646	IDF Grant for Strengthening Institutional Capacity for One Health Strategic Planning and Economic Analysis	06/20/2014	480,000
PMR	P126101	PMR Turkey	TF010793	Turkey: Market Readiness Proposal Partnership for Market Readiness (PMR)	12/31/2015	350,000
PMR	P126101	PMR Turkey	TF010868	Turkey - PMR Bank Executed Grant	12/31/2015	230,000
PMR	P126101	PMR Turkey	TF015591	Turkey - PMR Recipient Executed Implementation Grant	06/30/2017	3,000,000
PPIAF	P128605	Sustainable Cities	TF014370	Turkey: Technical Assistance Program for Sub-National Financing - IBRD	06/30/2014	208,000
FS-SDN	P128605	Sustainable Cities	TF016007	Sustainable Urban Development for Vulnerable Populations in Turkey	12/31/2014	75,000
FS-SDN	P128605	Sustainable Cities	TF016369	Turkey Sustainable Cities Project - Urbanization Review Implementation Phase	06/30/2015	300,000
FS-7SD	P131921	EU/IPA Energy Sector TA Project	TF016532	EU/IPA Energy Sector TA Project	03/31/2017	14,318,000
FS-7SD	P131921	EU/IPA Energy Sector TA Project	TF016851	Turkey EU/IPA Energy Sector TA - Supervision Costs	03/31/2017	481,091
GEFIA	P132189	Turkey SME Energy Efficiency Project GEF	TF014579	Turkey Small and Medium Enterprises Energy Efficiency Project	09/28/2018	940,000
GEFIA	P132189	Turkey SME Energy Efficiency Project GEF	TF014580	Small and Medium Enterprises Energy Efficiency Project - Halk Bank	09/28/2018	900,000
GEFIA	P132189	Turkey SME Energy Efficiency Project GEF	TF014581	Small and Medium Enterprises Energy Efficiency Project - Ziraat Bank	09/28/2018	900,000
GEFIA	P132189	Turkey SME Energy Efficiency Project GEF	TF014582	Small and Medium Enterprises Energy Efficiency Project - Vakif Bank	09/28/2018	900,000
CCTFIA	P144534	Renewable Energy Integration	TF016958	CTF for Renewable Energy Integration in Turkey - CTF Loan TF	06/30/2019	50,000,000
CCTFIA	P144534	Renewable Energy Integration	TF016891	Turkey - Renewable Energy Integration Project - MDB Fees	03/18/2021	170,000
ESMAP	P146501	Energy Efficiency Institutional Review	TF015504	Turkey: Energy Efficiency Institutional Review	08/31/2014	150,000
ESMAP	P149638	Energy Reform Milestones and Challenges	TF017198	Energy Reform Milestones and Challenges	04/30/2015	100,000
CCTFIA	IFC-00029333 IFC-00568187 IFC-00572527 IFC-00573407	Clean Tech Fund (CTF)	TF097075 TF098241	FMCC CTF Programs; FMCC CTF Admin - Country Programming	02/28/2029	50,000,000 (phase I) 20,000,000.00 (phase II)
GEFIA	IFC-00557205	SEGEF Geo Turkey	TF097042	Turkey Commercializing Sustainable Energy Finance Program	12/31/2014	2,900,000
Austria	IFC-00577207	Resource Efficiency Program (REF ECA Region)	TF094941 TF093148 TF094674 TF093212 TF098708	Regional Climate Change Program, IFC Earth Fund, CP Audits, ECA Cleaner Production Program	12/31/2015	2,730,000
					Total	**257,283,164**

Annex 9: Selected Indicators of Bank Portfolio Performance and Management

(as of June 18, 2014)

Indicator*	2011	2012	2013	2014
Number of Projects Under Implementation [a]	16	11	13	13
Average Implementation Period (years) [b]	4.7	4.7	4.4	4.7
Percent of Problem Projects by Number [a, c]	6.3	9.1	15.4	15.4
Percent of Problem Projects by Amount [a, c]	5.9	5.7	10.1	9.9
Percent of Projects at Risk by Number [a, d]	6.3	9.1	15.4	15.4
Percent of Projects at Risk by Amount [a, d]	5.9	5.7	10.1	9.9
Disbursement Ratio (%) [e]	31.0	36.7	37.4	20.1

Memorandum Item	Since FY 80	Last Five FYs
Projects Evaluated by IEG by Number	136	11
Projects Evaluated by IEG by Amount (US$ millions)	22,307.6	3,791.7
% of IEG Projects Rated U or HU by Number	24.8	10.0
% of IEG Projects Rated U or HU by Amount	18.6	2.8

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

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

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

[d] As defined under the Portfolio Improvement Program.

[e] Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

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

Annex 10: Operations Portfolio (IBRD and Grants) (as of June 18, 2014)

Closed Projects	176
IBRD/IDA	
Total Disbursed (Active)	4,404.93
of which has been repaid	300.19
Total Disbursed (Closed)	12,398.00
of which has been repaid	7,991.82
Total Disbursed (Active + Closed)	16,802.93
of which has been repaid	8,292.01
Total Undisbursed (Active)	1,483.77
Total Undisbursed (Closed)	47.92
Total Undisbursed (Active + Closed)	1,531.69

Active Projects		Last PSR Supervision Rating			Original Amount in US$ Millions				Difference Between Expected and Actual Disbursements[a]	
Project ID	Project Name	Development Objectives	Implementation Progress	Fiscal Year	IBRD	GRANT	Cancel.	Undisb.	Orig.	Frm Rev'd
P081880	Municipal Services	MS	MU	2005	515		8.60	189.12	-60.17	155.03
P093765	Gas Sect Devt	MS	MS	2006	325					
P096858	TR EFIL IV	S	HS	2008	900			0.00	-255.71	7.60
P106284	Land Regis & Cadastre Modernization Proj	S	S	2008	203			45.13	62.63	
P102172	Proj. in Support of Restruc. of Health	MS	MU	2009	75.125			21.88	21.49	
P112578	Private Sector RE and EE	S	MS	2009	1000			235.74	-265.75	109.25
P118308	Access to Finance for SME II	S	S	2010	500			38.72	38.72	
P110841	ECSEE APL#6 (TURKEY)	S	MS	2011	220			108.92	67.64	
P122178	SME Energy Efficiency	MS	MS	2013	201			185.83		
P127787	CSDPL	S	S	2013	800					
P130864	TR SME III	HS	HS	2013	300			275.00		
P132189	Turkey SME Energy Efficiency Project GEF	S	MS	2013		3.64		3.49		
P130864	TR SME III	HS	HS	2013	300			275.00		
P132189	Turkey SME Energy Efficiency Project GEF	S	MS	2013		3.64		3.49		
P144534	Renewable Energy Integration	#	#	2014	300			300.00		
Overall Result					5889.125	3.64	14.50	1487.26	-1346.64	313.47

[a] Intended disbursements to date minus actual disbursements to date as projected at appraisal.

Annex 11: Statement of IFC's Committed and Disbursed Portfolio (as of June 30, 2014)

		Committed					Disbursed Outstanding				
FY Approval	Company	Loan	Equity	**Quasi Equity	*GT/RM	Particip ant	Loan	Equity	**Quasi Equity	*GT/RM	Particip ant
2008	AKO	7.1	-	-	-	-	7.1	-	-	-	-
2003/04/10/11	Akbank TK	52.7	-	-	-	-	52.7	-	-	-	-
1999/ 2011/12/14	Alternatifbank	17.9	-	50.0	34.5	-	17.9	-	50.0	34.5	-
2008	Arkas Group	5.3	-	-	1.5	-	5.3	-	-	-	-
2009/10	Assan Aluminyum	7.1	-	17.1	-	-	7.1	-	17.1	-	-
	Astra Dorms	-	9.4	-	-	-	-	4.9	-	-	-
2013/14	Asyaport	75.0	-	-	-	-	31.0	-	-	-	-
2008	Atateks	25.0	-	-	-	-	25.0	-	-	-	-
2001/07	Banvit	10.4	-	-	-	-	10.4	-	-	-	-
2014	Chipita Turkey	14.7	-	-	-	-	14.7	-	-	-	-
2011	DenizBank AS	113.5	-	-	-	-	113.5	-	-	-	-
2014	EAS Solutions	-	1.7	-	-	-	-	1.7	-	-	-
2013	Earlybird	-	25.0	-	-	-	-	1.5	-	-	-
2014	Elif Plastik	10.0	-	-	-	-	10.0	-	-	-	-
2008/11	Enerjisa	-	-	255.1	-	1,069.6	0.0	-	195.0	-	593.4
2010	Eurasia Capital	-	4.6	-	-	-	-	2.1	-	-	-
2013	Farcan Enerji	125.0	-	-	-	-	-	-	-	-	-
2012/13/14	Fibabanka	25.7	-	40.0	65.2	-	25.7	-	40.0	65.2	-
1997/98/ 2006/10	Finans Leasing	19.2	-	-	-	-	19.2	-	-	-	-
2007/11/12/13	Finansbank A.S.	75.0	142.6	-	-	-	75.0	142.6	-	-	-
2002	Gunkol	-	-	0.0	-	-	-	-	0.0	-	-
2009	IZGAZ	25.2	-	-	-	-	25.2	-	-	-	-
2013	Is Leasing	35.0	-	-	-	-	35.0	-	-	-	-
2009	Istanbul MMI	35.9	-	-	-	-	35.9	-	-	-	-
2013/14	Izmir Muni	136.5	-	-	-	-	-	-	-	-	-
2013	Izsu	38.2	-	-	-	-	-	-	-	-	-
2013	Kipas	50.0	-	-	-	-	50.0	-	-	-	-
2007/ 2008/ 2009	Kucukcalik	6.6	-	-	-	-	6.6	-	-	-	-
2014	Logo	9.4	-	-	-	-	9.4	-	-	-	-
2012	MNT	-	15.0	15.0	-	-	-	15.0	7.8	-	-
2009	May Seed	-	-	6.0	-	-	-	-	6.0	-	-
2013	Mediterra CP	-	20.1	-	-	-	-	10.8	-	-	-
2014	Mersin Port	65.7	-	-	-	-	65.7	-	-	-	-
1998/ 2002/06/09/13	Modern Karton	15.2	-	8.3	-	-	15.2	-	8.3	-	-
1992	NASCO	-	0.0	-	-	-	-	0.0	-	-	-
2014	Odea Bank	50.0	-	-	23.0	-	50.0	-	-	23.0	-
2013/ 14	OzU	67.6	-	-	-	-	67.6	-	-	-	-
2013	Plato	-	-	6.0	-	-	-	-	3.0	-	-
2014	RC Construction	70.0	-	-	-	-	-	-	-	-	-
2014	Recordati Ilac	33.7	-	-	-	-	-	-	-	-	-
2009	Rotor Elektrik	54.5	-	-	-	-	54.5	-	-	-	-
2011	SEDAS	63.7	-	-	-	63.7	63.7	-	-	-	63.7
2006/ 2007/ 2014	Sanko Group	64.6	-	-	-	27.3	25.0	-	-	-	-
2013	Sanko Tekstil	23.1	-	-	-	-	23.1	-	-	-	-
2007/ 2010	Sarten	6.2	-	-	-	-	6.2	-	-	-	-
2008/09/10/11/12/13/14	Seker Bank	26.9	41.4	50.0	71.3	-	26.9	39.0	50.0	71.3	-
1993/97/ 2002/03/13	Sise ve Cam	39.7	-	-	-	-	39.7	-	-	-	-
2006/ 2007	Standard Profil	-	0.0	-	-	-	-	0.0	-	-	-
2013	Superfilm	41.5	-	-	-	-	41.5	-	-	-	-
2010	TCE Ege	18.8	-	-	-	-	18.8	-	-	-	-
1964/67/69/1972/75/77/1980/83/1990/93/2005/12/13	TSKB	142.5	-	50.0	-	-	87.5	-	50.0	-	-
2012/ 2014	Tiryaki	30.0	-	-	-	-	-	-	-	-	-
1979/1983/84/89/1990/91/93/96/99/2005/09	Trakya Cam	13.8	-	15.0	-	-	13.8	-	15.0	-	-
2014	TransAtlantic P	40.0	-	-	-	-	29.9	-	-	-	-
1995/99/2003/05/08	Turk Ekon Bank	-	-	121.5	-	28.5	-	-	121.5	-	28.5
2002	Turkish PEF	-	0.1	-	-	-	-	0.1	-	-	-
2007	Turkish PEF II	-	29.9	-	-	-	-	29.9	-	-	-
2011/ 2012	UHG	-	32.1	-	-	-	-	31.7	-	-	-
2007	Unitim	8.0	-	9.3	-	-	8.0	-	9.3	-	-
1999/ 2000	Uzel	3.8	-	-	-	1.6	3.8	-	-	-	1.6
2014	Viking Services	41.3	-	-	-	-	41.3	-	-	-	-
1997/98/2008/10/11	Yapi Kredi Lease	33.0	-	-	-	-	33.0	-	-	-	-
2012/13/14	Yapi Kredi Bank	56.2	-	-	124.0	-	56.2	-	-	124.0	-
Total Portfolio		**1,930.1**	**321.9**	**643.4**	**319.5**	**1,190.7**	**1,348.0**	**279.1**	**573.1**	**318.0**	**687.3**

* Denotes Guarantee and Risk Management Products.
** Quasi Equity includes both loan and equity types.

TURKEY
PROVINCE CAPITALS*
NATIONAL CAPITAL
RIVERS
MAIN ROADS
RAILROADS
PROVINCE BOUNDARIES*
INTERNATIONAL BOUNDARIES
*Province names are the same as their capitals.
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Black Sea
Mediterranean Sea
Sea of Marmara
Gulf of Antalya
BULGARIA
GREECE
GEORGIA
ARMENIA
AZER-BAIJAN
RUSSIAN FEDERATION
ISLAMIC REP. OF IRAN
IRAQ
SYRIAN ARAB REPUBLIC
ANKARA
Istanbul
Izmir
Bursa
Antalya
Konya
Adana
Gaziantep
Kayseri
Sivas
Erzurum
Trabzon
Samsun
Diyarbakir
Malatya
Van
Lake Van
Kuzey Anadolu Daglari
Toros Daglari
Euphrates
Tigris
Kura
Aras
Agri Dagi (5166 m)
0 50 100 150 200 Kilometers
0 50 100 150 Miles
IBRD 33501R2
JULY 2008