

IEG ICR Review  
Independent Evaluation Group

1. Project Data: Date Posted : 06/24/2009

PROJ ID : P074181	Appraisal US\$M ):	Actual
Project Name : Competitiveness And Project Costs (US\$M):	500.0	506.4
Employment Development Policy Loan (cedpl)		
Country : Turkey	Loan/ US\$M ): Loan /Credit (US\$M):	500.0
Sector Board : FPD	US\$M): Cofinancing (US\$M ):	506.4

Sector (s): General industry and  
trade sector (54%)  
Central government  
administration (15%)  
Banking (13%)  
Housing finance and  
real estate markets  
(13%)  
Sub-national  
government  
administration (5%)

Theme (s): Regulation and  
competition policy  
(33% - P)  
Personal and property  
rights (17% - S)  
State enterprise/bank  
restructuring and  
privatization (17% - S)  
Tax policy and  
administration (17% -  
S)  
Export development  
and competitiveness  
(16% - S)

L/C Number : L7469

Partners involved :	Board Approval Date :	06/28/2007
	Closing Date :	09/30/2008 09/30/2008

Evaluator :	Panel Reviewer :	Group Manager :	Group :
Robert J. Anderson	Rene I. Vandendries	Ismail Arslan	IEGCR

## 2. Project Objectives and Components:

### a. Objectives:

The CEDPL supported legal, institutional, and structural reforms that promote growth and the creation of more and better jobs in Turkey by helping : (a) maintain the currently enabling macroeconomic framework; (b) improve the investment climate - including a large program of privatization of state owned enterprises (SOEs); (c) set the foundations for overhauling labor market regulations in the future; (d) increase access to investment capital; and

- (e) promote the generation of knowledge and innovation, the adoption of new technologies, and upgrading the skills of the labor force.

### b. Were the project objectives/key associated outcome targets revised during implementation?

No

### c. Components (or Key Conditions in the case of DPLs, as appropriate):

In line with the objectives, the CEDPL supported the government's program in five policy areas : (a) maintaining an adequate macroeconomic framework; (b) improving the investment climate, through action in the areas of privatization, taxation and tax administration; (c) laying the foundation for labor market reform, through inclusion of the objective of labor market reform in the ninth development plan; (d) strengthening credit and capital markets through a reduction of state ownership in the banking sector and improvements in residential real estate mortgaging; and (e) increasing the capacity of the private sector to innovate and adopt new technologies and quality standards, and promoting labor skills development .

There were eight core policy actions taken prior to Board presentation, covering all five of the above policy areas, except for: (c) labor reform:

1. A satisfactory macroeconomic framework was maintained .
2. Privatization revenues from the sale of state -owned companies and assets amounted to US\$ 17.7 billion during 2005 and the first six months of 2006.
3. The maximum corporate income tax bracket was reduced from about 30 to 20 percent of taxable profits and corporate income tax allowances were eliminated .
4. A functional restructuring of the tax administration was carried out .
5. An initial public offering for about 25 percent of the outstanding shares of HALK Bank was completed .
6. A new law on residential real estate mortgaging was enacted .

7. A law on adoption of the Agreement on Amendment of the European Patent Convention was enacted .

8. The Turkish Accreditation Agency (TURKAK) has been accepted as a signatory of European cooperation for Accreditation - Multilateral Agreement, as part of efforts to improve quality standards .

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

This was a one-tranche operation, fully disbursed upon effectiveness . The loan was denominated in Euros, hence actual disbursement in US\$ differs from the appraisal estimate . There was no cofinancing. The loan was closed on schedule on September 30, 2008.

3. Relevance of Objectives & Design:

The objectives and design of the CEDPL were specifically linked to selected central elements of the government's Ninth Development Plan (NDP) for 2007-2013, and highly relevant to that program . The CEDPL was also well aligned with the expected achievements of outcomes outlined in the 2003 CAS and 2005 CAS Progress Report, and was underpinned by a substantial body of Bank and other analytical work, particularly on employment and competitiveness .

While the intention was that the operation could become the first of a series of DPLs, it was designed as a free standing operation because of political uncertainties at the time of approval . As a result the design did not include concrete triggers for the next operation, only a list of possible future policy actions . The design was also weakened by the nature of the results indicators, which related largely to higher -level and longer-term country outcomes, rather than being directly related to the loan, implying that as long as macro -developments were positive the loan would succeed, when judged by the chosen indicators . This complicated monitoring and evaluation.

□4. Achievement of Objectives (Efficacy):

Key conditions of the operation were met well before the loan was presented to the Board . As noted in the ICR, progress in implementing specific institutional and policy reforms in these areas is continuing and is being supported by follow-on operations (CEDPL 2, approved by the Board in December 2008, and CEDPL 3 under preparation).

Indicators of achievement of the broader development objectives supported by the operation are mixed, but overall many show progress in at least some dimensions . With regard to macroeconomic stability, although

inflation remained higher than targeted, progress was made in reducing the ratios of the current account deficit and public debt to GDP. Investment and business climate indicators also showed progress, with increases in the volume and ratio of FDI to GDP, a reduction in days to register a business (although number of procedures remained constant) and declining SOE participation in the economy. Labor market flexibility indicators are mixed, with decreases in the share of informal employment and increasing employment rates, although unemployment rates were stable. Capital market stability and access indicators are also mixed, with some deterioration in soundness indicators and some increase reflected in access indicators. Finally, indicators of innovation show some modest increase in innovative activity.

5. Efficiency (not applicable to DPLs):  
NA

a. If available, enter the Economic Rate of Return (ERR) and the Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :

	Rate Available?	Point Value	Coverage/Scope*
Appraisal		%	%
ICR estimate		%	%

\* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

The policies supported by the operation were highly relevant to the government's Ninth Development Plan. The core policy actions to be taken prior to Board presentation were complied with, and these reforms have been followed-up -- with Bank support -- by further reform measures. As discussed in Section 4 above, there has been mixed but overall good progress on the broad results indicators covering the five policy areas pursued by the operation: macro-stability, an improved investment climate, labor market reform, strengthened capital markets, and innovation. The ICR is correct in noting that CEDPL reforms will exert their effects only over time and in conjunction with additional supporting reforms.

a. Outcome Rating : Satisfactory

7. Rationale for Risk to Development Outcome Rating:

There is little risk of reversal of the policy reforms that have been taken to date, especially because of the

government's strong commitment to the reform program . At the same time in the key area of labor market reform and labor market flexibility, CEDPL achieved little beyond laying some ground work for future reform . While some labor reforms were undertaken under CEDPL 2, in particular some geared to lower non -wage labor costs, the politically most difficult reforms in this area were deferred to CEDPL 3: especially measure to increase labor market flexibility, and income-protection for un-employed workers; given the expected adverse impact of the global crisis on the Turkish economy, there reforms may be further deferred, or perhaps not implemented .

a. Risk to Development Outcome Rating : Significant

#### 8. Assessment of Bank Performance:

□ CEDPL (as well as CEDPL 2 and the proposed CEDPL 3) was based on an extensive body of AAA and was well linked to key elements of the government's program . It was also well aligned with the objectives of the 2003 CAS and the 2005 CAS Progress Report. Substantive supervision took place leading up to CEDPL 2. A formal supervision report was, however, not archived .

There are a couple of issues worth raising pertaining to the quality at entry of this operation . First, lending development and supervision costs, at close to US\$ 1.5 million were exceedingly high, the highest of all DPLs approved and closed over the period FY 06-09. Second, the monitoring and evaluation indicators and results framework relate primarily to higher level development outcomes, as distinguished from outcomes more proximately related to the specific policy reforms embedded in CEDPL . In view of the substantial AAA and lending preparation that preceded CEDPL, it should have been possible to formulate a results framework and indicators more closely tied to the specific measures supported by the Bank .

at -Entry :Satisfactory

a. Ensuring Quality -at-

b. Quality of Supervision :Satisfactory

c. Overall Bank Performance :Satisfactory

#### 9. Assessment of Borrower Performance:

The government exhibited strong commitment to a complex reform program in difficult political circumstances. It has maintained and extended the CEDPL reforms in part supported by the follow -on CEDPL 2. All loan agreement implementation conditions appear to have been met, and – together with the Bank – monitoring indicators maintained. IEG also notes the borrower's contribution to the ICR, which adds important perspective concerning both the substantive achievements of the operation as well as design and relationship factors that promote partnership and facilitate satisfactory implementation .

- a. Government Performance :Satisfactory
- b. Implementing Agency Performance :Satisfactory
- c. Overall Borrower Performance :Satisfactory

10. M&E Design, Implementation, & Utilization:

As the ICR notes, targets for monitoring indicators were not as specific as they might have been . More generally, indicators and targets more closely related to specific measures supported by the Bank should have been chosen. For example, the share of GDP originating in and budgetary subventions associated with the SOEs privatized in 2005 and 2006 could have provided more specific benchmarks for assessing economy wide values of these indicators. In view of the extensive spending directly on the development of this operation as well as substantial AAA work, more might have been expected at appraisal .

- a. M&E Quality Rating : Modest

11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):  
None

12.

12. Ratings :	ICR	IEG Review	Reason for Disagreement /Comments
<input type="checkbox"/> Outcome : Satisfactory Risk to Development Moderate Outcome :		Satisfactory Significant	Uncertainty with regard to the government's ability to carry forward with reforms to increase substantially labor market flexibility.
Bank Performance : Satisfactory		Satisfactory	
Borrower Performance : Satisfactory		Satisfactory	
Quality of ICR :		Satisfactory	

NOTES:  
NOTES

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

13. Lessons:

IEG concurs with the lessons drawn in the ICR, particularly the appropriateness of proceeding as the

Bank did

in this case in the face of political uncertainty at the time of CEDPL . As stated by the ICR, the basis for supervision of CEDPL would have been enhanced, and the basis for dialogue and design of future operations

strengthened, had more attention been placed at appraisal of CEDPL on the design of a monitoring and

evaluation framework linked more directly to actual and, conditionally, to potential measures supported by the Bank.

14. Assessment Recommended?                      Yes    No

Why?    As part of an assessment of the series of DPLs .

15. Comments on Quality of ICR:

The ICR is complete in its review of the implementation of the operation and in its follow up on monitoring

indicators. It could have been strengthened by some additional discussion of the political context and issues

surrounding the decision to proceed on a non -programmatic basis with CEDPL, the costs of the operation, and

to evaluate the contributions of the CEDPL operation in light of subsequent and planned developments under

CEDPL 2 and CEDPL 3.

a. Quality of ICR Rating : Satisfactory