**PROGRAM INFORMATION DOCUMENT (PID)**

**APPRAISAL STAGE**

19 March 2013

Report No.: AB7275

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| **Operation Name** | Competitiveness and Savings Development Policy Loan |
| **Region** | EUROPE AND CENTRAL ASIA |
| **Country** | Turkey |
| **Sector** | General public administration sector (40%); General industry and trade (25%); Capital markets (15%); Non-compulsory pensions and insurance (20%) |
| **Operation ID** | P127787 |
| **Lending Instrument** | Development Policy Lending |
| **Borrower(s)** | REPUBLIC OF TURKEY |
| **Implementing Agency** | Undersecretariat of Treasury |
| **Date PID Prepared** | February 26, 2013 |
| **Estimated Date of Appraisal** | March 15, 2013 |
| **Estimated Date of Board Approval** | May 30, 2013 |
| **Corporate Review Decision** | March 7, 2013 |
| **Other Decision** |  |

1. **Key development issues and rationale for Bank involvement**

Turkey’s rapid growth and development over the past decade is one of the success stories of the global economy. After a banking crisis in 2001, the country embarked on a concerted path of structural reform supported by strong fiscal consolidation, strengthened banking supervision, a reform of the social security system, and the shift to a flexible exchange rate regime with an independent Central Bank responsible for inflation targeting. Per-capita income subsequently almost tripled in less than a decade, and Turkey, with a population of 75 million, is now an upper middle-income country with the world’s 18th largest economy. Social outcomes have also improved considerably as a result of economic growth and improved public service delivery, with an increased in access to education and health services.

Further enhancing the economy’s potential over the medium term and reaching high-income status will require more structural reforms, particularly at the micro level, to bolster competitiveness and boost private savings. Turkey’s business environment remains relatively burdensome, with the country ranking 71st in the 2013 Doing Business Ratings. Improving the investment climate is critical for raising Turkey’s labor productivity growth and further boosting its export performance. Turkey also has considerable potential to attract further FDI inflows (where Turkey ranks 23rd globally), bringing in associated new technologies, and providing a more stable source of external financing. The implementation of further micro reforms to deepen the financial sector will help provide greater access to financial services for all citizens and can also contribute to reversing the significant decline in Turkey’s domestic saving rates that took place over the past decade. Continuing the fight against informality will reinforce the payoff to the Government’s other reform efforts including in the area of competitiveness and domestic savings.

1. **Proposed Objective(s)**

The proposed DPL would support Turkey’s growth to high income status through the implementation of reforms in two key areas: (i) bolstering competitiveness via an improved business environment and better governance; and (ii) boosting domestic savings and deepening the financial sector.

The DPL will contribute to the following expected Country Partnership Strategy outcomes under the competitiveness pillar: (i) sustained macroeconomic and financial stability and strengthened exports, domestic savings, and external resilience; (ii) improved investment and business climate; deepened and broadened access to finance.

1. **Preliminary Description**

The proposed Operation is a single-tranche stand-alone Operation. It supports measures under two pillars as follows:

Pillar 1 Bolstering competitiveness: issuance of secondary legislation to ensure implementation of the commercial code, progress in improving the investment climate, and further actions taken to reduce informality.

Pillar 2 Boosting domestic savings and deepening the financial sector: enactment of new legislation restructuring the private pension scheme, enactment of a new Capital Markets Law, and enactment of a Leasing, Factoring and Companies Law.

1. **Poverty and Social Impacts and Environment Aspects**

Poverty and Social Impacts

The policies and reforms supported by the CSDPL (CSDPL) program are expected to have positive distributional impacts in Turkey. All policy actions supported by the operation are expected to contribute to higher and sustainable growth, a stronger fiscal position and ultimately higher living standards over the long term, while specific measures under both pillars are also likely to have direct and positive distributional impacts over the short-term.

Environment Aspects

The specific policies supported by the DPL series are not likely to have significant effects on Turkey’s environment, forests, water resources, habitats or other natural resources.

1. **Tentative financing**

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| --- | --- |
| Source: | ($m.) |
| Borrower | 0 |
| International Bank for Reconstruction and Development | 600 |
| Borrower/Recipient |  |
| IBRDOthers (specifiy) |  |
|  Total | 600 |

1. **Contact point**

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