PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: AB7912

Operation Name	Turkey - Resilience, Inclusion and Growth DPF
Region	EUROPE AND CENTRAL ASIA
Country	Turkey
Sector	Other social services (30); capital markets (10%); General Industry and Trade (20%); Private Sector Development (20%); Public Administration (20%)
Operation ID	P162071
Lending Instrument	Development Policy Financing
Borrower(s)	REPUBLIC OF TURKEY
Implementing Agency	Undersecretariat of Treasury
Date PID Prepared	June 21, 2017
Estimated Date of Appraisal	July 3, 2017
Estimated Date of Board Approval	August 29, 2017
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

The proposed Resilience, Inclusion and Growth Development Policy Financing (RIG-DPF) in the amount of USD 300 million seeks to strengthen the foundations for inclusive and sustainable growth in Turkey.

Turkey made steady progress since the early 2000s, with Gross Domestic Product (GDP) per capita more than tripling from USD 3,073 in 2001 to USD 10,816 in 2016, accompanied by unprecedented reduction in poverty. This impressive economic performance was made possible by good macroeconomic management and structural reforms that paved the way for a shift of employment out of agriculture into industry and services. Yet, this progress did not prove resilient to domestic and global challenges in 2016 and early 2017. A weak global economy, a failed coup attempt, a constitutional referendum – all served to increase political and economic uncertainty. As a result, economic growth decelerated to 2.9 percent in 2016, from 6.1 percent in 2015. Turkey's once resilient growth engine struggled to adjust to changes in domestic and external conditions in the presence of long-standing structural rigidities. Inadequate domestic savings, relative to Turkey's investment needs, have made the economy less resilient to tightening global liquidity and rising borrowing costs. At the same time, low labor force participation by women and youth risks dampening growth in labor income, the main avenue for poverty reduction. Finally, productivity levels have been falling due to low levels of competition in infrastructure services and as enterprises, especially SMEs, struggle to access finance and move up the global value chains.

These reforms are expected to underpin continued progress towards reducing poverty and boosting shared prosperity. Turkey has made significant progress in reducing poverty and sharing prosperity in the 2000s. The poverty headcount ratio declined sharply during 2002-2014, from 44 to 18 percent, with extreme poverty falling from 13 to 3.1 percent. Annualized growth of consumption of the bottom 40 percent, which is used to measure efforts to ensure shared prosperity, reached 4.3 percent between 2007-2012, less than the figure for the entire population (4.8 percent). After declining significantly, inequality showed a deterioration following the global financial crisis, with the Gini coefficient increasing from 0.38 in 2008 to 0.41 in 2014. Increased labor income in connection with economic growth was the main driver of improved poverty outcomes. The decline in poverty mostly stemmed from growing levels of consumption, rather than changes in its distribution. Around 60 percent of the decline in the poverty headcount ratio resulted from labor income growth (both growth of earnings and employment) among poor households, while a reduced tax wedge on labor and expansion of active labor market programs contributed to job creation, particularly after 2008.

II. Proposed Objective(s)

The Program Development Objectives (PDO) of the proposed operation are to: i) increase domestic savings and enhance fiscal transparency (Pillar A); ii) support the economic inclusion of women, youth, long-term unemployed and Syrians under temporary protection (Pillar B); and iii) address structural bottlenecks to sustainable growth (Pillar C).

III. Preliminary Description

Pillar A aims to increase private and public savings in order to address external imbalances and reduce fiscal risks. Amendments to the Private Pension Savings and Investments Law introducing auto-enrollment will increase private savings and reduce dependence on external financing, while the inclusion of financial statements in the audit reports of all general budget institutions will support fiscal discipline by promoting transparency of fiscal accounts and fiscal risk disclosure. Pillar B aims to improve labor market conditions for women, youth, long-term unemployed, and Syrians under temporary protection by supporting flexible employment, increasing access to childcare and integrating foreigners under temporary protection into the labor market. Pillar C aims to remove structural bottlenecks to sustainable growth. This will be achieved by enacting an appropriate legal framework for the protection of industrial property, improving allocation of capital by facilitating access to credit for small and medium enterprises, deregulating network industries through the liberalization of the railways sector, and supporting renewable energy zones to increase the share of renewable energy in energy production.

IV. Poverty and Social Impacts and Environment Aspects

The poverty and shared prosperity impacts of policy measures supported under this DPF are expected to be positive. There are no significant risks arising from the program support on Turkey’s environment, forests, water resources, habitats or other natural resources.

V. Tentative financing

Source:	($m.)
Borrower	0.00
International Bank for Reconstruction and Development	300.00
Borrower/Recipient	
IBRD	
Others (specifiy)	
Total	300.00

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