

PROJECT NAME:	COMPETITIVENESS AND EMPLOYMENT DEVELOPMENT POLICY LOAN (CEDPL)
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LOAN AMOUNT: EUR 367.3 million
DURATION (Month/Year): June 29, 2007 - September 30, 2008

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BACKGROUND:

Turkey is experiencing high growth driven in good part by the government's commitment to sound economic policies. Annual growth averaged 7.5 percent in the period 2002-2006. Output increased more than a third in this period-the strongest growth performance among Organization for Economic Cooperation and Development (OECD) members. A critical change from previous episodes of rapid growth is that this expansion has been driven by the private sector. Public sector consumption and investment expenditures have been kept under control by tight fiscal policies.

PROJECT OBJECTIVE:

The CEDPL supports 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.

PROJECT DESCRIPTION:

The first program area supports the maintenance of an adequate macroeconomic framework, such as the framework that has underpinned the ongoing sustained phase of rapid economic growth that began in2002 and continues to date.

The second program area focuses on improving the investment climate to foster the investment and productivity increases required to maintain rapid growth and generate sufficient formal sector jobs to absorb the large supply of labor resulting from the country's demographic dynamics and structural transformation. This program area also rewards the outcomes of the privatization program implemented by the authorities in 2005 and 2006 which has contributed to raise competitiveness, productivity, and fiscal revenues.

The third program area lays the foundations for changing labor market regulations so that hiring formal sector workers becomes more attractive for the private sector and working in the formal sector also becomes more attractive for workers. The loan supports a diagnosis of labor markets and the discussion of policy options.

The fourth program area assists in consolidating the soundness of the financial sector and increasing access to investment credit and other forms of investment capital.

The fifth program area supports increasing the capacity of the private sector to innovate, adopt new technologies and quality standards as well as a diagnosis of the policies needed for endowing the labor force with better skills-with a view of augmenting competitiveness over the medium and long terms.

IMPLEMENTING AND MONITORING:

The Undersecretariat of Treasury is responsible for coordinating implementation of the program among all concerned ministries and agencies. Accordingly, the Treasury and the Bank agreed to monitor progress towards meeting the long term goals of the program in the context of the Implementation Completion Report for this loan and under the FY08-FY11CPS for Turkey where an effort is being made to develop together with the authorities a results framework linking the Bank's contribution to the overall results the government expects to achieve during the period-including the issues of competitiveness and employment which are expected to be key components of the CPS.

BENEFITS:

The potential benefits of the policies and reforms supported by the loan are high. An enabling macroeconomic framework will continue to be an important underlying driver for the sustained growth experienced by Turkey since 2002. At the same time, conducive and stable macroeconomic conditions by themselves are unlikely to guarantee popular support to structural reforms based on a long term vision and requiring sustained implementation over a number of years. Rapid growth and convergence with EU per capita income levels need more investment, higher productivity, more participation in formal labor markets, and lower unemployment-all underpinned by the reforms supported by this operation. Income convergence in turn would assist in securing popular support for medium and long term reforms required for Turkey to fully realize its economic potential.

PROJECT STATUS:

The Project was approved in June 28, 2007, and became effective on July 18, 2007.

RESULTS ON THE GROUND:

The project will support the reform of selected legislation, institutions and policies in order to improve the conditions for higher competitiveness and employment in Turkey