



**Ladies & Gentlemen, Distinguished Guests and Participants.**

It is my great pleasure to be here with you in Istanbul today.

I would like to thank you personally, Mr. Kaslowski and Mr. Akkurt, TUSIAD and TUSIAD International for the opportunity to talk about private sector programs and credit and tender opportunities with the World Bank.

## Country Partnership Strategy for 2008-2011: Support for the Private Sector

- Goal = sustained strong growth with shared benefits: key role for the private sector!
- Support for business climate, competitiveness & employment reforms:
  - analysis, advisory services, technical assistance
  - financing for public sector
- Financing for private sector: exports, SMEs, renewable energy (through banks)
- Tenders

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Ten days ago in Ankara we launched the new country partnership strategy and program of the World Bank Group with Turkey for 2008-2011.

The new strategy is a framework of *partnership*. This means it is grounded in Turkey's *own* strategy and vision—that is, in the 9th Development Plan.

A priority goal of the 9<sup>th</sup> development is for Turkey to become a knowledge society, become globally competitive, achieve stable growth, and share the benefits of growth equitably.

⇒ Strong private sector development will be essential for achieving this goal, as the private sector is the engine of competitiveness, employment, and growth

⇒ So private sector development and support for the private sector are at the core of the new country partnership strategy.

The new strategy includes analysis and advisory services—including much on the investment climate and the business environment.

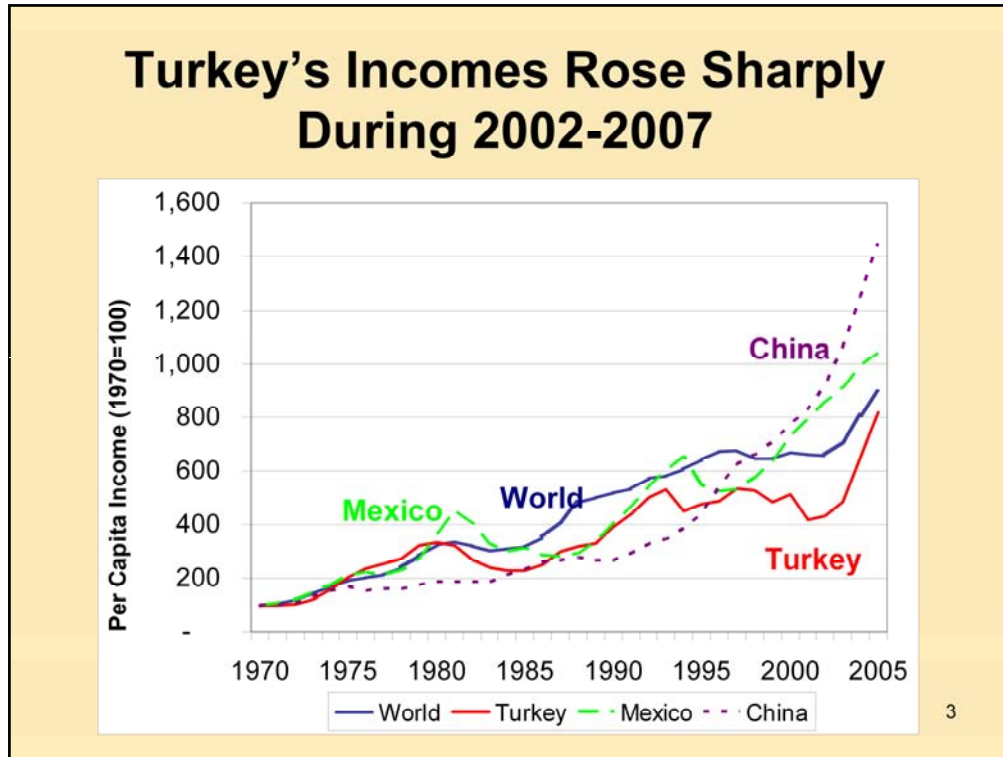
⇒ In this, the World Bank as a partner with government can support Turkish policies that promote strong private sector development and growth.

The new partnership strategy **also includes expected future financing**: up to \$6.2 billion during 2008-2011 for **development projects and program** from the World Bank.

- For private sector friendly policies and reforms—reforms that promote competitiveness and employment, expand access to credit
- Exporting-firms and small and medium sized enterprises (through public banks)

Also financing directly to the private sector from the International Finance Corporation. – **My colleague, Shahbaz Mavaddat, is here to say more about the IFC in a few minutes.**

**Tenders**—opportunities for private sector firms to bid for contracts under Turkish projects that the World Bank helps finance



I would like to **start with the goal and perspective of sustaining strong growth.**

**This slide shows well Turkey's rapid growth since 2002**—around 7% per year, much faster than in any other period since 1970.

**Turkey has now begun feeling the impact of recent, less favorable global economic developments and financial volatility.** The Turkish Lira depreciated, spreads have risen, and the Istanbul Stock Exchange index fell since the end of 2007. And the securitization market is virtually closed.

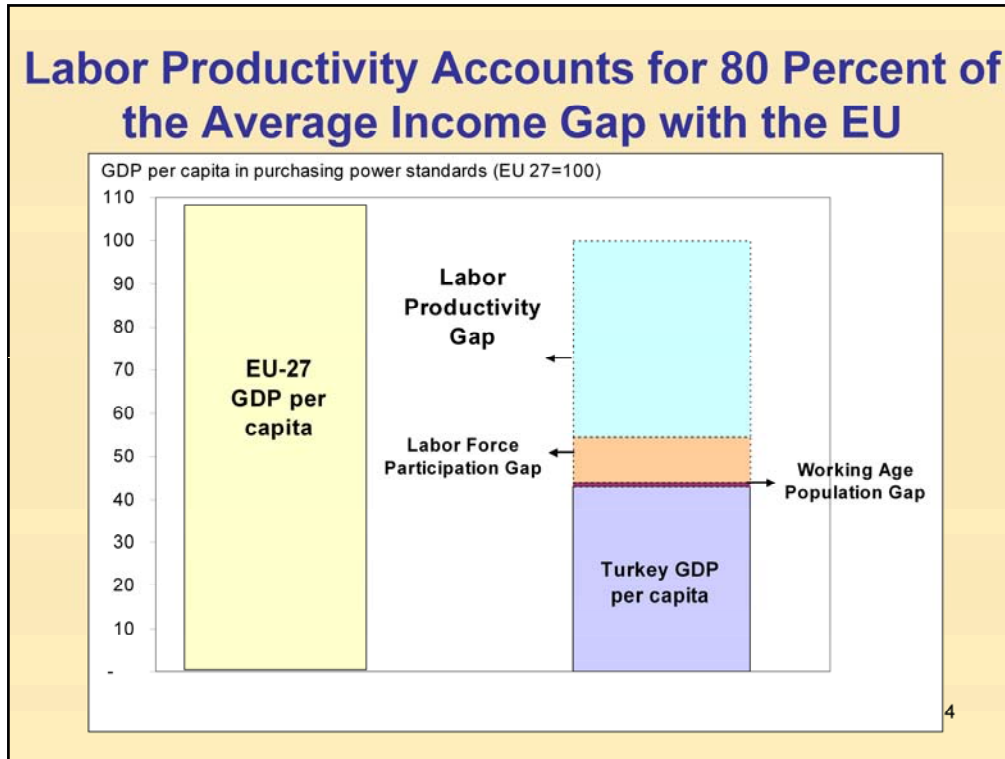
**However, Turkey is now much more resilient than some years ago to adverse global economic and financial trends.** Turkey now has a floating exchange rate regime, an independent Central Bank, and significant foreign exchange reserves. The financial position of Turkish banks is good—they have strong asset to loan ratios and liquidity ratios.

**Overall I expect that next year will pose challenges for Turkey, but I am confident that, with its increased resilience and continued good policies, Turkey will meet and manage these challenges.**

**So how can Turkey achieve sustained strong growth with widely shared benefits for the Turkish people?**

Continued prudent macroeconomic management is of course important. **In addition, I want to focus on 4 important areas of policies and reforms that Turkey is pursuing and that are critical for the private sector:**

1. **Competitiveness and Productivity,**
2. **Access to Affordable Credit,**
3. **Labor Markets and Employment, and**
4. **Education.**



**First, productivity and competitiveness. Turkey's vision of strong and shared growth is a vision of a *modern Turkey***

- *a vision of increasing competitiveness by increasing productivity, ...*

- ... by producing goods and services that use more capital, more advanced technology, more knowledge, and a better-trained labor force.

- ... which will increase average wages and improve living standards

• Labor productivity in Turkey is roughly 40% of the EU average. This difference accounts for around 80% of the income gap between Turkey and the EU.

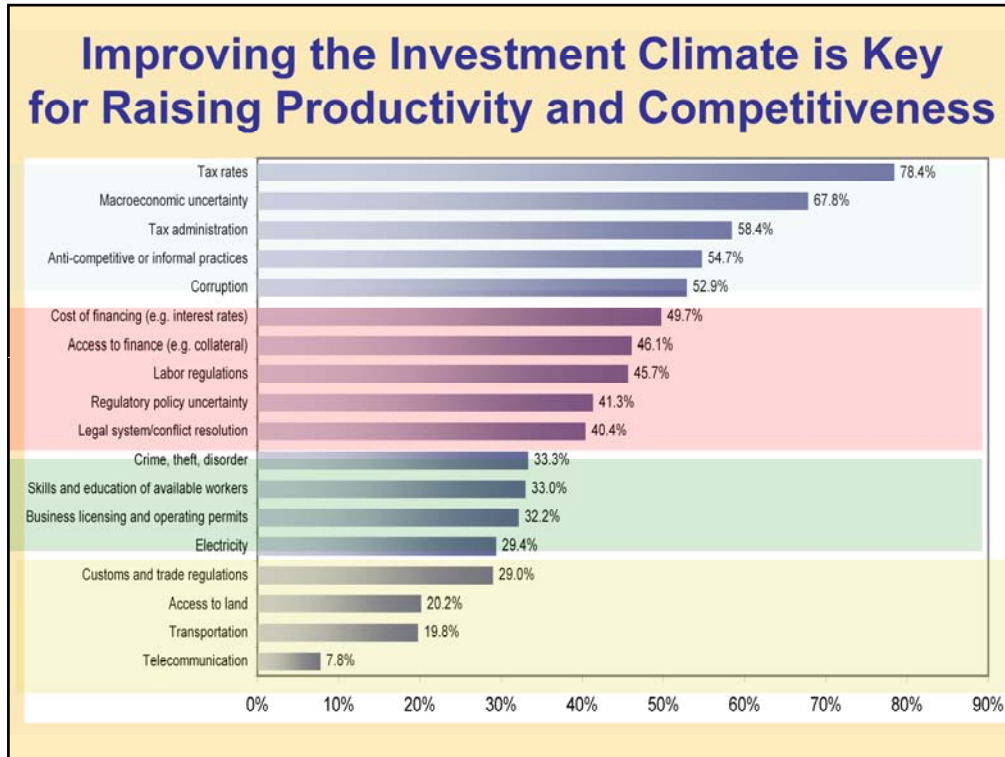
**So can productivity and competitiveness rise sharply? And how?**

**Promoting innovation and technology adoption are *ONE* important way to help increase productivity and competitiveness.**

- For example, 42 percent of Turkish firms declared to have acquired new technologies in a recent year (2005), compared with 52 percent in Thailand. 36% of firms said they introduced a new product, compared with 68% in Brazil.

- The Turkish automotive and electronics industries have been successful in raising productivity and incomes. I am confident that other industries, especially tradable goods industries, can do the same.

- We have begun work with the government, and hope to work also with the private sector, with you, on technology and innovation.



**The business climate is another critical factor for improved competitiveness. Turkey rose in the World Bank’s Doing Business Rankings from 91st rank to 57th rank in 2007---a big achievement.**

**Still, more remains to be done, and further improvements in the business environment will help promote new investment.**

**=> This slide shows those areas where Turkish firms say they face a “very severe” or “major” constraint on operations and growth. From Investment Climate Survey (2005) reported in the World Bank’s Investment Climate Assessment last year**

**Notes for the chart**

- High tax rates, informality, macro uncertainty, and corruption or unfair competition from the informal sector: above 50%
- Access to finance and labor markets (40%-50%)
- Education and skills: 33% -- one third.
- Red tape in business licensing, operating permits –also about one third

## Priorities for Further Strengthening the Investment Climate

### Priorities to accelerate growth of existing firms:

- Reducing taxes, improving tax administration, improving accounting & auditing -- reducing informality
- Business regulation and licensing; commercial code
- Labor market flexibility & private sector oriented labor skills
- Increasing firms' access to finance
- Promoting firms' technological progress

### Low cost policies to improve entry:

- Reducing high registration costs
- Reducing long times and high costs of licenses

### New Partnership Strategy envisages World Bank engagement with Turkey in these areas

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Here is a summary of priority areas for further improvements in the investment climate. We are working closely with the government on Turkey's policies and reforms in most, almost all, these areas under the new Country Partnership Strategy.

I would like to highlight two areas:

#### 1. Taxes and Reducing Informality.

- Most estimates of informality vary around 30-40 percent of the economy.
- The previous slide showed that up to half of all businesses, or even more, consider unfair competition from informal firms a severe constraint to firm growth.
- And of course, when many firms are informal, fewer are formal, and they have to pay higher taxes to generate the same tax revenue.
- Our next country economic study in 2008-2009 will be on informality.

#### 2. Continued improvements in business regulation and licensing, the business environment, and investment promotion.

- **First, the planned adoption of a new, modernized commercial code will be critical—and it will touch on almost areas of doing business.**
- **Reducing Turkey's high registration and licensing costs.** For example, it takes 188 days and 25 procedures to obtain an operating licensing in Turkey, as compared to 34 days in Korea and 6 steps in Denmark (the best practices). Making operating licensing easier and faster will help.
- **We are working closely with the government on many of these policies that shape Turkey's investment climate,**
- **And we strongly support an investment climate friendly reform of Turkey's commercial code.**

## Access to Affordable Credit: WB Credit Line Financing through Banks

- Goal: improve banks' access to medium/long-term funding and corporate sector access to financing
- For SMEs, exports, shipbuilders, machine builders
- Terms:
  - Market interest rates
  - Longer-than-market maturities: up to 7 years
  - TRY possible. No demand to date (market interest rates)
  - Loan amounts:
    - SMEs: Euro 2.5 M
    - Exporters: US\$ 10 M
    - Shipbuilders: US\$ 20 M

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### Second, access to affordable credit

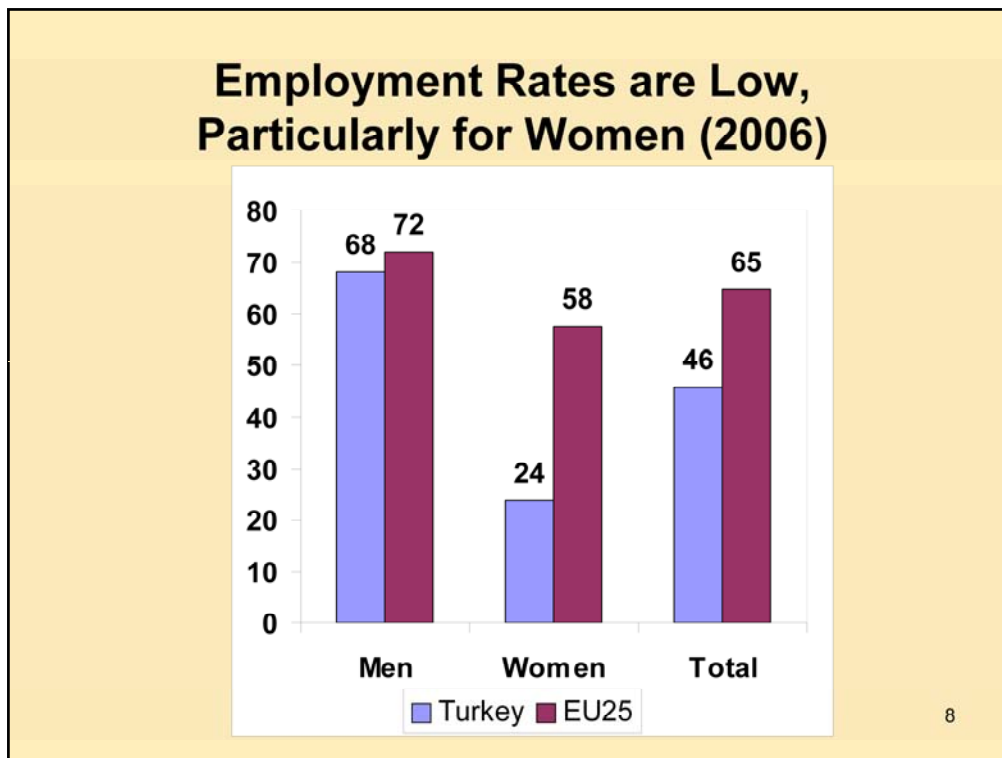
**Access to credit has not been a top constraint for Turkey's firms in recent years.** Turkey's banks are now much stronger than 6 years ago—which is very important for stability and for firms' access to credit over the long run. And Turkish firms have also had access to foreign credit.

**However, as global economic developments are now less favorable, affordable credit is becoming more of a constraint for some firms.**

**The World Bank has provided credit to private firms with a credit line through Turkish banks. And under the new CPS, we are just in the process of completing the preparation of a new credit line, with a focus on exporters and on ship building.**

- The terms—interest rates, maturity, etc.—are in this slide
- I should note that the underlying credit line from the World Bank to the Turkish banks carries a government guarantee. By contrast, IFC can lend directly to private firms, without a government guarantee.

**One example is a small enterprise, Besmak Electronics Ltd Co., that manufactures testing equipment.** They benefited from a bank credit under a World Bank credit line, as they were moving to a new location to expand production and enter a new product market.



#### Third, employment—*more jobs*

- *The slide shows that employment rates are low in Turkey, and very low for women.*
  - *And this is at the same time while many employers mention the scarcity of skilled workers and employees as a critical constraint to growth*
  - The government has announced a plan for a labor market reform.
  - And an *integrated* labor market reform will indeed be important.
  - We have completed a number of analysis of the Turkish labor market. Three important directions for labor market reform stand out:
    1. Reducing non-wage costs, especially employment taxes
    2. **Second, making fixed-term and temporary contracts available to workers and firms.**  
This will help first-time job seekers and women to find jobs more easily, and it will also help firms meet labor shortages.
    3. **Third it is important simultaneously to provide workers with training and tools to improve their skills so they can take advantage of changing and new job opportunities.**
- => **The role of the private sector is crucial for the success of such active labor market programs.**



Fourth and finally, education. In the long term, I believe, *education is probably Turkey's most important challenge—*

*-- and it is a challenge both for the public sector, but also for the private sector!*

**Education is about**

- ***continuing to meet the evolving skill needs of the private sector***
  - In Turkey, one third of firms identify labor skills as a major or very severe constraint on growth. This is more than in other countries with which Turkey is competing, Poland (17 %), Bulgaria (22 %) < Chile ( 24 %)
  - Almost 60 percent of the Turkish workforce has less than ten years of education, compared with 9 percent in Bulgaria, 33 percent in Chile, and 40 percent in Poland.
- ***Education is also about continuing to generate more and better jobs and keep achieving higher incomes in the long run.***

**Turkey has raised enrolment rates and has modernized primary school curricula. These are important successes. But student achievements have just begun improving and remain low in the OECD.**

**I would like to highlight 3 directions that the Ministry of National Education and the Higher Education Council have identified as priorities:**

- (1) *Further increasing access to secondary education for girls, and expanding pre-school and tertiary education;*
- (2) *Improving the QUALITY of education—perhaps the top priority; and*
- (3) *Strengthening vocational education and training which is key for more jobs for young people.*

## Tenders for World Bank Financed Projects: Past Examples & Future Opportunities

### Turkish manufacturers won contracts for

- Marmara Earthquake Recovery & Reconstruction Project (about \$220 Million)
- Electricity transmission projects (high voltage cables)
- Cairo International Airport construction (US\$350 Million)

### Opportunities 2008-2011: new Country Partnership Strategy. [www.worldbank.org/.../Turkey](http://www.worldbank.org/.../Turkey)

### Opportunities under World Bank Tenders

- [www.worldbank.org/infoshop](http://www.worldbank.org/infoshop)
- [www.devbusiness.com](http://www.devbusiness.com)
- [www.dgmarket.com](http://www.dgmarket.com)

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Bank financed tenders are launched through the use of Procurement Guidelines which also permits the use of National Competitive Bidding up to certain thresholds (Goods US\$1 Million; Works US\$10 Million).

Turkish contractors and manufacturers won large contracts under competitive Bank financed procurements during the past years.

- Turkish Contractors won 23 contract packages under the Marmara Earthquake Recovery and Reconstruction Project—with International Competitive Bidding, in a total amount of approximately US\$ 220 Million .
- Turkish cable manufacturers have been awarded large contracts amounting of US\$ 15 - US\$ 30 Million both in 154 kV and 380 kV cables.
- The Turkish TAV (Tepe+Akfen) consortium was awarded the US\$ 350 Million contract for the Construction of Cairo International Airport which is financed by the Bank in 2004.

Turkish contractors, manufacturers and consultants may also participate the World Bank financed tenders in other 184 member countries.

The Business community can track the tender opportunities through the various Project documents available in the Bank's external web-site available for the public use such as Country Partnership Strategy, Project Appraisal Documents, Procurement plans etc.

- Other important information sources for the Bank financed procurements are United Nations Development Business (UNDB) online service and Development Gateway's dgMarket. Brief information on the upcoming and current projects, general procurement notices, invitations to prequalification, invitations for bids are published in these sources. UNDB requires a fee for subscription through on line application.
- The procurement notices are also published in the free access web sites of the implementing agencies and national press of the borrower's country.