



Turkey Country Strategy

2019-2024

Approved by the Board of Directors on 24 July 2019



European Bank
for Reconstruction and Development

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Glossary of Key Terms

ABI	Annual Business Investment	H&S	Health & Safety
AMC	Asset Management Company	ICA	Industry, Commerce & Agribusiness
ASB	Advice for Small Business	IFI	International Financial Institution
BRSA	Bank Regulatory and Supervisory Authority	IPPF	Infrastructure Project Preparation Facility
BEEPS	Business Environment and Enterprise Performance Survey	LCY	Local Currency
BOT	Build-Operate-Transfer	LSE	London Stock Exchange
CoO	Country of Operations	M&A	Mergers and Acquisitions
CPI	Consumer Price Index	M&S	Manufacturing & Services
CSR	Corporate Social Responsibility	MSME	Micro, Small and Medium Enterprise
DBFLT	Design-Built-Finance-Lease-Transfer	NBFI	Non-Bank Financial Institution
EBRD	European Bank for Reconstruction and Development	NEEAP	National Energy Efficiency Action Plan
EE	Energy Efficiency	NDC	Nationally Determined Contribution
EIB	European Investment Bank	NPL	Non-Performing Loans
ETI	Expected Transition Impact	PFI	Private Financial Institution
EU	European Union	PPA	Power Purchase Agreement
E&S	Environmental & Social	PPP	Public-Private Partnership
FDI	Foreign Direct Investment	PSP	Private Sector Participation
FI	Financial Institution	PTI	Portfolio Transition Impact
FSRU	Floating Storage Regasification Unit	RSF	Risk Sharing Facility
GEFF	Green Economy Financing Facility	SEFF	Sustainable Energy Financing Framework
GET	Green Economy Transition	SOB	State-Owned Bank
GHG	Green House Gas	SOE	State-Owned Enterprise
GNI	Gross National Income	TC	Technical Cooperation
GoT	Government of Turkey	TFP	Trade Finance Programme
GVC	Global Value Chains	VET	Vocational Education & Training
		WiB	Women in Business programme

Turkey's commitment to, and application of, political principles as set out in Article 1 of the Agreement Establishing the Bank have, over the previous Country Strategy period, been under strain due to internal and external challenges, prompting relevant international organisations to express concerns.

The state of emergency, declared after the attempted coup in July 2016, was lifted in July 2018. Constitutional changes, approved in the referendum of April 2017, introduced an executive presidential system, abolished the office of the prime minister, and transferred all executive authority to the president. The new system entered into force after parliamentary and presidential elections that took place in June 2018, resulting in the victory of President Erdogan and in a more diverse parliament. Actions against suspected Gulenist coup plotters, designated by the Turkish government as Fetullahist Terrorist Organisation - FETO, as well as concentration of powers in the new system led relevant international organisations to raise concerns with respect to the rule of law and fundamental freedoms in the country. The government declared its intention to embark on a process of political reform and work of the Reform Action Group resumed after a three year pause. Steering politics in a more inclusive direction as well as ensuring that the independence of institutions relevant for economic governance and successful policy-making is preserved will be among the main challenges over the next Country Strategy period.

Amidst these shifting tides, much will depend on how political and security developments will unfold and shape Turkey's relations with its traditional EU and NATO partners, and impact on the country's economic trajectory. A number of market reforms are needed to create a conducive environment for the private sector to grow, engage in higher value-added activities and integrate into regional and global value chains, while equally fostering inclusive employment for the country's under-served youth and women, closing regional disparities and addressing impacts of the refugee crisis. Transition gaps are particularly acute in **competitiveness** (with an economy characterised by insufficient corporate investment in innovation and low value chains integration), **inclusion** (with high levels of informality, prevalent skills mismatch and persisting regional disparities), **resilience** (with shallow financial markets and increasing vulnerability of banks and corporates with high FX exposure) and **green** (with high energy dependency, resource inefficiencies and vulnerability to climate change). The challenge of addressing these transition gaps is made more difficult by the current economic climate, characterised by a sharp slowdown in growth amidst deleveraging by banks and corporates.

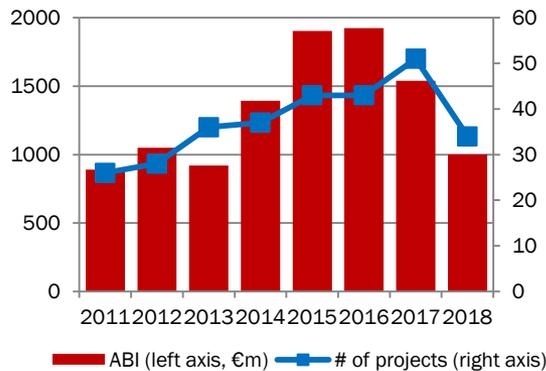
The Bank will continue to engage with and leverage its strong private sector record to advance the country's transition to a knowledge-driven economy while placing renewed emphasis on technology and skills transfers, improved business standards, and financial market sophistication as prerequisites for a more innovative and entrepreneurial business landscape. Amidst the current economic climate, this stipulates the Bank to focus its efforts on safeguarding lending activity, while not losing sight of the country's long-term needs, such as supporting its Green Energy Transition. With Turkey's EU pre-accession negotiations effectively at a standstill, resumption of work on the modernisation of the EU-Turkey Customs Union can provide the necessary positive momentum in the EU-Turkey relationship and lead to upholding donor support in the form of technical assistance and grants that can be blended with EBRD's product offer to deliver on the following strategic priorities in Turkey for 2019-2024:

- Strengthen **Resilience** of the Financial Sector and Develop Domestic Capital and Financial Markets;
- Foster Turkey's Knowledge Economy and Higher Value-Added Activities, and Promote **Good Governance**;
- Promote Economic **Inclusion** & Gender Equality Through Private Sector Engagement;
- Accelerate Turkey's **Green** Economy Transition and Regional Energy Connectivity.

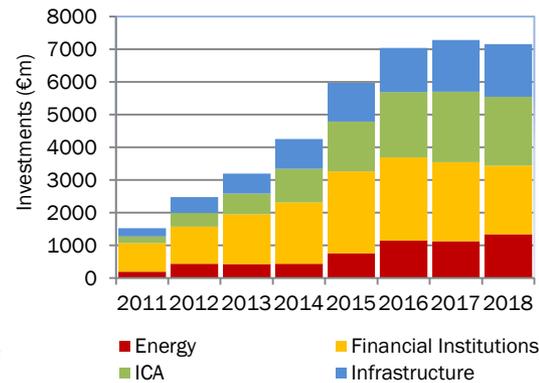
EBRD Investment Activities in Turkey ¹

Portfolio	€7,063m	Active projects	240
Equity share	18%	Operating assets	€5,904m
Private sector share ¹	96%	Net cum. investment	€11,055m

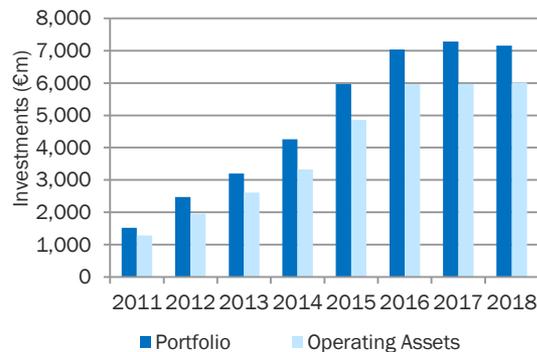
ABI and Operations



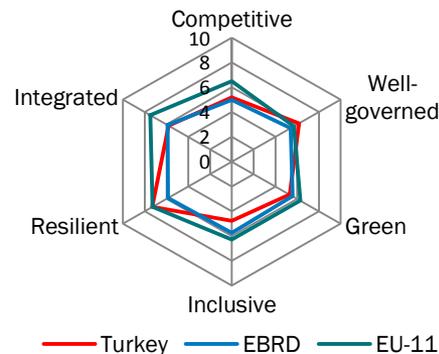
Portfolio Composition



Portfolio Dynamics



Transition Gaps ²



Turkey Context Figures

	Turkey	EU-11
Population (million) ³	82.0	102.7 (2017)
GDP per capita (PPP, USD) ³	27,550 (2017)	29,715 (2017)
Global Competitiveness Index (WEF)	61	43
Unemployment (%)	11.0 ⁴	6.4 ³ (2017)
Youth unemployment (%)	20.3 ⁴	15.0 ³ (2017)
Female labour force participation (%)	34.2 ⁴	51.3 ³ (2017)
Energy intensity (TPES/GDP) ⁵	0.12 (2016)	0.18 (2016)
Emission intensity/GDP (kgCO2/2010 US\$, PPP) ⁵	0.18 (2016)	0.24 (2016)

¹ As of December 2018: Cumulative Bank Investment: 5 year rolling basis on portfolio.

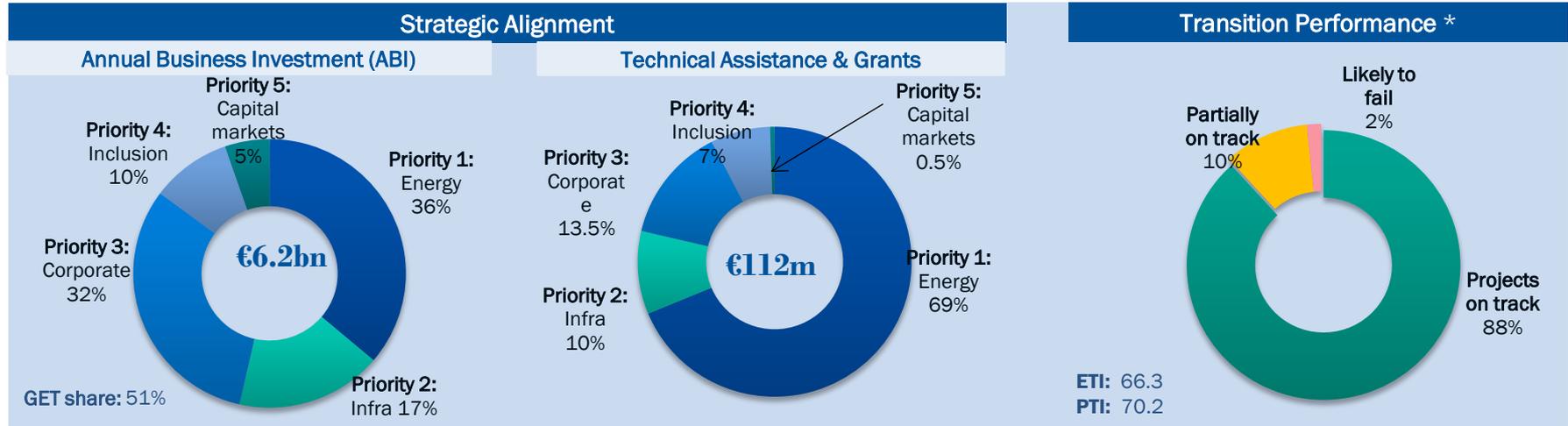
² Cf. EBRD Transition Report 2017-2018. ³ World Bank WDI. ⁴ Turkstat. ⁵ IEA's Energy Atlas.

1. Implementation of Previous Strategy (2015-2018)

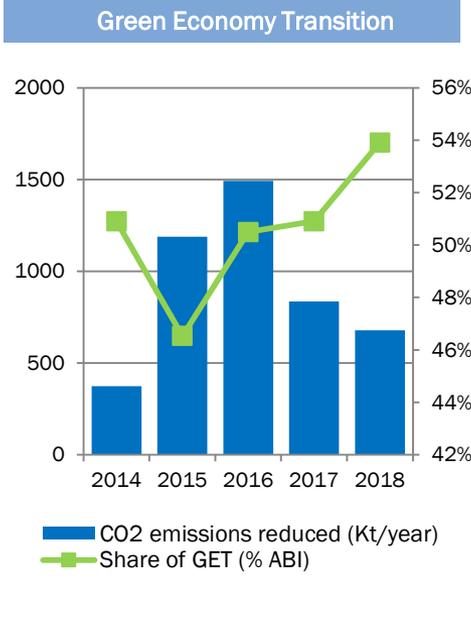


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1.1. Key Transition Results



Priority 1: Enhancing energy security and sustainability by supporting sector reform, promoting energy efficiency and renewable energy



- Key Transition Results**
- Actively promoted **private sector investment in renewable energies**, resulting in over 661MW new RE capacity installed and increased harmonisation with EU Directive through support for streamlining RE licensing and permitting scheme:
 - Provided €433m debt and equity financing (e.g. Akfen Wind and Solar, largest geothermal project).
 - Deployed GET-related instruments such as MidSEFF (€472m), TurSEFF (€244m) and TuREEF (€158m), to finance RE/EE investment via 9 PFIs – incl. on-lending to corporate/SME, municipal and residential investments.
 - Helped design Turkey's post-2020 RE support schemes based on competitive tendering and encouraged the adoption of market-based support measures to promote investments in RE equipment.
 - Redoubled efforts to **reduce the country's resource intensity** through efficiency investments across sectors (with 38,006,033GJ energy savings), helping align with EU's Energy Efficiency Directive of 2012:
 - Assisted the Government in drafting first National Energy Efficiency Action Plan setting tangible targets for 2023.
 - Contributed over €682m resource efficiency investments across sectors (e.g. steel, refinery, glass, chemicals).
 - Promoted lower-carbon, sustainable transport solutions (e.g. Istanbul Metro, Izmir Metro, Gaziantep CNG Buses).
 - Set up "Near Zero Waste" programme to assist early-movers with waste minimisation and waste-to-energy, incl. state-of-the-art technologies beyond regulatory standards (e.g. PVC, chemicals, packaging, Tersan floating dock).
 - Supported **increased private sector participation in the power sector and natural resources** (incl. mining, geothermal energy), enabling introduction of BAT and energy efficiency improvements.
 - Supported privatisation in power generation (€98m, incl. Karacaoren and Entek) and gas and electricity distribution (€353m) – incl. through LCY bond issuances for Enerjisa and OEDAS.

* Transition impact performance reflects how likely projects are to achieve the transition impact expected of them at signing. Calculated based on active mature (> 2 years) portfolio.

1. Implementation of Previous Strategy (2015-2018)



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1.1. Key Transition Results

Priority 2: Improving the quality of infrastructure via commercialisation and private sector participation

PPP & large-scale infra projects



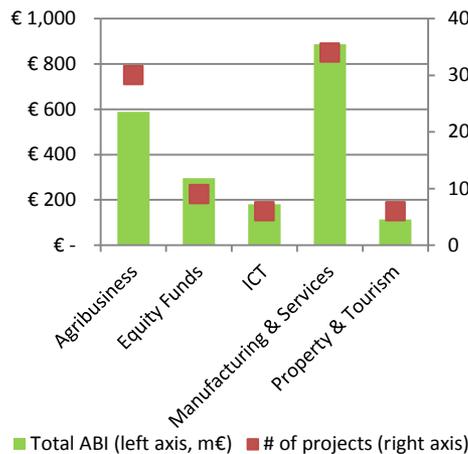
Key Transition Results

- Supported **commercialisation of municipal infrastructure** services in a sector lacking financial and operational autonomy and marked by strong dependence on state financing
 - Promoted Metro Istanbul (e.g. applying the “land value capture” approach) and clean urban transport solutions (Gaziantep CNG Buses).
 - Encouraged private sector participation in the water sector through outsourcing support services of the water company (Hatay Water Project).
 - Accelerated corporate development of maritime transport and logistics companies (Izmir Ferries, TLS Logistics) – incl. 11% equity stake in Global Ports Holding.
- Promoted **railway sector reform** through advice on secondary legislation for rail liberalisation (i.e. 2018 Railway Network Statement to allow for third-party access) with support from IPPF.
- Successfully signed first project under EBRD’s MoU with **International Maritime Organisation** (Uzmar), an example of joint collaboration on pollution abatement in Turkey’s shipping sector.

- Successfully applied **innovative financing solutions in social infrastructure** for **8 PPP hospital projects** (€513m), showcasing PPP applicability outside of conventional sectors (i.e. DBFLT model in healthcare) and allowing for investment mobilisation – incl. first-ever infra bond project (Elazig) by providing risk-mitigation/credit enhancement. Further developed PPP Value for Money (VfM) methodology for replication across sectors (e.g. wastewater).

Priority 3: Scaling up private sector competitiveness through innovation and improved corporate governance

Corporate sector investments



Key Transition Results

- Continued to **strongly support private sector growth and internationalisation**, through debt and equity financing and provision of innovative financial instruments (e.g. covered bonds, IPO investments and LCY corporate bonds).
 - Supported local MSMEs and corporates in moving up the value chain by focusing on innovation and R&D (e.g. building business/academia linkages) and partnering with global companies (Tofas/Fiat, Ford/Otosan, Vestel Electronic R&D).
 - Broadened PE fund investments (large and medium local PE fund investments reached to €395m such as Turkven, Actera, Taxim, Mediterra) including higher penetration to via growth and equity VC funds (Earlybird, Revo Capital).
- Pursued corporate clients’ alignment with best practice **corporate governance and business integrity standards** :
 - Worked with family-run and larger businesses to introduce improvements in health and safety, environmental management and business integrity (e.g. Aksa EHS, Erdemir, Sapro, Egesil Kimya, Global Ports, TREDAS, Ronisans, etc.).
 - Strengthened risk management, financial control and disclosure practices of clients and investee firms – i.e. where EBRD has a direct stake (e.g. Sok IPO, Akfen RE, Global Ports) or acts as anchor investor in LCY bond issuances (Aksa Energy, YDA, Ronisans), including by partnering with leading PE firm (co-investment with Actera in Korozo packaging).
- Launched technical cooperation **with Ministry of Agriculture on subsidies optimisation** to identify market-distortive agriculture tariff protection practices and map costly and inefficient support measures, combined with cutting-edge high-density agribusiness projects (€130) enhancing skill transfers and backward linkages (e.g. Anatolian Orchards, Olam, Peyman).

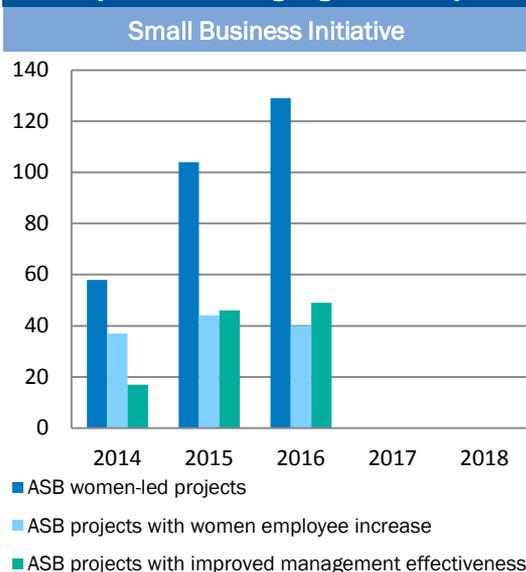
1. Implementation of Previous Strategy (2015-2018)



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1.1. Key Transition Results

Priority 4: Promoting regional and youth inclusion, as well as gender equality, to support long-run growth potential



Key Transition Results

- Contributed to **alleviate Turkey's pronounced regional disparities** via the Small Business Initiative (over €706m invested in 274 ASB projects), by supporting firms outside of metropolitan areas:
 - Investment focus on labour-intensive agribusiness sector (€588m), incl. training on packaging, food quality.
 - Supported construction of greenfield plant in under-developed region (\$150m loan to Brisa Tyre), which accelerated employment opportunities (550 jobs) particularly for young people.
- Intensified efforts to address wider gender gaps (with female labour participation among the lowest in OECD) and promoted **economic inclusion for under-served segments** (e.g. women, youth and rural communities).
 - Expanded "Women in Business" programme (€194m in 4 WiB credit lines) and deployed gender-responsive investments among clients as path-openers for industry players in hospitality or automotive sector (€200m loan to Tofas/Fiat to increase women participation in male-dominated sector), and TC to raise awareness on improved water/wastewater facilities contributing to women's access to economic opportunities in Hatay.
 - Promoted training opportunities for young graduates among corporate clients, e.g. TUMAD Gold Mine, Ford Otosan Commercial Vehicle project (€150m), and advised on VET policy formulation through Public-Private Steering Committee with Min. Education & ETF to address skills mismatch and support on-the-job training and certification.
- Developed a **new approach to tackle the refugee crisis** (Refugee Response Package), proposing a key role for the private sector in helping host countries strengthen economic resilience. This includes combining grant-funding with SME on-lending to refugee communities, and policy initiatives for financial inclusion and SME promotion through chambers of commerce.

Priority 5: Deepening capital and local currency money markets

Country Strategy Results Framework	Since 2015
New capital market instruments introduced	<ul style="list-style-type: none"> CPI-linked bonds LCY money market index (Borsa Istanbul) LCY corporate bonds (longer tenors)
Improvement in institutional investor base	Satisfactory progress
Number of IPOs facilitated by EBRD	5

Key Transition Results

- Contributed to **deepen the investor base and broaden LCY capital market products range** through both anchor investments and policy engagement with financial authorities and market regulators.
 - Deployed a LCY Corporate Bond Framework (€700m almost fully utilised with 8 bond issuances where EBRD acted as anchor investor, followed by another €1.2bn), achieving improvements in disclosure and transparency, extending bond tenors (with longest tenor) and promoting hedgeable reference rates e.g. TRLibor and CPI Index.
 - Policy engagement to develop a new money market index (hedgeable LCY index) in collaboration with Central Bank and Treasury, through Borsa Istanbul (10% equity stake) and Takasbank.
 - Provided advisory to the Capital Market Boards of Turkey to improve the regulations governing TRY capital market debt instruments especially on disclosure, bondholders' rights and ranking of the bonds.
- Contributed to broaden **access to capital markets** for SMEs and mid-caps through:
 - Continuous support in debt issuances under the Turkish banks covered-bond programmes (Garanti and YKB), providing access to larger pool of long-term investors.
 - Facilitating no less than 5 IPO transactions, helping inject liquidity into local capital markets.
 - Supporting as shareholder the first-ever IPO listing of a Turkish Company in LSE (i.e. Global Ports).
- Engaged with leading NPL asset manager (Hayat), incl. through LCY-denominated bonds.

1. Implementation of Previous Strategy (2015-2018)



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1.2. Implementation Challenges and Key Lessons

Context for Implementation

In a (geo)political environment marked by the Syrian refugee crisis, an extended state of emergency and constitutional changes strengthening the executive presidency as well as strained relations with the EU, the Turkish economy continues to boast an export-oriented private sector, and an average annual GDP growth rate of 5.2%. Yet, overall low productivity levels and marked inclusion challenges – further aggravated by the refugee influx – challenge Turkey’s path from a middle to a high income economy. Amidst these fast-evolving tides, the Bank has managed to deliver record business levels over the past strategy period, and overwhelmingly so in the private sector, with a portfolio doubling in size, the lowest undrawn ratio across EBRD’s region and transition impact performance and investment mobilisation above the Bank’s average. As macroeconomic vulnerabilities have begun to surface in 2018, following a rapid exchange rate depreciation and growing external imbalances, the Bank remains strongly engaged, acting counter-cyclically in support of highly FX-leveraged private and financial sectors, while addressing the country’s longer term needs for more inclusive and sustainable growth.

Implementation Challenges

- Local content preferences in renewable energy (considered *de facto* market access barrier) and uncertainty around post-2020 RE support scheme, limit opportunities for Bank’s engagement.
- Economic volatility leading to increased vulnerability of domestic firms with high FX exposure and depreciated LCY assets.
- Shift of corporate priorities towards working capital in light of increased capital constraints.
- Uneven progress in gas and railway liberalisation resulting from insufficient sector consolidation and government resolve.
- Uncertain government commitment to BOT/PPP solutions and weak implementation capacity for municipal, transport and social infrastructure projects.
- Persisting market distortions (incl. tariff protection and inefficient subsidies) and lack of long-term financing in the agribusiness sector.
- Challenges to scale EBRD’s SME offer in rural areas and/or refugee host communities as a result of lack of bankable opportunities.
- Uneven progress on LCY capital market development with weak investor base, limited foreign investor appetite and intermediation of long-term funds.

Key Lessons & Way Forward

- Continue policy dialogue with Ministry of Energy & Natural Resources and EC DG Trade to inform the design of Turkey’s post-2020 RE support scheme.
- Support existing clients with balance sheet restructurings through more favourable loan terms and counter-cyclical/emergency financing.
- Complement EBRD corporate lending with targeted grant funding to support first-mover advantage in EE / GET investments.
- Pursue active dialogue with gas, power and railway utilities on commercialisation, energy/resource efficiency and storage capacity.
- Leverage PPP Hospitals programme for replication in other sectors, and complement public sector investments with capacity building, e.g. through infrastructure project preparation and implementation (IPPF).
- Channel grant resources for TC / advisory and first-loss cover for high-potential agribusiness firms.
- Step up donor support and TC availability (including Turkey Donor Fund) to improve competitiveness of EBRD’s SME products and tailored, innovative frameworks (Women in Business, Refugee Package).
- Continue engagement with Central Bank, Capital Market Board and Borsa Istanbul to create deeper LCY capital markets (incl. bond financing, hedgeable TL index).

2. Economic Context

2.1 . Macroeconomic Context and Outlook for Strategy Period



Turkey - Main macroeconomic indicators

	2015	2016	2017	2018
GDP growth (% y-o-y)	6.1	3.2	7.4	2.6
CPI inflation (% avg.)	7.7	7.8	11.1	16.3
Government balance (% GDP)	-1.0	-1.1	-1.5	-2.0
Current account balance (% GDP)	-3.7	-3.8	-5.6	-3.5
Net FDI (% of GDP)	-1.6	-1.3	-1.0	-1.2
External debt (% GDP)	46.5	47.5	53.5	56.7
Gross reserves (% GDP)	12.8	12.3	12.7	11.9
General gov't gross debt (% GDP)	27.6	28.3	28.3	30.4
Unemployment (% pop.)	10.3	10.9	10.9	11.0
Nominal GDP (\$bn)	861.9	862.7	851.5	784.1

- Early 2018 saw imbalances build in the Turkish economy, driven by government stimulus in the form of rapid credit growth. These imbalances included a current account deficit that reached 6.5% of GDP in May, and inflation in excess of 20%.
- The failure to react in a timely manner to the building imbalances meant that when the time came, the authorities had to tighten policy severely, causing the economy to enter recession in the second half of the year.
- The slowdown has seen imports decline heavily, resulting in a substantial improvement in the current account balance, and over time we expect to see an improvement in inflation once the pass through effect of the lira's depreciation on inflation is exhausted.
- Fiscal discipline has largely been maintained, with a budget deficit of 2.0% of GDP in 2018 and government debt around 30% of GDP. The increase in fiscal spending in the first quarter of 2019 has, however, given rise to concerns.
- However, the slowdown in economic activity and increase in borrowing rates, alongside potential bank asset quality issues, has resulted in deleveraging by the private sector, causing a contraction in credit supply and demand.
- Credit growth is unlikely to pick up quickly, so the outlook for the medium term is for a period of significantly below-trend growth.
- Although policy appears to be on the right track, with the geopolitical environment remaining sensitive, the risk of further economic disruptions remains elevated.

2. Economic Context

2.2 . Key Transition Challenges



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Resilient (7.32)

- Turkey ranks 7th out of 38 EBRD CoOs in the Resilient quality index.
- Although Turkey has a sound banking sector, **domestic capital markets are under developed and savings rates are low**, resulting in reliance on foreign capital, which increases the vulnerability of the economy.
- Nascent asset quality issues are arising with NPLs set to rise from their current low base of 3%**. Improving the system's NPL resolution capacity would help the credit channel support Turkey's economic recovery.
- Turkey's resilience is impacted by its **dependence on energy imports to meet its growing energy needs**. This leaves the economy heavily exposed to oil price and exchange rate fluctuations.

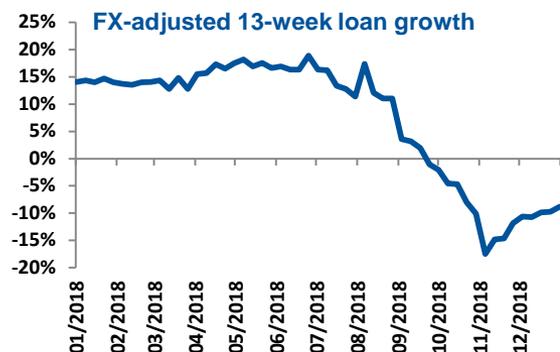
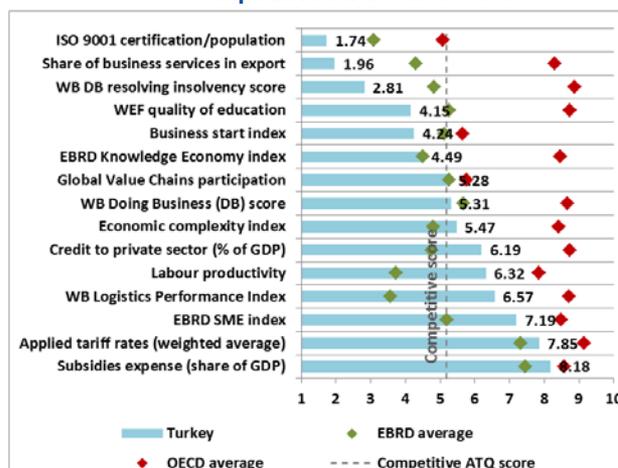
Competitive (5.18)

- Turkey ranks 17th out of 38 EBRD CoOs in the Competitive quality index.
- Turkey's **integration into global value chains is below potential** due to structural bottlenecks, in particular human capital, modest R&D performance and weak corporate governance and managerial skills.
- Extensive use has been made of **industrial policies** but there is limited evidence that these policies have resulted in innovation and technological development, while they are increasing market distortions.
- Restrictive labour market policies** are hindering efficient allocation of resources to competitive firms.

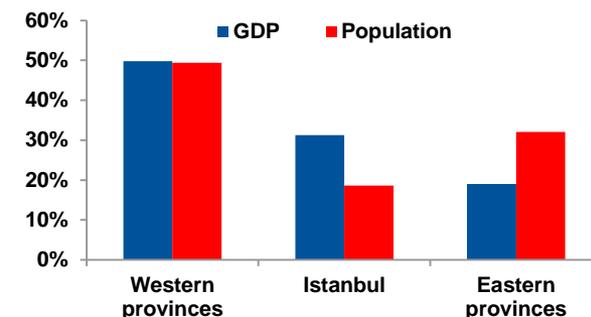
Inclusive (4.78)

- Turkey ranks 31st out of 38 EBRD CoOs in the Inclusive quality index.
- Access to economic opportunity and employment remains a key issue** for women, young people and those in poorer regions of Turkey. Notably this gives rise to **low participation rates, high informality and precarious and vulnerable employment**.
- Skills gaps remain an issue**. Skills forecasting and skills matching policies remain insufficient. There remains significant gaps in assessing and developing the skills for future jobs.
- Regional disparities and inequality levels remain large**. Economic activity is heavily concentrated in Istanbul and Turkey's Western provinces which, together, produce 81% of Turkey's GDP.

Competitive ATQ sub-scores



GDP and population by region



2. Economic Context

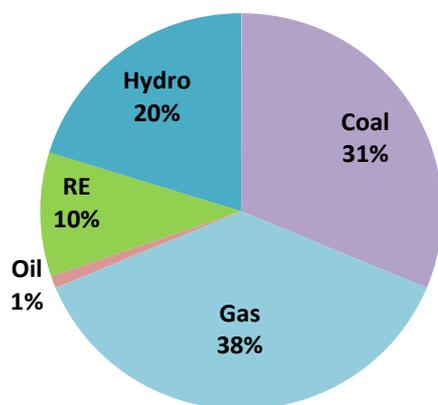
2.2 . Key Transition Challenges



Green (5.31)

- Turkey ranks 21st out of 38 EBRD CoOs in the Green quality index.
- Strong growth in energy consumption is a burden for an economy **dependent on imports for 75% of its energy needs**.
- Efforts are being made to reduce energy demand through **efficiency** measures, NEEAP aims to reduce energy use by 14% by 2023.
- Efforts are also being made to increase domestic energy production, in particular **renewables**. However, **the increasing use of coal needs to be reconsidered**.
- Other challenges include the **low recycling rate** and **water shortages** which produce knock on effects in sector such as agriculture.

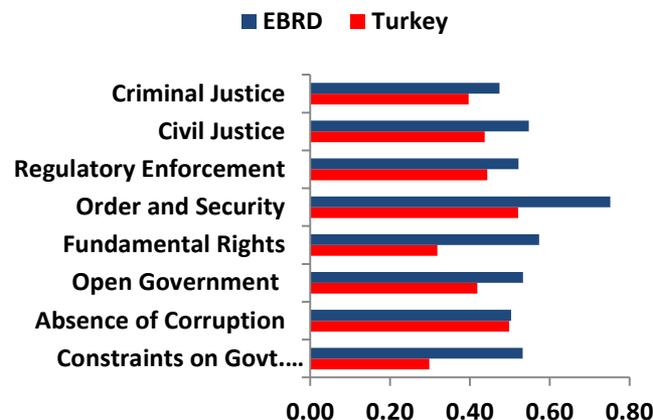
Share of electricity generation by source



Well-Governed (6.16)

- Turkey ranks 9th out of 38 EBRD CoOs in the Well-governed quality index, driven by the advanced state of corporate governance.
- Challenges are more significant in the sphere of political governance, and in **recent years the independence and reliability of public institutions has declined**. Notably, the rule of law is weaker than the average of EBRD CoOs.
- Corporate governance is relatively advanced, but **competition from the informal sector** is a major challenge, impeding the efficient allocation of resources.
- The fact that SMEs are mostly family businesses can give rise to **weak corporate governance**.

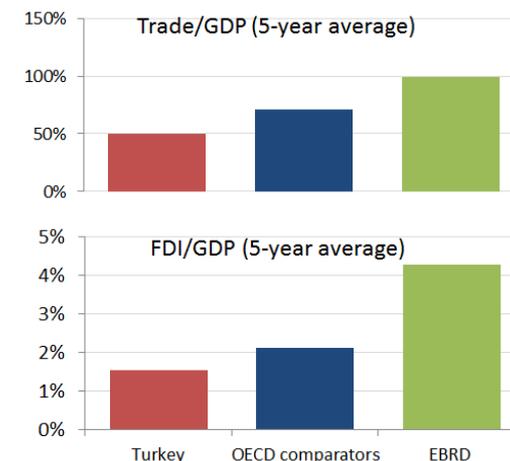
Rule of Law Index 2017-18 scores



Integrated (5.80)

- Turkey ranks 20th out of 38 EBRD CoOs in the Integrated quality index, with internal integration higher than external integration.
- Turkey's trade and FDI integration into global markets is low compared to middle-high income peers**. While this can in part be attributed to the large domestic market, it is also due to tariff uncertainty and the impact of political and financial instability.
- Domestic transport and logistics infrastructure is good** (except rail) as is cross-border integration. However, the **ICT infrastructure lags** EBRD and OECD levels, and **quality of electricity supply** is low.

External integration



3. Government Priorities and Stakeholder Engagement

3.1. Government Reform Priorities

The **overarching goal of Turkey's growth strategy**, as evidenced in the forthcoming 11th Development Plan (2019-2023), is to achieve high, stable, sustainable and inclusive economic growth via ensuring a competitive and business friendly economic environment and improving international competitiveness. These will be achieved through:

- Enhancing productivity in manufacturing,
- Improving physical infrastructure,
- Enhancing technology and innovation,
- Increasing labour participation of female and youth, and
- Improving domestic competition.

Following the lira depreciation and interest rate hikes of August 2018, the Government of Turkey unveiled a **New Economic Programme for 2019-2021**, with a view to re-balance the economy, increase fiscal discipline and implement a shift in the economic model toward increasing productivity and exports. Focused on addressing longstanding vulnerabilities of the Turkish economy, the plan involves:

- Transforming public finances through increasing savings and efficiency, including in the public sector ;
- Increasing the resilience of the banking sector with policy interventions following the completion of the bank-based and sector-based extended *stress tests* ;
- Reforming the tax system by broadening the tax base and addressing tax evasion ;
- Reducing the current account deficit through supporting high value added domestic manufacturing on a sector basis ;
- Achieving energy security and sustainability through increased reliance on domestic fossil fuels, energy efficiency, renewable and nuclear energy.

Turkey has also submitted its **Economic Reform Programme (ERP) for 2019-2021** in the context of EU's pre-accession fiscal surveillance, with a view to restore price and financial sector stability, ensure budget discipline and balance the economy towards more inclusive and sustainable growth.

3.2. EBRD Reform Areas Broadly Agreed with Authorities

- Support to **NPL resolution efforts and capital markets development** with focus on financial digitalisation (FinTech), diversification of instruments.
- Support to domestic private sector with emergency as well as long term financing to **encourage innovation and internationalisation**.
- Support to **PPP and commercial solutions in infrastructure**, with focus on liberalisation of gas and railway sector, greening and connectivity.
- Pursue policy engagement in **employment policy and vocational skills** to keep up with Industry 4.0 and increase labour market participation.
- Enhanced economic **inclusion for women, youth, refugees and underserved regions**, through tailored financing & advisory programmes.
- **Increased renewable energy and energy efficiency investments**, including support to NEEAP and NREAP, subject to an acceptable RE support mechanism.

3.3. Key Messages from Civil Society to EBRD

- Consulted CSOs broadly endorsed the Bank's envisaged priorities during the coming strategy period.
- CSOs noted observations of **shrinking civic space** in Turkey, in particular in the areas of freedom of speech and press freedom.
- **SMEs are very important** to the Turkish economy and are particularly vulnerable in the current economic climate.
- More support is needed for the **FinTech sector**, including women's employment in this area, and for start-ups, digitisation and innovation.
- Turkish companies seeking to **export or invest abroad** require dedicated support, including better infrastructure connectivity with Turkey's neighbours.
- EBRD should consider the cumulative environmental impact of investments in **geothermal energy and gold mining**.

4. Defining EBRD Turkey Country Strategy Priorities



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What needs to change ? (Section 2)	Can it be changed ? (Section 3)	What can the Bank do ? (Section 4)	Strategic Priorities (2019-2024)	What We Want to see in 2024
<ul style="list-style-type: none"> Underdeveloped local capital markets, with low market capitalisation and limited private equity. Banking and corporate sectors highly dependent on foreign capital, with limited alternative sources of financing (e.g. crowdfunding, leasing, factoring). Growing NPL concentration with limited AMC, burdening the banking sector and limiting credit growth. 	<ul style="list-style-type: none"> Deleveraging high FX debt load of banks and corporate sector already started Scope to address undersupply of alternative capital market solutions. Government encourages out-of-court restructuring. Scope to strengthen NPL resolution and encourage development of NPL secondary market. 	<ul style="list-style-type: none"> Strong track record in capital markets development, incl. thru investments. Experience in promoting non-bank financial institutions (NBFIs), equity/quasi-equity risk-taking (PE/VC), LCY bonds and capacity-building for capital market development. Expertise in designing and investing into NPL resolution solutions. 	<p><i>Strengthen Resilience of the Financial Sector and Develop Domestic Capital & Financial Markets</i></p>	<ul style="list-style-type: none"> Strengthened resilience of financial sector incl. maintaining capitalisation, sustainable funding structure and sound risk management practices of banking sector Deepened and diversified debt and domestic equity capital markets Increased digitalisation and efficiency in financial service provision
<ul style="list-style-type: none"> Insufficient corporate investment in innovation and weak integration in local and global value chains. Lack of business skills and low corporate operating standards. Absence of a comprehensive innovation ecosystem, suffering from lack of policy and institutional coordination. Limited access to finance for innovative entrepreneurs, esp. in scale-up phase. Entire sectors still state dominated / closed to private sector participation. 	<ul style="list-style-type: none"> Reforming the economy high on government agenda (New Economic Programme), although direction of travel (e.g. industrial policy of “picking winners”; local content preferences) has not delivered desirable results. Significant number of mid-sized family firms with innovation & growth potential. Innovation policy recognised as key. Liberalisation and privatisation of state dominated sectors. 	<ul style="list-style-type: none"> Tailored products to support corporates (local currency, structured & long term financing, advisory network) to expand markets and internationalise. Effective tools to improve business skills (WiB, ASB, Blue Ribbon, governance programmes) and growing experience in supporting innovation, through equity/quasi-equity risk-taking. Experience in spearheading PSP in newly liberalised sectors; track record advising on PPP/BOT solutions. 	<p><i>Foster Turkey's Knowledge Economy and Higher Value-Added Activities, and Promote Good Governance</i></p>	<ul style="list-style-type: none"> Higher value-added activities, through greater value chains integration and improved business standards of local companies Improved innovation ecosystem Increased level playing field in infrastructure to increase private sector participation
<ul style="list-style-type: none"> Limited access to finance for regional SMEs and women-led businesses. High level of informality (30% of GDP). Skills mismatch of young graduates, esp. for innovation, and low labour market participation of women/youth. Strong regional disparities, incl. in access to services for refugee-hosting regions, with activity concentrated around urban centres. 	<ul style="list-style-type: none"> Limited availability of long-term funding provided via commercial banks, esp. for local firms and regional SMEs to grow. Government priorities on VET policy, skills and women's empowerment reflected in 2023 Employment Strategy and other strategic initiatives. Government focus on transport, healthcare, utilities and municipal services, including through PPP/BOT 	<ul style="list-style-type: none"> Effective instruments to support under-served segments (ASB, WiB), incl. through increased lending. Well-tested model of linking private sector investment and TC grants to promote skills-enhancing (e.g. inclusive procurement) and workforce diversity programmes (e.g. Equal Opportunities). Ankara office, and sizeable investment and advisory portfolio outside Istanbul. 	<p><i>Promote Economic Inclusion and Gender Equality through Private Sector Engagement</i></p>	<ul style="list-style-type: none"> Enhanced access to entrepreneurship and skills for inclusion target groups, esp. youth and refugees. Increased gender equality in access to economic opportunities Increased access to services and economic opportunities for populations in less developed regions
<ul style="list-style-type: none"> High energy import dependency (75% of needs) and inefficient use of energy / resources with low share of renewables. Government supports coal sector (subsidies, roll out of coal-fired power plants). Increasing exposure to water and heat stress, and low capacity to manage physical climate risks. 	<ul style="list-style-type: none"> Government commitment to deliver on INDCs (Paris Agreement), with focus on RE and EE (Energy Strategy 2019, etc.). Significant scope for improving climate resilience (incl. cost-competitiveness of RE and EE savings potential). Impediments to private sector participation in energy sector, incl. local content preferences and post-2020 incentive scheme. 	<ul style="list-style-type: none"> Dedicated GET products such as RE, GEFF credit lines, Green Cities, sustainable transport, and advising clients on green technologies/ practices. Track record advising on and investing in bankable renewables projects. Track record of engagement with authorities towards competitive energy markets and PSP in energy sector. 	<p><i>Accelerate Turkey's Green Economy Transition and Regional Energy Connectivity</i></p>	<ul style="list-style-type: none"> Increased renewable energy capacity and a more diversified energy mix Increased energy and resource efficiency, climate resilience and environmental performance Improved energy resilience and tangible progress towards competitive energy market with increased private sector share

5. Activities and Results Framework



Priority 1: Strengthen Resilience of the Financial Sector and Develop Domestic Capital & Financial Markets

Key Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
Strengthened resilience of financial sector including maintaining capitalisation, sustainable funding structure and sound risk management practices of banking sector	<ul style="list-style-type: none"> • Help strengthen financial institutions' ability to lend to the real economy and households, as a response to the recent slowdown in bank lending. • Support development of an effective NPL resolution mechanism, incl. investment in NPL portfolios, servicers and servicing platforms, and support the creation of enabling tools, such as an effective insolvency mechanisms. • Support capacity-building of NPL professionals, including stakeholder workshops and relevant trainings, and facilitate transfer of good practices of international AMCs. • Support balance sheet restructuring and provision of liquidity to corporates and NBFIs to prevent slowdown in lending activities / NPL built-up. 	<ul style="list-style-type: none"> • Legal, institutional or regulatory framework improved for NPL resolution
Deepened and diversified domestic debt and equity capital markets	<ul style="list-style-type: none"> • Continue supporting improvements in the enabling environment for LCY products, incl. by investing in sound LCY financial products. • Support introduction of alternative sources of finance and new, scarcely used or more sophisticated fixed and floating rate instruments, such as Islamic instruments, debt funds, project bonds and securitization among others. • Continue support of equity market diversification of value-added equity propositions for equity/VC funds (incl. early-growth funds and infrastructure funds), direct VC investments as well as real estate investment trusts (REIT). • Support deepening of capital markets at all stages (incl. IPO, pre- and post-IPOs), through equity, quasi-equity and mezzanine investments. • Support global integration of Turkish capital markets. • Continue multi-stakeholder cooperation (incl. sharing of good practices) to further develop capital market infrastructure and deepen capital and money markets. 	<ul style="list-style-type: none"> • New financing instruments/products introduced and/or expanded • Volume of capital market transactions facilitated (e.g. bonds, equity) • Improvement of policy regulations (mutual recognition via European Securities and Markets Authorities)
Increased digitalisation and efficiency in financial service provision	<ul style="list-style-type: none"> • Support development of financial innovation, incl. innovative outcome-based finance structures (e.g. impact bonds) and FinTech (e.g. crowdfunding, e-payment platform). • Continue engagement with AMCs, factoring and leasing companies, and explore investments in other NBFIs (e.g. insurance, pension funds). 	<ul style="list-style-type: none"> • New financial instruments introduced or existing ones tailored to include facilitating faster adoption of digitisation and other efficiency enhancing measures



5. Activities and Results Framework



Priority 2: Foster Turkey’s Knowledge Economy and Higher Value-Added Activities, and Promote Good Governance

Key Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
Higher value-added activities, through greater value chain integration and improved business standards of local companies	<ul style="list-style-type: none"> Provide direct and/or indirect financing and advisory to corporates (including SMEs), with a focus on backward/forward linkages, export competitiveness, technology upgrades and skills transfers, and promote best-practice corporate governance and business standards (i.e. ISO certifications, climate governance standards). Support market leaders with demonstration power and growth champions. Finance inbound and outbound FDI to support internationalisation of Turkish companies and support Turkish exports globally, thereby raising standards. Policy engagement on rationalisation of incentive structures in the agricultural sector, leading to investment opportunities. Scale up Trade Finance Programme (incl. factoring companies). 	<ul style="list-style-type: none"> Number of clients introducing improved standards as targeted Number/volume of SME sub-loans provided by PFIs
Improved innovation ecosystem	<ul style="list-style-type: none"> Support corporates in adopting innovative practices and technologies through direct financing or advisory for “Industry 4.0” investments, supporting market champions and “Blue Ribbon” high-potential SMEs, incl. under the RSF. Explore participation in equity/VC funds and direct investments to support early-stage companies, ICT services, and supporting technology start-ups through business accelerators. Leverage industry-academia partnerships by supporting the commercialisation of R&D. Policy engagement to introduce non-distortive support measures for high-value added products and technologies. Support practices and business models that promote circular economy through business partnerships and dedicated programmes e.g. materials market place (MMP). 	<ul style="list-style-type: none"> Total size of equity funds supported Number of clients introducing innovative/new technology Legal/inst./reg. improvements for innovation, high value-added investments
Increased level playing field in infrastructure to increase private sector participation	<ul style="list-style-type: none"> Promote PSP in core infra sectors and MEI services, incl. liberalisation of railway sector, select railway investments in public entities, upgrading of rail infrastructure & passenger/freight transport. Support development of intermodal transportation (e.g. maritime transport) and corporate logistics systems, including service infrastructure. Support liberalisation of the gas market and third party access (incl. tariff mechanism for underground storage and transmission). Promote improved quality, and operational and financial efficiency of municipal services through commercialisation and corporatisation. Continue supporting privatisations, and finance upgrading of relevant infrastructure and services – incl. PSP in infrastructure and logistics both by direct financing or innovative private-led financing solutions (PPPs, BOTs, TORs). 	<ul style="list-style-type: none"> Transport tracking PPPs/BOTs, TORs/ concessions implemented Increase direct private financing



5. Activities and Results Framework

Priority 3: Promote Economic Inclusion and Gender Equality Through Private Sector Engagement

Key Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
<p>Enhanced access to entrepreneurship and skills for inclusion target groups, especially youth and refugees</p>	<ul style="list-style-type: none"> • Develop skill-enhancing solutions together with clients, such as on-the-job learning and VET schemes, and roll-out Youth Employment Programme, in areas such as agribusiness and tourism amongst others. • Support private sector-led review of skills curricula and national skills standards (certificates) to adapt to an Industry 4.0 world. • Explore alternative conduits / distribution channels to reach out to inclusion target groups, in particular youth and refugees. 	<ul style="list-style-type: none"> • Number of tailored training programmes developed and implemented • Number of inclusion target groups (youth, women, and others) receiving new / improved skills as a result of training
<p>Increased gender equality in access to economic opportunities</p>	<ul style="list-style-type: none"> • Continue supporting women-led businesses through access to finance, via dedicated credit lines to PFIs and NBFIs (e.g. factoring and leasing) as well as advisory services. • Continue supporting women's labour force participation through equal opportunities, supply chains' and women on boards' initiatives. • Improve women's access to transport and other areas of infrastructure through safe infrastructure components in investments. • Establish public-private policy platform to support the Government in assessing good regulatory practices to enhance provision of care services (elderly and child care). 	<ul style="list-style-type: none"> • Number of women-led businesses accessing finance and/or advisory services • Policy and investment initiatives (gender components) to support female labour force participation
<p>Increased access to services and economic opportunities for populations in less developed regions</p>	<ul style="list-style-type: none"> • Continue providing direct and indirect financing as well as business advisory for regional businesses, including in refugee host regions, with strong demonstration effects. • Promote inclusive economic development in the regions by supporting private firms, with a focus on agribusiness, industry, infrastructure and municipal projects. • Support further development of infrastructure (incl. social infrastructure) and access to private and public services to create economic opportunities in remote regions, especially refugee-hosting regions. • Promote youth and regional inclusion through inclusive procurement practices, offering on-site training opportunities to trainees, with a focus on industry, infrastructure and municipal projects. 	<ul style="list-style-type: none"> • Number of people benefitting from improved / increased access to infrastructure (incl. social infrastructure) in less developed regions • Number/volume of regional SME sub-loans provided by PFIs



5. Activities and Results Framework

Priority 4: Accelerate Turkey’s Green Economy Transition and Regional Energy Connectivity

Key Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
Increased renewable energy capacity and a more diversified energy mix to promote decarbonisation of the economy	<ul style="list-style-type: none"> • Provide direct and intermediated financing for renewable energy projects (wind, solar, hydro, geothermal, biomass and distributed generation). • Support implementation of the National Renewable Energy Action Plan (NREAP) and provide implementation support for the RE regulatory framework. • Explore investments in alternative fuel sources (e.g. biofuel) and other green technology investments, and promote improvements to the regulatory environment. • Support development of a carbon trading system and related monitoring, reporting and verification (MRV) and GHG accounting. 	<ul style="list-style-type: none"> • Total renewable electricity installed (MW) • GHG emissions reduced (tCO₂eq/y)
Increased energy and resource efficiency, climate resilience and environmental performance	<ul style="list-style-type: none"> • Support implementation of the National Energy Efficiency Action Plan (NEEAP) and provide support for the regulatory framework on resource efficiency. • Work with corporate clients directly and through intermediaries to improve energy and resource efficiency, climate resilience (incl. water and raw materials) and environmental performance through green investments (e.g. green technologies, High Impact Corporate Programme, Near Zero Waste Programme). • Provide direct and indirect financing for energy efficiency, with a focus on industry, agriculture, transport and buildings sector – incl. promotion of green buildings, smart/green technologies and emissions-reduction initiatives under the Green Cities Framework. • Promote uptake of sustainable finance management (i.e. accounting, tracking, eligibility and conditions) and dedicated financial instruments (e.g. green bonds). • Support circular economy and development of waste sector, incl. solid waste, wastewater treatment, waste recovery, and waste-to-energy solutions. • Review climate vulnerability of infrastructure and other assets, incl. at corporate level, and promote climate change mitigating measures (e.g. applying shadow water pricing in investment analysis). 	<ul style="list-style-type: none"> • Energy saved (GJ/y) • Materials {reduced/recycled} (tonnes/y)
Improved energy resilience and tangible progress towards competitive energy market with increased private sector share	<ul style="list-style-type: none"> • Support enhanced energy storage capacity (e.g. electrification, batteries, pumped hydro, FSRU, underground gas storage). • Support network upgrade for the integration of renewable energy, enhancement of smart metering / smart grid systems, implementation of energy efficiency applications and regional interconnection. • Support investments in gas transmission and distribution networks and infrastructure connectivity, and engage selectively with public sector utilities to pursue reforms towards competitive energy markets. 	<ul style="list-style-type: none"> • Target infrastructure network extended / replaced as measured by increase in network capacity and/or efficiency



6. Mapping of International Partners Complementarity in EBRD Business Areas

		EBRD BUSINESS AREAS																				
		Sectors														Cross-Cutting Themes						
		Corporate				Energy		Infrastructure				Financial Institutions				Green Transition			Inclusion			
Indicative average investments/ Grants (€m) (2015-2018)		Agribusiness	General Industry	Property & Tourism	ICT	Natural Resources	Electric Power	Water & Wastewater	Urban Transport	Roads & Railways	Other Infrastructure	Banking	Insurance & financial services	MSME Finance	Private Equity	Capital Markets	Water Efficiency	Materials Efficiency	Sustainable Energy	Gender	Youth & Refugees	Regions
EU	2,058	€	€	€	€	€	€										€	€	€	€	€	€
EIB	1,355		€			€			€			€		€					€			
WB	1,178					€	€	€	€			€		€		€	€	€			€	
IFC	752		€			€	€				€	€		€					€			
AIIB	174					€			€	€												
IsDB	1,103		€			€			€		€		€					€				
JICA	89						€	€	€	€	€											€
KfW	600					€	€				€		€				€	€	€	€	€	
AFD	50												€				€	€	€	€	€	
EBRD	1,593	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	

€ Area of significant investments P Area of significant policy dialogue ● Focus mostly on private sector ○ Focus mostly on public sector

Areas for future cooperation



Resilient

- Accelerate NPL resolution efforts together with EIB, IFC, IMF and WB.
- Work with IsDB on Islamic finance compliant instruments (e.g. sukuk) and Islamic finance.



Inclusive

- Promote VET policy and skills-enhancing solutions with UNDP.
- Advance gender equality (e.g. women on boards) with ILO and relevant donors.
- Work with AFD, EIB and WB to scale up refugee-responsive programmes under the EU initiative FRIT 2, including in MEI sector.



Green

- Support private investment in RE/EE with WB under the EU IPA.

7. Implementation Risks

Risks to the Strategy Implementation	Probability	Effect	Risk Management to Safeguard Strategy Implementation
<ul style="list-style-type: none"> ▪ Lack of an external anchor (i.e. EU pre-accession talks) could increase uncertainty on the direction of economic policy. 	●	●	<p>The Bank will manage the risks of its investments in Turkey in line with sound banking and considerations of risk concentrations, by applying the following principles:</p>
<ul style="list-style-type: none"> ▪ Economic and financial volatility (e.g. lira depreciation and interest rate hikes) could result in increased vulnerability of banks and domestic firms as well as limited investor appetite. 	●	●	<ul style="list-style-type: none"> ▪ The Bank will target clients with resilience characteristics.
<ul style="list-style-type: none"> ▪ Continuation of local content preferences (considered a <i>de facto</i> barrier) and uncertainty around post-2020 RE support scheme could limit Bank's engagement in renewable energy. 	●	●	<ul style="list-style-type: none"> ▪ Minimising the potential losses through deal specific protections such as structured products and/or valuable collateral.
<ul style="list-style-type: none"> ▪ Insufficient progress in key reforms, incl. liberalisation of gas and railway sectors, could undermine investor confidence and limit business opportunities. 	●	●	<ul style="list-style-type: none"> • Avoiding excessive concentrations in subsectors /similar industries by building a diversified portfolio.
<ul style="list-style-type: none"> ▪ Political and security developments may limit grant availability from key donors (e.g. European Union) and pose a risk on investment. 	●	●	<ul style="list-style-type: none"> • Managing the Bank's risk capacity through: <ul style="list-style-type: none"> ▪ Mobilisation of commercial investors as parallel financiers or syndicate lenders subject to market appetite.
<ul style="list-style-type: none"> ▪ Geopolitical dynamics, incl. impacts from the Syrian conflict, could negatively affect certain sectors and local economy in some regions. 	●	●	<ul style="list-style-type: none"> ▪ Seeking co-financing with other IFIs/DFIs to the extent possible.
<ul style="list-style-type: none"> ▪ Availability of LCY funding given uneven progress in LCY capital market development (incl. creation of new money market index). 	●	●	<ul style="list-style-type: none"> ▪ Balancing the tenor of our investments to provide reflows to boost available capacity for new investments.

8. Environmental and Social Implications



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- **Assessment and Management of E&S Impacts, Stakeholder Engagement:** EBRD will ensure that direct, indirect, cumulative and transboundary E&S impacts of projects and their vulnerability to climate change are appropriately assessed and mitigated, and that meaningful stakeholder engagement is carried out. This becomes particularly critical for some infrastructure projects including renewable energy projects with EIA exemptions where risk of judicial actions against projects is raised. In addition, this legislative gap together with potentially poor implementation practices of companies may increase the risk for social unrest, security and human right violations in projects.
- **Labour and Working Conditions:** EBRD will ensure clients' HR policies and labour practices comply with EBRD requirements. Particular attention will be given to barriers on freedom of association and collective bargaining; child labour risks; working conditions; risks for migrant workers including Syrian refugees and other seasonal workers; potential discrimination towards minority groups and women at workplaces; and collective redundancies that become more likely with the macroeconomic instability and volatility in the Turkish economy. TC funding will be required to support clients in managing these key labour risks and ensuring compliance with EBRD PR2 requirements.
- **Resource Efficiency and Pollution Prevention and Control:** EBRD will structure projects to comply with EU environmental standards in line with EBRD PR3. The Bank will support the development and implementation of projects with GET elements in support of a shift to a less energy intensive economy and lower levels of air pollution. The Bank will also continue to support municipal infrastructure projects aimed at mitigating the E&S impacts resulting from increasing population in cities.
- **Health and Safety:** EBRD will aim to improve occupational and community Health & Safety with specific focus on activities which are associated with common accidents reported to the Bank. Construction activities and contractor management will also be a key focus. Additional emphasis will be made towards road safety looking at safer roads, occupational road risk, raising awareness of communities who are most at risk and national capacity. TC funds may be required.
- **Land Acquisition, Physical & Economic Resettlement:** Power & Energy, natural resources and infra-structure projects may require acquisition of land and properties. Private property rights are well protected under national legislations however there are still challenges faced during the land acquisition process. Clients will need to ensure compensation and livelihood restoration are provided in line with EBRD PR5 requirements. Special attention will be given to vulnerable populations, including ethnic minorities and refugees that may be disproportionately affected by the projects and to ensure that stakeholder engagement activities include any marginalised groups.
- **Biodiversity Conservation and Sustainable Management of Living Natural Resources:** Energy, infrastructure and agricultural projects may have impacts through encroaching or fragmenting sensitive habitats, protected areas and other valuable habitats and biodiversity, as well as contribute to land degradation and deforestation. The Bank will ensure robust biodiversity assessments of projects to minimise impacts, especially on main rivers and near Important Bird Areas and migration routes.
- **Cultural Heritage:** The Bank will ensure appropriate assessment processes to identify and consult with key stakeholders to protect cultural heritage, and implement chance finds procedures for all projects involving construction activities.
- **Monitoring and supervision:** Work with clients to monitor E&S performance and address legacy issues associated with the Bank's portfolio.
- **Institutional Strengthening and Capacity Building:** Through TCs, EBRD will seek opportunities to build capacity, develop new environmental and social initiatives and promote best practice to consider and manage environmental and social risks, impacts and opportunities and to address the environmental and social challenges described above.

9. Donor Co-Financing Assessment



8.1. Grant Needs Assessment for the New Country Strategy Period

Grant funding will be required to achieve the strategic objectives of the Country Strategy, including support for:

- Promoting competitiveness and innovation in the corporate sector, through advisory services, risk mitigation and value chains integration, as well as financing of innovative companies, and improving corporate governance and business standards ;
- Supporting infrastructure liberalisation efforts, incl. private sector participation and corporatisation of public utilities, through IPPF ;
- Enhancing the economic inclusion of women, youth and refugees, including grants channelled through PFIs and for refugee initiatives ;
- Developing innovative financial products and funding policy dialogue to promote innovation and further capital market development ;
- Transitioning to a green economy, including support for energy efficiency improvements and building climate resilience.

Selected Affordability Indicators

	EBRD regional percentile rank ¹	
GDP per capita (US\$, PPP) ²	26,893	72 nd CoOs
ODA Country	YES	N/A
ODA as share of GNI (%) ³	0.37	20 th
ODA per capita (US\$) ³	38.91	32 nd

Sources: ² IMF (2017), ³ OECD (2017)

1. Simple percentile rank reported as the share of EBRD countries (ODA CoOs in the case of ODA indicators) that are represented below Turkey.
4. The 2015 TC data is based on commitments as at the end of March 2016 (the latest available date before data migration to a new Donor Funds System).
2016-2018 TC data is based on earmarks at the project level. Co-investment grants and concessional loan amounts are based on client signings.

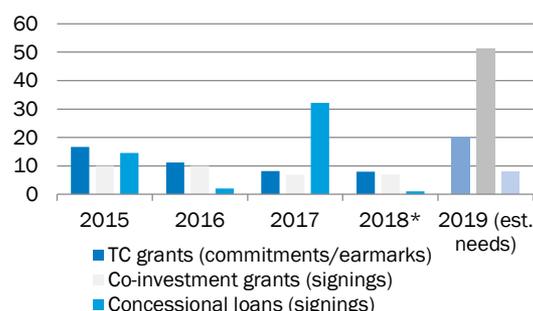
5. Estimated grant funding needs are based on the operational needs reported by banking teams for projects to be started in 2019.

Estimated funding needs generally exceed actual grant use as some needs may not materialise, may be delayed, or may be split into several years of fundraising efforts due to operational needs and realities.

8.2. Potential Sources of Grant Funds

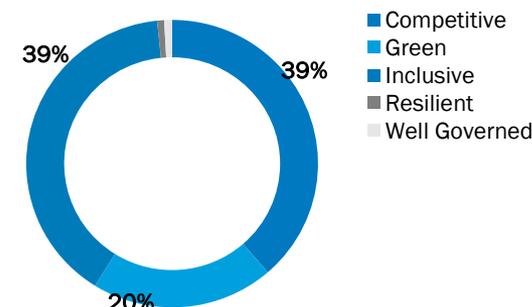
- **Turkey** is an important bilateral donor in its own right. In 2018 the country signed an agreement to provide **€25m** for both TC and non-TC, including for projects targeting SMEs and economic inclusion for use in Turkey and in some other countries.
- Support from other **bilateral donors** will continue to be explored.
- EBRD will look for opportunities to continue working with the EU in the context of the Instrument for Pre-accession Assistance, in particular in the areas of SME support, the green economy, and Municipal and Environmental Infrastructure.
- Funding from the **Climate Investment Funds** and the **Global Environment Facility** can be drawn on to support projects under the Green Economy Transition Initiative
- Grant funding can be allocated under the “Other ODA” window of the **EBRD Shareholder Special Fund**.

2015-18 donor finance and 2019 needs (€m)^{4,5}



* 2018 data is tentative

Grant Funding Needs





Annexes



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Turkey's commitment to, and application of, political principles as set out in Article 1 of the Agreement Establishing the Bank have, over the previous Country Strategy period, been under strain due to internal and external challenges, prompting relevant international organisations to express concerns.

The attempted coup of July 2016, which left 251 dead and thousands wounded behind, was a hugely traumatising event for the country, which is still struggling to come to terms with the aftermath. The state of emergency, declared after the coup attempt, was lifted in July 2018.

Constitutional changes, approved in the referendum of April 2017, introduced an executive presidential system, abolished the office of the prime minister and transferred all executive authority to the president. The new system entered into force after parliamentary and presidential elections that took place in June 2018. The elections resulted in the victory of President Erdogan and in a more diverse parliament.

Actions against suspected Gulenist coup plotters, designated by the Turkish Government as Fetullahist Terrorist Organisation - FETO, as well as the concentration of powers in the new system led to concerns being raised by relevant international organisations with respect to the rule of law and fundamental freedoms in the country. Steering politics in a more inclusive direction will be one of the main challenges in the period to come. Ensuring that the independence of institutions relevant for economic governance and successful policy making is preserved will be equally important.

The continued civil war in Syria and wider instability in the region have aggravated the security situation in the country. Turkey suffered a number of terrorist attacks by DAESH and PKK, which claimed many lives, in particular during 2015-2016. After the government took enhanced security measures, the capacity of DAESH and PKK to carry out terrorist attacks has been dramatically reduced.

A massive influx of refugees has put a heavy burden on the country. Turkey continues hosting the largest refugee population in the world with more than four million persons in need of international protection, including 3.6 million Syrians under temporary protection.

The EU-Turkey Statement of March 2016 was a significant contribution to managing the migration crisis and continues to play a crucial role in stemming flows from the region.

Domestic political and security issues as well as instability in neighbouring regions will continue to shape Turkey's relations with other international actors, including its traditional EU and NATO partners. This may lead to more turbulence and can possibly impact on the country's economic situation. With no new chapters opened since June 2016, and only one chapter provisionally closed, Turkey's EU accession negotiations are effectively at a standstill, weakening the external impetus to reform. This may change if work on the modernisation of the EU-Turkey Customs Union were to resume.

Free Elections and Representative Government

Free, fair and competitive elections

The legal framework provides Turkish citizens with the right to free and competitive elections based on universal suffrage. The constitution was amended in a referendum in April 2017, introducing a presidential instead of the previous parliamentary system. In March and April 2018, two sets of election related "harmonisation laws", aimed at implementing the 2017 constitutional reform, were passed. In a joint opinion with the Venice Commission of the Council of Europe (CoE), the Office for Democratic Institutions and Human Rights (ODIHR) considered the amendments passed only a few weeks before elections as "problematic" and made several recommendations aimed at improving compliance of Turkey's legislation with international human rights standards and OSCE commitments.¹

Presidential and parliamentary elections that marked the last step in the transition to the presidential system were held in June 2018, more than a year earlier than scheduled. They took place under the state of emergency. Under the new system, presidential and parliamentary elections take place on the same day; the president is directly elected for a five-year term and may serve for up to two terms, with the possibility of



a third term if an early presidential election is called by parliament during the second term. The members of the 600-seat unicameral parliament (Grand National Assembly) are elected for a five-year term through a proportional system in 87 multi-member constituencies. To be eligible for seat distribution, coalitions and parties running separately must pass a national threshold of 10%, the highest among OSCE states.

Two alliances competed – the People’s Alliance, composed of the ruling Justice and Development Party (AK Party) and Nationalist Movement Party (MHP), and, on the opposite side, instead of a usually fragmented opposition, an alliance including the main opposition Republican People’s Party (CHP), Good (İyi) Party, Felicity Party and the Democrat Party – the Nation’s Alliance. The People’s Democratic Party (HDP) did not join any alliance, with its presidential candidate, Selahattin Demirtaş, running from prison. Recep Tayyip Erdoğan won the presidency in the first round, with 52.5% of the vote, while his AK Party, with 42.4%, relied on its alliance partner MHP to secure a parliamentary majority. With more parties represented, the parliament is more diverse than before.

ODIHR maintained that “the elections offered voters a genuine choice” and praised citizens for having demonstrated their commitment to democracy by participating in large numbers. It also noted, however, and similarly to their report on the conduct of the constitutional referendum in 2017², a “lack of conditions for contestants to compete on an equal basis, with the incumbent president and his party enjoying a notable advantage in the campaign” and that a “restrictive legal framework and powers granted under the state of emergency limited fundamental freedoms of assembly and expression essential to a genuine democratic process”.³ While the Turkish Ministry of Foreign Affairs welcomed the Mission’s acknowledgement of the high election turnout as an “indication of democratic maturity”, it maintained that the observation mission confirmed that the elements highlighted in the report did not have an effect on the efficiency and legitimacy of the election process.⁴

2. Republic of Turkey Constitutional Referendum 16 April 2017 OSCE/ODIHR Limited Referendum Observation Mission Final Report, 22 June 2017, page 1.
3. Republic of Turkey Early Presidential and Parliamentary Elections, ODIHR Election Observation Mission Final Report, 21 September 2018, page 1.
4. <http://www.hurriyetdailynews.com/osce-should-avoid-biased-analysis-of-turkeys-election-foreign-ministry-says-133825>

Local elections took place on 31 March. Ruling AK Party won the majority of votes but lost the capital Ankara, as well as several big cities, to the opposition. In Istanbul, where the CHP candidate was ahead with a margin of around 13.000 votes, the Supreme Election Board cancelled the election and ordered a re-run on grounds of procedural irregularities. The repeated election took place on 23 June and was won by the CHP candidate Ekrem Imamoglu with a margin of 9%. AK Party candidate Binali Yildirim congratulated the new mayor as soon as the result became clear.

The Congress of Local and Regional Authorities of the Council of Europe observed the March elections. It was impressed by the great interest in these elections shown by the citizens (turnout rate was 84%) and commended Turkey’s sound election administration and technical skills for implementing the law, but expressed doubts that it currently has the electoral environment which is necessary for “genuinely democratic elections in line with European values and principles”.⁵ Turkish authorities dismissed these doubts as “groundless”, attributing them to “regrettably misunderstood political issues which should remain out of the mandate of the Observation Mission”⁶. With the challenges that followed those elections, particularly in Istanbul, the Congress decided it would continue its observation. It assessed that the new Istanbul mayor was elected in a “well organised and transparent vote, albeit in tense circumstances”⁷. The Congress declared its intention to further examine the constitutionality of the cancellation of the Istanbul 31 March election as well as incidents of appointment of second placed candidates as mayors in various locations in the south east of the country, expressing at the same time a belief that it is time to turn a new page.

5. Statement by Andrew Dawson, Head of the delegation of the Congress of Local and Regional Authorities of the CoE: <https://rm.coe.int/congress-observation-mission-of-the-local-elections-in-turkey-31-march/168093bc1a>
6. Statement of the Spokesperson of the MFA of the Republic of Turkey: http://www.mfa.gov.tr/sc_21_ybyk-secim-gozlem-misyonu-hk-sc.en.mfa
7. Statement by Andrew Dawson, Head of the delegation of the Congress of Local and Regional Authorities of the CoE: <https://rm.coe.int/statement-andrew-dawson-united-kingdom-head-of-the-delegation-of-the-c/168095183b>



Separation of powers and checks and balances

Under the new system, the office of Prime Minister is abolished, and vice-presidents and ministers appointed directly by the president, who also has the power to appoint and dismiss senior government officials, set national security policies, declare a state of emergency, issue presidential decrees on executive matters, draw up the government budget, veto laws and dissolve parliament by calling for new parliamentary and presidential elections. Parliament's traditional instruments for scrutiny of the executive, such as a vote of confidence and the possibility of oral questions to the executive, are no longer available. The parliament can ask written questions and launch a parliamentary investigation, if supported by a three-fifth majority, into alleged criminal actions by the president, vice-presidents and ministers related to their functions. Military courts are abolished, and the president and parliament empowered to appoint members of the Council of Judges and Prosecutors.

Noting that each sovereign state has the right to decide for itself on the form of its government and state, in its March 2017 opinion, the CoE's Venice Commission assessed the constitutional amendments as lacking sufficient checks and balances as well as endangering the separation of powers between the executive and the judiciary. While welcoming the abolition of the military courts and the provision that Presidential emergency decrees automatically lose validity if they are not approved by the parliament, the Commission concluded that the constitutional amendments represented a "dangerous step backwards" in the constitutional democratic tradition of Turkey and stressed the dangers of "degeneration of the proposed system towards an authoritarian regime".⁸ Turkey was urged to introduce checks and balances as well as to seek the broadest possible consensus on the implementation of the constitutional amendments. In its information note sent to the Venice Commission, the Turkish Ministry of Justice reminded that the Turkish democracy had suffered from several military coups, coup attempts and economic and political crises, with the 1982 constitution encompassing a systemic conflict and presidential elections often leading to crises. The new system ought to be seen against such a background, as it aims at preventing potential political crises, in particular by overcoming the problem of dual authority, in place after the 2007 amendments of the constitution introduced

direct elections for the president.⁹ The government also considers that, in the new system, separation of powers is preserved, independence of the judiciary guaranteed, laws prevail over presidential decrees and overall accountability of the President is increased.

Effective power to govern of elected officials

Elected officials generally have effective power to govern, notwithstanding the sole ability of the president in the new system to appoint and dismiss all high officials. The government's activities continue to be marked by efforts to dismantle the Gulenist movement, considered to have infiltrated the administration over the previous three decades, and tackling its influence and infiltration of state structures and society. Particularly in the east and south east of the country, mayors being investigated and prosecuted on grounds of alleged membership of or aiding and abetting a terrorist organisation were replaced by trustees (state administrators). Notwithstanding the severity of security challenges faced by the government, this led relevant international bodies to express concerns with regard to the weakening of local democracy.¹⁰ The government overhauled the legal framework governing civil-military relations in the aftermath of the attempted coup of July 2016 and significantly increased the powers of the executive over the military, thereby strengthening civilian oversight.

⁸ *Turkey - Opinion on the amendments to the Constitution adopted by the Grand National Assembly on 21 January 2017 and to be submitted to a National Referendum on 16 April 2016, adopted by the Venice Commission at its 110th Plenary Session (10-11 March 2017), pages 29-30.*

⁹ *Memorandum prepared by Turkish authorities for the visit of the rapporteurs to Ankara (CDL-REF(2017)015), pages 5-7.*

¹⁰ *Council of Europe Congress of Local and Regional Authorities, Resolution 416 (2017). Recommendation 397 (2017); Explanatory memorandum., pages 1-6.*



Civil Society, Media and Participation

Scale and independence of civil society

There are more than 100.000 active civil society organisations in Turkey, dedicated to making contributions on key challenges facing the country. According to Turkish government sources, the number of members of associations increased by 110% between the years 2004-2017. Their areas of work are mostly concentrated in social solidarity, social services, education, health and various rights-based issues. The EC in its Progress Report for 2018 noted that the legal, financial and administrative environment needed to be more conducive to developing civil society, as there is no transparent mechanism for public funding and no appropriate fiscal incentives.¹¹

In September 2018, a presidential decree was passed establishing a Directorate General for Relations with Civil Society under the Ministry of Interior, with the aim of improving the civil society environment. The Civil Society Advisory Board, including representatives of the university, public institutions and NGO's, was also established in order to identify, develop policies and to strengthen coordination and cooperation between NGO's and public organizations. The Board will be chaired by the Minister of Interior.

The period after the coup attempt saw increased pressure on civil society organisations, in particular following the high number of detentions and arrests of civil society activists and human rights defenders and the closure of a number of associations on the basis of emergency decrees¹² (some were allowed to reopen following a re-examination of their case). The government considers its approach was compliant with the rule of law and international obligations, respectful of rights and freedoms of Turkish citizens and protective of vibrant and pluralistic nature of civil society in the country.

11. European Commission, Turkey 2018 Report, 2018 Communication on EU Enlargement Policy, pages 15-16.

12. European Commission, Turkey 2018 Report, 2018 Communication on EU Enlargement Policy, page 4.

The arrest and continued detention of Osman Kavala, a businessman and a prominent civil society activist, has been seen by the CoE Commissioner for Human Rights as an illustration of the increasing pressure on civil society and human rights defenders in Turkey in recent years.¹³ This concern is shared by other relevant international organisations as well.¹⁴ Kavala was detained in November 2017 on serious charges of violating the constitutional order and attempting to overthrow the government. Indictment against him was adopted by İstanbul 30th Serious Criminal Court in March 2019 and judicial proceedings are in progress.

Independent pluralistic media that operate without censorship

The Constitution of Turkey provides that the press is free and shall not be censored. In practice, however, provisions in the Criminal Code, Criminal Procedure Code, anti-terrorism laws and, more recently, decrees issued under the state of emergency are insufficiently aligned with European standards to ensure full implementation of the constitutional guarantee.¹⁵

Turkey has a long established and diverse press and media, with hundreds of private TV and radio stations competing with the state broadcaster TRT, while the print media are privately owned. Television is by far the most influential news medium; both press and broadcasting outlets are operated by powerful business operators. Private media ownership is concentrated in the hands of a few large holding companies.

13. Third party intervention by the CoE Commissioner for Human Rights, Council of Europe, Commissioner for Human Rights, CommDH(2018)30, December 2018, pages 2-3.

14. Memorandum on the human rights implications of anti-terrorism operations in South-Eastern Turkey, CoE Commissioner for Human Rights, CommDH(2016)39, 2016; Memorandum on the human rights implications of the measures taken under the state of emergency in Turkey, CoE Commissioner for Human Rights, CommDH(2016)35; UN OHCHR. Report on the impact of the state of emergency on human rights in Turkey, including an update on the South-East January - December 2017. Published on 18 March.

15. European Commission, Turkey 2018 Report, 2018 Communication on EU Enlargement Policy, page 34.



The government issued emergency decrees that led to the closure of TV channels and radio stations over alleged links to terrorist organisations, leading the OSCE Representative of the Freedom of the Media to express repeated concerns. Some media outlets were reinstated through decrees and the decisions of the Inquiry Commission on the State of Emergency Measures. The high number of arrests of journalists, some of whom were released and/or acquitted, and closure of media outlets in the aftermath of the attempted coup are a matter of serious concern for relevant international bodies and has contributed, in the opinion of the Commissioner for Human Rights of the CoE, to a climate of self-censorship for journalists carrying out research and comment on the conduct and actions of state bodies.¹⁶ Turkish authorities maintained the activities of many of these outlets were ceased due to their links with terrorism and terrorist organizations, while certain individuals who have been working as journalists or media workers are currently charged with serious crimes - such as being a member of, or supporting an illegal or armed terrorist organisation.¹⁷

Multiple channels of civic and political participation

While high voter turnout confirms citizens' participation in the political process, broader public engagement in the decision-making process is also important for holding the government accountable and maintaining confidence in public institutions. Citizens' right to access public information is regulated by the law on the right to information, which does not require proactive disclosure of information and provides for exemptions on grounds of protecting state secrets, commercial secrets and personal data. A simplified online access system received about 1.5 million applications for access to information in 2017. The percentage of requests refused remained small (approximately 8 % in 2017).

The formal process for public engagement in developing laws and regulations should be improved, as draft policies and laws are not subject to public consultation, despite legal requirements.¹⁸ The Civil Society Consultation Council was envisaged as a new mechanism for participation that should help to improve the situation.

16. *Third party intervention by the CoE Commissioner for Human Rights, Council of Europe, Commissioner for Human Rights, CommDH(2017)29, page 4.*

17. *Observations by Turkey on the Memorandum of Commissioner Muiznieks on freedom of expression and media:* <https://rm.coe.int/observations-by-the-turkish-authorities-on-the-memorandum-on-freedom-o/16808b72d2>

18. *European Commission, Turkey 2018 Report, 2018 Communication on EU Enlargement Policy, pages 10 and 21.*

Freedom to form political parties and existence of organised opposition

The Constitution ensures the right to establish political parties, and political parties and candidates can freely declare their candidacy and run for election. Turkey has a competitive multiparty system, with five parties currently represented in parliament. However, the rise of new parties is discouraged by the 10 percent vote threshold for parliamentary representation. Regarding transparency of party funding, considerable progress is yet to be made regarding all other Group of States against Corruption (GRECO) recommendations in this field.

Following the one-off lifting of parliamentary immunity in May 2016, which the Venice Commission of the CoE deemed as contradicting the principle of proportionality¹⁹, a series of detentions of and/or arrests of MPs, mainly from the HDP began on grounds of alleged membership of or disseminating propaganda in favour of a terrorist organisation.

The European Court of Human Rights (ECtHR) ruled in November 2018 in the case concerning the arrest and pre-trial detention of Selahattin Demirtaş, who at the time of the events was one of the co-chairs of the HDP. The Court accepted that Demirtaş had been arrested and detained on “reasonable suspicion” of having committed a criminal offence. However, it found Turkey in breach of Article 18 of the European Convention on Human Rights (ECHR), thus putting the extensions of his detention, especially during two crucial campaigns, namely the referendum and the presidential election, in the context of a threat to the democratic system.²⁰ The ECtHR verdict called for ending Demirtaş’ pre-trial detention by releasing him. He however continues to be in prison as a Turkish court convicted him for a separate offense, upholding the sentence previously delivered. On 18 March 2019, the panel of five judges of the Grand Chamber decided to accept requests by the Turkish Government that the Demirtaş case be referred to the Grand Chamber.

19. *Venice Commission Opinion on the Suspension of the Second Paragraph of Article 83 of the Constitution (Parliamentary Inviolability), adopted at 108th Plenary Session, 14-15 October 2016.*

20. *ECHR, Case of Selahattin Demirtaş v. Turkey (No. 2), Judgement, Strasbourg, 20 November 2018.*



Rule of Law and Access to Justice

Supremacy of the law

The Constitution, which is the supreme law of the country, defines Turkey as a state governed by the rule of law, guaranteeing all Turkish citizens the right to a fair trial. Turkey has, however, been repeatedly criticised by the ECtHR for violating the right to a fair trial, notably due to its failure to ensure that trials take place within a reasonable timeframe. Emergency decrees imposed additional restrictions to procedural rights including to the rights of defence.²¹ In January 2017, some improvements were made to the measures taken under the state of emergency, primarily with regard to reducing the maximum length of police detention and limiting a period without access to a lawyer to 24 hours.

The Ministry of Justice pledged to increase the number of judges and prosecutors in accordance with standards accepted by the European Commission for the Efficiency of Justice. The new Judicial Reform Strategy was announced on 30 May 2019, and the Justice Academy was established with its new structure.

The number of regional courts of appeals increased from 9 to 11 to provide better access to justice, and a preliminary evaluation stage is introduced before investigation to protect the right to presumption of innocence.

Following the coup attempt, considerable parts of Turkish society were affected by measures targeting people and organisations over alleged links to the Gulenist movement and involvement in the coup attempt. The judiciary, lawyers, civil servants, academia, the media and the business community were particularly impacted. Thousands were dismissed and/or suspended and many organisations, media outlets and private companies were shut down and their assets seized or transferred to public institutions. Citizens' rights to administrative justice and their right to seek compensation could not be directly exercised by natural and legal persons affected by measures under the state of emergency. An Inquiry Commission on the State of Emergency Measures was established to fill this legal vacuum, and is recognised as a domestic remedy by the ECtHR.

21. *Venice Commission Opinion on Emergency Decree Laws Nos. 667-676 Adopted Following the Coup Attempt of 15 July 2016, adopted at 109th Plenary Session, 9-10 December 2016, pages 34-38.* The

It started making decisions in December 2017 and they are open to judicial review. According to Turkish government sources, as of June 2019, the Commission received 126,200 applications, of which 77,900 were concluded – 6,000 in favour and 71,900 rejected.

There have been, in the period after the coup attempt, cases of lower courts refusing to comply with a ruling of the Constitutional Court or court rulings reversed by the same court, raising questions with regard to existence of an effective domestic legal remedy.²²

Independence of the judiciary

The Turkish Constitution envisages judicial power as exercised by independent and, as amended in 2017, impartial courts. Following the approval of constitutional amendments, the number of members of the Council of Judges and Prosecutors (CPJ) was reduced from 22 to 13, with four members appointed by the President and seven members appointed by the Parliament by a qualified majority. The composition of the new Council of Judges and Prosecutors was changed so that 9 members out of 13 are from judges and prosecutors class. None are any longer elected by the judiciary itself. The remaining two seats are attributed ex-officio to the Justice Minister and his Undersecretary, both appointed by the President.

The Code of Judicial Ethics was adopted by the Council of Judges and Prosecutors on 11 March 2019. The Code of Judicial Ethics specifies the principles of ethical behaviour for judges and prosecutors, and includes provisions on the independence and impartiality of the judges and prosecutors.

Opining on the constitutional amendments, the Venice Commission maintained that the new provisions “run contrary to European standards and curtail the independence of the judiciary”.²³

22. *European Commission, Turkey 2018 Report, 2018 Communication on EU Enlargement Policy, page 10.*

23. *Venice Commission Turkey- Opinion on the amendments to the Constitution adopted by the Grand National Assembly on 21 January 2017 and to be submitted to a National Referendum on 16 April 2016, adopted by the Venice Commission at its 110th Plenary Session (10-11/03/17), page 26.*



The dismissal of judges and prosecutors considered to have links with the Gulenist movement had an impact on institutional capacity as well as provided for a more challenging context for delivery of justice. The government emphasised that the principle of individuality of crime was respected and that there was a possibility of re-examination as well as judicial remedy. The Ministry of Justice aims to increase the number of judges and prosecutors in the forthcoming period in line with standards set by relevant professional organisations.

Government and citizens equally subject to the law

The Constitution obliges state organs and administrative authorities to act in compliance with the principle of equality before the law in all their proceedings, giving no privilege to any individual, family, group or class. However, as judged by relevant international organisations, measures introduced under the state of emergency increased the risk of impunity for members of the security forces and other officials accused of human rights abuses.²⁴

Effective policies and institutions to prevent corruption

Turkey is a signatory of relevant European and international anti-corruption conventions. Its domestic legal framework, however, needs further alignment with international standards. The action plan adopted by the government in 2016 to update its 2010-2014 strategy on the matter was assessed as a step forward even if limited in scope. Still, Turkey's lack of track record of investigation, prosecution and conviction in corruption cases remains an issue.²⁵

A broad, inter-party political consensus and strong political commitment to fight corruption decisively has yet to be established.²⁶

Turkey did not fulfil most of the recommendations provided by GRECO in its last evaluation round leading to a “globally unsatisfactory” assessment, with more than a half of recommendations contained in the third evaluation round also waiting to be implemented.²⁷

Civil and Political Rights

The Turkish legal framework includes general guarantees of respect for human and fundamental rights, listing the right to life, integrity of corporal and spiritual existence, protection from retroactive criminal laws, and the presumption of innocence among inviolable rights that cannot be suspended under the state of emergency.

Following the declaration of the state of emergency, Turkey, in line with the provisions of Article 15 of the ECHR, notified the CoE of a derogation from its obligation to secure a number of fundamental rights protected by the Convention. The derogation was withdrawn after the state of emergency was lifted. In April 2017, concerned with the scale and scope of the measures taken, the Parliamentary Assembly of the Council of Europe decided to re-open its full monitoring procedure in respect of Turkey until its serious concerns about the respect for human rights, democracy and the rule of law, raised by a number of relevant organisations, have been addressed. Turkey declared its readiness to cooperate with relevant international organisations so that the monitoring procedure can be lifted as soon as possible, emphasising two recommendations (establishment of the Inquiry Commission on the State of Emergency Measures and ending the state of emergency) were already fulfilled. The Reform Action Group convened twice in 2018 and agreed on accelerating the political reform process. The Action Plan on Human Rights is expected to be updated in the first quarter of 2019.

24. European Commission, Turkey 2018 Report, 2018 Communication on EU Enlargement policy, page 30; Office of the UN High Commissioner for Human Rights, reports on the human rights situation in South-East Turkey (July 2015 to December 2016) of February 2017 and on the impact of the state of emergency on human rights in Turkey, including an update on the South-East of March 2018, p. 19.

25. European Commission, Turkey 2018 Report, 2018 Communication on EU Enlargement Policy, page 5.

26. European Commission, Turkey 2018 Report, 2018 Communication on EU Enlargement Policy, page 27.

27. GRECO, Fourth Evaluation Round Compliance Report, GrecoRC4(2017)16, published on 15 March 2018.



Freedom of speech, information, religion, conscience, movement, association, assembly and private property

The broad scale and collective nature of measures undertaken after the coup attempt, where certain civil and political rights were derogated from, led the Venice Commission of the CoE, in its Opinion on emergency Decree Laws, to conclude that the government interpreted its extraordinary powers too extensively and took measures beyond what is permitted by the Turkish constitution and international law.²⁸ The Turkish government maintained that all measures were taken within the scope of the positive obligations of the state in order to prevent a further coup attempt.

Turkey has two institutions tasked with the promotion and enforcement of human rights: the National Human Rights and Equality Institution (NHREI) and the Ombudsman institution. The National Human Rights and Equality institution, whose members were appointed in 2017, has become fully operational; the Ombudsman, with his workload having increased three-fold, further built up its track record, although limited powers reduce his effectiveness.

Freedom of worship continues to be generally respected in Turkey. Further steps are, however, needed to bring the legislation on freedom of thought, conscience and religion in line with relevant international standards.²⁹

Political inclusiveness for women, ethnic and other minorities

A legislative and institutional framework on equality between women and men is generally in place.

However, discrimination against women and gender-based violence remain a concern, as does a wide gap in the employment rates of women and men, and a gender pay gap observed for all levels of educational attainment. The number of female members of parliament is 104, or 17.5% in the 600-seat parliament. There are two women in government

The EC Progress Report for 2018 calls for a stronger protection of the rights of the most vulnerable groups and of persons belonging to minorities as well as addressing hate crime and violations of human rights of sexual minorities.³⁰

Turkey continued its outstanding efforts to provide massive humanitarian aid and support to more than four million persons in need of international protection including 3.6 million Syrians under temporary protection. Turkey continued to extend social assistance and services to an increasing number of refugees and undertook significant work to provide wider access to schooling and healthcare to Syrians under temporary protection.

In particular since 2015, the security situation in the south-east has been fragile and continues to pose a major challenge. The Government continued security operations against the background of the repeated violent terrorist acts by the PKK terrorist organization and PKK-affiliated groups. Recognising the complex situation Turkey has been facing, the Office of the UN High Commissioner for Human Rights reported receiving, since July 2015, “detailed and credible allegations of serious human rights violations taking place in the region”.³¹ Turkish authorities maintained its counter-terrorism efforts were conducted in line with legal principles as well as international norms and standards, noting that the country had often been targeted by groundless allegations, mostly resulting from PKK propaganda in Europe.

³⁰ European Commission, Turkey 2018 Report, 2018 Communication on EU Enlargement Policy, pages 6 and 85.

³¹ Office of the UN High Commissioner for Human Rights, reports on the human rights situation in South-East Turkey (July 2015 to December 2016) of February 2017 and on the impact of the state of emergency on human rights in Turkey, including an update on the South-East of March 2018, page 2.

²⁸ Venice Commission Opinion on Emergency Decree Laws Nos. 667-676 Adopted Following the Coup Attempt of 15 July 2016, adopted at 109th Plenary Session, 9-10 December 2016, page 48.

²⁹ European Commission, Turkey 2018 Report, 2018 Communication on EU Enlargement Policy, pages 31-34.



Freedom from harassment, intimidation and torture

Turkey is a signatory of relevant international instruments for the prevention of torture and its constitution stipulates that no one shall be subjected to torture or ill treatment or subjected to penalties or treatment incompatible with human dignity. It fully abolished the statute of limitations with regard to the offence of torture. After his visit to Turkey in late 2016, the UN Special Rapporteur on torture, while acknowledging the existence of a variety of internal bodies (national preventive mechanism, the Ombudsman and the Parliamentary Human Rights Committee), repeatedly voiced concerns about torture and other ill treatment in Turkish police custody.³² Turkey emphasised that its policy of zero tolerance for torture continued under the state of emergency, claiming that in case of any isolated incidents, necessary measures are naturally taken.

While the Council of Europe's Committee for the Prevention of Torture carried out a visit to Turkey in May 2017, focusing on people detained by the police/gendarmerie, the situation in prisons and the situation in detention centres for migrants, the report is yet to be made public.

³² Office of the UN High Commissioner for Human Rights, *Preliminary observations and recommendations of the UN Special Rapporteur on torture and other cruel, inhuman and degrading treatment or punishment on this Official visit to Turkey - 27 November to 2 December 2016; Turkey: UN expert says deeply concerned by rise in torture allegations*,

www.ohchr.org/en/NewsEvents/Pages/Display/News.aspx?NewsID+22718&LangID=E