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INDEPENDENT EVALUATION GROUP

Earnings Growth and Employment Creation

An Assessment of World Bank Support in
Three Middle-Income Countries

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Contents

Appendixes

Boxes

Figures

Tables

Abbreviations

AAA	Analytic and Advisory Activities
ALMP	Active Labor Market Policies
APL	Adaptable Program Loan
ARIP	Agricultural Reform Investment Project
BR	Banco de la República
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CEDE	Centro de Estudios Sobre Desarrollo Económico
CCT	Conditional Cash Transfer
CPI	Consumer Price Index
CEDPL	Competiveness and Employment Development Policy Loans
CEM	Country Economic Memorandum
CPS	Country Partnership Strategy
DANE	Departamento Administrativo Nacional de Estadística (National Department of Statistics- Colombia)
DNP	Departamento Nacional de Planeación
DPL	Development Policy Loan
ECA	Europe and Central Asia
ECAL	Economic Competitiveness Adjustment Loans
EFIL	Export Finance Intermediation Project
ERL	Economic Reform Loan
ESW	Economic and Sector Work
ETP	Employment-to-Population ratio
EU	European Union
FDI	Foreign Direct Investment
FIAL	Programmatic Fiscal and Institutional Adjustment Loan
FIAS	Foreign Investment Advisory Service
FSAL	Financial Sector Adjustment Loan
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GNI	Gross National Income
ICA	Investment Climate Assessment
ICR	Implementation Completion Report
ICT	Information and Communications Technology
ICRG	International Country Risk Guide
IEG	Independent Evaluation Group
IMF	International Monetary Fund
LCU	Local Currency Units
LPR	Labor Participation Rate
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
MENA	Middle East and North Africa
MICs	Middle Income Countries

MILES	Macroeconomic Conditions, Investment Climate and infrastructure, Labor market regulations and institutions, Education and skill development; and Social safety net
OECD	Organization for Economic Co-operation and Development
PAAA	Programmatic Analytic and Advisory Assistance
PER	Public Expenditure Review
PLaSSAL	Programmatic Loans Supporting Labor Reform and Social Development Policy
PPI	Private Sector Participation in Infrastructure
PPP	Purchasing Power Parity
QAG	Quality Assurance Group
SBA	Stand-by Arrangement
SENA	Servicio Nacional de Aprendizaje (National Learning Service, Colombia)
SME	Small and medium enterprises
SOE	State-owned enterprise
TA	Technical Assistance
TAL	Technical Assistance Loan
TEPAV	Türkiye Ekonomi Politikaları Araştırma Vafı (Economic Policy Research Foundation of Turkey)
TFP	Total Factor Productivity
WDI	World Development Indicators

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Colombia, Tunisia, and Turkey: Bank Program Outcome Ratings

Policies	*Bank objectives*	*Instruments*	*Outcome and Bank contribution*	*Bank Program Outcome Rating*
		COLOMBIA		
Macroeconomic Conditions	*Lending:* Improve tax, public expenditure and debt management, public administration, procurement, intergovernmental transfers, and capacity to manage/mitigate financial system weaknesses; reduce contingent liabilities.	1 investment loan; 4 fiscal and 2 financial adjustment loans: US$1.24 billion	*Outcome*: Considerable gains in restoring fiscal and financial sector stability, to which the Bank contributed significantly. Key revenue and expenditure rigidities remain and are an obstacle to reforming the financing of social insurance and high payroll taxes. *Bank Contribution*: Lending operations in the fiscal area overestimated what could be delivered, given political economy constraints. However, operations did support a major reversal in adverse fiscal trends, albeit through partial, "second best" reforms. The Bank contributed significantly in improving tax administration and restructuring the financial sector.	Moderately satisfactory
	AAA: Procurement, corporate governance, financial management, fiscal performance, and financial sector development.	9 AAA reports		
Investment Climate	*Lending:* Reduce transaction costs, facilitate trade and foreign investment; improve competitiveness, quality standards and technological innovation framework.	3 business product and efficiency loans (FY05-08): US$1.1 billion	*Outcome*: Private investment recovered after 2000. Streamlining of administrative procedures. Frameworks for private participation in infrastructure and quality standards were strengthened, albeit less than expected, as were frameworks for expansion of credit to underserved groups. *Bank Contribution* Operations supported improvements in competition, a strong country priority. Bank AAA and lending operations helped to catalyze a policy debate on how to push forward the competitiveness agenda.	Satisfactory
	AAA: Infrastructure, competitiveness, trade, logistics and innovation.	4 AAA reports		
Labor Regulations and Institutions	*Lending:* Increase employment, particularly of the poor and the young. Improve labor regulations. Strengthen the ability of the Planning Department to carry out the PLaRSSAL reform.	1 social sector loan (training), 3 PLaRSSALs, and one Technical Assistance Loan for US$857 million.	*Outcome*: Increased flexibility of labor market contracts and moderate gains in public training regime. However, there was no progress in addressing key obstacles of high non-wage costs and high minimum wages. *Bank Contribution*: Bank AAA consistently and competently diagnosed the key issues but did not use its convening power assertively enough to advance its policy proposals.	Moderately satisfactory
	AAA: Labor market flexibility policies, payroll taxes, training, informality and active labor market policies.	6 AAA reports		
Education Policies	*Lending:* Improve access, retention rates, and learning in primary and secondary education, and quality and equity in tertiary education.	7 projects. US$662 million	*Outcome*: Substantial gains in coverage, including in rural areas, with the Bank making significant contributions to innovative approaches to rural education and financing access of the poor to tertiary education. Conversely, although test scores in international assessments improved modestly between 2003 and 2006, these scores remained below-average. *Bank Contribution*: Significant contributions to innovative approaches to rural education and financing access of the poor to tertiary education.	Satisfactory
	AAA: Contracting education services and on priorities for tertiary education.	2 AAA reports		
Social Protection	*Lending:* Better schooling, nutrition, and health outcomes for poor children.	3 projects. US$341 million	*Outcome*: Significant gains in coverage of social safety nets. However, longer-term financing of social protection (including health insurance) in a manner that does not impose an undue burden on the formal sector remains a challenge. *Bank Contribution*: Important contributions to improving the design and implementation of CCTs and to broadening the scope of health insurance for informal sector workers. However, more attention should have been paid to longer-term financing and sustainability from the outset.	Satisfactory
	AAA: Access to social protection, including expansion of pension coverage and of informal sector workers.	4 AAA reports		
Combined rating of MILES outcomes and of higher order outcomes (at right).	Most relevant CAS Objectives: Develop human capital (1997 and 1999), achieving fast and sustainable growth (2002 and 2004).		See higher-order outcomes below	Moderately satisfactory: Bank-supported policies increased earnings growth and lowered poverty, even though unemployment increased.

Higher-order outcomes during the decade ending in:	1997	2007
Slower per capita GDP growth (average.)	2.0	1.4
Lower Poverty (*eop*)	52.7	45.0
Stable Employment Growth (average.)	2.3	2.3
Higher Unemployment (*eop*)	9.8	10.7
Higher Adj. per capita GNI Growth (average)	1.2	1.6

Policies	*Bank objectives*	*Instruments*	*Outcome and Bank contribution*	*Bank Program Outcome Rating*
		TUNISIA		
Macroeconomic Conditions	*Lending:* Macroeconomic stability, fiscal sustainability, debt management, banking reforms	3 Economic Competitiveness and Adjustment Loans (FY1999-2005). US$562 million	*Outcome*: Fiscal stability achieved before 1998 and sustained throughout the review period. Basically sound macroeconomic framework with less than 3 percent deficit sustained. Considerable achievements in opening economy to international competition. Shortfalls in reducing non-performing loans of banking system. *Bank Contribution*: marginal albeit positive on the fiscal front, but significant progress in supporting trade liberalization/ facilitation and the financial sector. Medium-term challenges include reducing subsidies and addressing expenditure rigidities.	Satisfactory
	AAA: Growth; debt management; financial management; financial system strengths, vulnerabilities and risks, and corporate accounting and auditing	11 AAA reports		
Investment Climate	*Lending:* Foster investment, including private participation; improve export promotion, including access to markets and finance; facilitate trade logistics; improve agricultural, municipal and ICT infrastructure and municipal management and finance; achieve sustainable growth of public transport; ICT and municipal infrastructure	7 investment loans US$436 million, excluding ECALs, which addressed some of the key investment climate issues	*Outcome*: Private investment remains low despite a wide range of policies and actions with substantial Bank and AAA support, partly due to weaknesses in the public sector accountability component of economic governance. Reduced discrimination against onshore economy. Opened ICT sector. Impetus of infrastructure privatization waned. *Bank Contribution*: Substantial Bank lending and AAA support. Interventions are of high technical quality and in most cases well-appreciated by the authorities. Significant breakthroughs in trade facilitation and improvements to business climate. Main outstanding issues relate to governance, a very difficult area to tackle.	Satisfactory
	AAA: Exports, trade, investment, infrastructure, ICT, and agricultural competitiveness	17 AAA reports		
Labor Regulations	No lending		*Outcome*: Little progress in addressing high minimum wages and labor market rigidities impeding formal sector job creation especially for highly educated young. Most active labor market policies were of limited effectiveness and fiscally expensive. *Bank Contribution*: AAA consistently diagnosed key issues, but efforts to formulate agreed employment strategy lost momentum. Persistent gender issues in labor market performance require analysis.	Moderately satisfactory
	AAA: Constraints to job creation, skills development, active labor market policies, and development of analytical capacity	4 AAA reports		
Education Policies	*Lending:* Increase coverage and quality at all levels	4 projects; US$385 million	*Outcome*: Increases in coverage at the secondary and tertiary levels and improvement in test scores. Near-universal primary coverage and literacy for both genders. Improvements in vocational training and rapid expansion in tertiary education. Primary and secondary quality issues being addressed. Key challenges remain in the tertiary sub-sector, which is failing to meet requirements of rapidly increasing graduate population and labor market. Potential for outward migration of educated labor and policy implications require analysis. *Bank Contribution*: Long-term support has been critical in achieving near-universal primary and high secondary coverage for both genders. The focus on quality improvement at primary and secondary levels is appropriate. Diagnostic AAA on tertiary education has been useful.	Satisfactory
		2 AAA reports		
Social Protection	No lending		*Outcome*: Substantial coverage of pensions, health care, and direct subsidies for low-income households. Significant gains in coverage of social safety nets. However, longer-term financing of social protection (including health insurance) in a manner that does not impose an undue burden on formal sector remains a challenge. *Bank Contribution*: Analytical contribution to social security reform. Lack of unemployment insurance contributes to labor market rigidities.	Satisfactory
	AAA: Strategy to increase coverage and quality	3 AAA reports		

Combined rating of MILES outcomes and of higher order outcomes at right.	Most relevant CAS Objectives: Human capital development (1996), support economic reforms to enhance competitiveness and increase employment (2000), enhance skills and employability of graduates and labor force in a knowledge economy (2004 and 2007).		Outcomes during the decade ending in:	1997	2007	Satisfactory: Bank supported policies increased GDP and earnings growth, lowering poverty. Unemployment declined.
			Faster per capita GDP growth (average)	2.3	3.9	
			Lower Poverty (*eop*)	6.2	3.8	
			Stable Employment Growth (average)	2.7	2.7	
			Lower Unemployment (*eop*)	15.9	14.1	
			Higher Adj. per capita GNI Growth (average)	2.4	4.3	

Policies	*Bank objectives*	*Instruments*	*Outcome and Bank contribution*	*Bank Program Outcome Rating*
		TURKEY		
Macroeconomic Conditions	*Lending:* Increase macroeconomic stability through support in key structural areas (fiscal, financial, and public sector). *AAA:* Structural policies to generate fiscal surpluses, including financial reform, banking sector, agriculture, social security, and budget institutions and management.	6 public sector/fiscal/ financial adjustment loans; US$5 billion 6 AAA reports	*Outcome*: Inflation was reduced from 85 percent in 1998 to 9 percent in 2007. Under the FY01 FSAL, the absence of a stable macroeconomic environment contributed to a banking crisis two months after loan approval. Later, major improvements occurred in the fiscal accounts and in strengthening the financial system. A major challenge remains in reducing the continuing external vulnerability, as evidenced by high current account deficits (6 percent in 2007). *Bank Contribution*: High-quality AAA prepared the Bank to provide support for government finances, agricultural subsidies and personnel outlays, taxes, social security, and SOEs, all critical structural areas in need of reform. Support initially failed to duly account for macroeconomic risks to the success of financial sector reforms.	Satisfactory
Investment Climate	*Lending:* Improve financial intermediation; develop export credit finance, severance payments by agricultural parastatals. *AAA:* Foreign investment and institutional arrangement for public/private collaboration on investment climate improvements (FIAS) reports), Caspian oil and gas management, water, energy, infrastructure, investment climate (ICA) and deregulation.	3 credit line loans; 1 adjustment loan, 1 Agricultural Reform Investment project (for severance payments) and 1 DPL; US$1.96 billion, excluding Economic Reform Loan, which also covered investment climate issues 7 AAA reports	*Outcome*: Private investment increased largely due to stabilization. Improved legal and regulatory treatment of FDI contributed to increasing FDI net inflow from 0.4 percent of GDP in 1998 to over 3 percent by 2007). There were improvements in some business transactions costs (e.g., starting a new business), but little or no progress in others. *Bank Contribution*: FIAS was especially effective in supporting improvements in FDI policy. High-quality AAA (ICA report) generated private sector interest, but was followed by somewhat disappointing engagement, apart from some lending support, of the Bank with the government.	Moderately satisfactory
Labor Regulations	*Lending:* Set foundations for reform of labor market regulations. *AAA:* Labor reform, severance payments, labor dispute resolution mechanisms, active labor market policies, and labor taxes.	Competitiveness and employment DPL; US$500 million 8 AAA reports	*Outcome* Labor regulations were made more rigid and labor taxes increased. *Bank Contribution:* AAA consistently and competently diagnosed the key issues, and the Bank's convening power was used to advance its policy proposals.	Moderately satisfactory
Education Policies	*Lending:* Expand capacity of primary education in low-income areas; improve conditions for student learning. *AAA:* Preschool through secondary education policies. Adapt higher education policies t to be more attuned to EU standards. Reducing regressivity of education expenditures (PER). Adopt measures to get the school population into and through the basic education system.	2 APLs and 1 project; US$704 million	*Outcome*: Important improvements were made in enrollments, coverage and gender equality in the educational system. Major challenges remain in improving quality and in strengthening secondary education to better adapt it to changing labor force requirements. *Bank Contribution:* Even though its AAA was of good quality, the Bank's role was marginal in relation to the recorded sector gains.	Moderately unsatisfactory
Social Protection	*Lending:* Reform of social protection system, including social security, unemployment insurance, health and social assistance reform. *AAA:* Access to social security (Poverty Assessment)	2 lending operations (plus assistance under 4 ERLs)	*Outcome*: Establishment of an unemployment insurance system and initiation of a conditional cash transfer system in 2001, which now reaches over 2.8 million children in poor households. Increased coverage of social protection. *Bank Contribution*: Bank played an effective role through AAA and lending support.	Satisfactory

Policies	*Bank objectives*	*Instruments*	*Outcome and Bank contribution*			*Bank Program Outcome Rating*
Combined rating of MILES outcomes and of higher order outcomes at right.	Improve competitiveness and employment (1997), restore stable and higher growth (2000, 2001, 2005)), create employment (2000, 2001), reduce inflation (2000, 2001), expand social services and social protection (2000, 2001), and reduce the risk of reemergence of crisis (2005).		Outcomes during the decade ending in:	1997	2007	Moderately satisfactory: Bank-supported policies increased GDP growth and lowered poverty, although unemployment increased.
			Faster per capita GDP growth (average)	2.2	2.5	
			Lower Poverty (*eop*)	34.5	27.0	
			Lower Employment Growth (average)	1.9	*0.8*	
			Higher Unemployment (*eop*)	6.8	10.1	
			Stable Adj. per capita GNI Growth (average)	2.5	3.2	

Sources: World Bank documents.

Note: AAA=analytic and advisory activities; APL= Adaptable Program Loan; CAS= Country Assistance Strategy; CCT= conditional cash transfer; DPL= Development Policy Loan; ECAL= Economic Competitiveness Adjustment Loans; eop= end of period; ERL= Economic Reform Loan; EU= European Union; FDI= foreign direct investment; FIAS= Foreign Investment Advisory Service; FSAL= Financial Sector Adjustment Loan; FY=fiscal year; GDP= gross domestic product; GNI= gross national income; ICA= Investment Climate Assessment; ICT= information and communications technology; ITC= MILES= Macroeconomic Conditions, Investment Climate and infrastructure, Labor market regulations and institutions, Education and skill development; and Social safety net; PER= Public Expenditure Review; PLaRSSL=Programmatic Loans Supporting Labor Reform and Social Development Policy; SOE= state-owned enterprise; TAL= technical assistance loan.

Evaluation Summary

Earnings Growth and Employment Creation: An Assessment of World Bank Support in Three Middle-Income Countries

Employment creation and earnings growth are critical to poverty reduction, the mission of the World Bank. The Bank has identified five policy areas that affect employment: macroeconomic conditions, investment climate, labor regulations, education, and social protection. This MILES framework, as it is known, is useful for evaluating employment creation and earnings growth performance. This study uses it to assess the Bank's assistance to three middle-income countries (MICs)—Colombia, Tunisia, and Turkey—during 1998-2007. The three countries faced major employment challenges during the past decade, received significant overall Bank support, had sufficient data available, and provided cross-regional representation. The assessment considers the impact of the Bank on policies, and the impact of these policies on employment and earnings. The comparative analysis of a set of country programs is an approach to drawing lessons that may be useful in other situations, such as the current global financial crisis, where numerous MICs face similar employment creation and earnings growth challenges.

The three countries had very different experiences during the evaluation period. Colombia went through a deep recession during 1998-99 that increased its unemployment rate to unprecedented levels. Its employment-to-population ratio ceased to grow after many years of increasing female labor participation. Despite its satisfactory rate of economic growth, Tunisia experienced a high unemployment rate that resisted efforts to reduce it for decades, although the employment ratio increased modestly. Turkey also saw a sharp rise in unemployment as it implemented structural reforms to stabilize its economy after many years of double-digit inflation, and its employment ratio continued its long-term decline.

Three sets of findings are worth highlighting. First, employment-related outcomes in the three countries were mixed, with notable progress in economic growth, earnings, and poverty reduction, but not in the employment-to-population ratio or the unemployment rate. This finding underscores the desirability of focusing on the full set of employment-related variables (gross domestic product (GDP), poverty, employment, unemployment, and earnings) in an integrative fashion rather than just on employment when setting the objectives of Bank support. A related point is that many countries need to improve the delivery of employment-related statistics to allow timely monitoring and analysis of these variables, an area where the Bank has helped and can be of further assistance.

Second, Bank program objectives in the three countries focused more on MILES components than on employment itself. The focus on MILES components suggests that employment-related issues, which span three Bank Networks (Human Development, Poverty Reduction and Economic Management (PREM) and Private Sector Development (PSD), may fall by the wayside unless the Country Partnership Strategy serves as a vehicle for diagnosis, priority setting, and programming cross-sectoral work. Employment-related analytic and advisory activities (AAA), for example, is largely cross-sectoral in nature, covering such issues as structural unemployment, labor market rigidities and taxes, gender differences in labor participation, migration and remittances, and the impact of education on the extent of skills mismatch in the job market. From this perspective the Bank could usefully strengthen its role as knowledge provider, broker, and/or facilitator of knowledge creation.

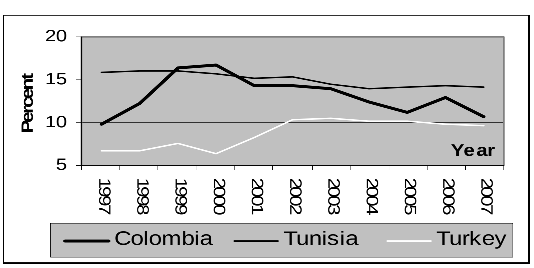
Third, Bank support in the three countries achieved differential progress in the individual MILES components, with the most progress on macroeconomic stabilization, followed in approximate order by progress on the in-

vestment climate, education, social protection, and labor taxation and regulations. The experience of the three countries illustrates how AAA can be the main instrument of support in these areas (for example, labor regulations and taxes) where progress in reform is difficult and the need for building engagement and consensus is critical.

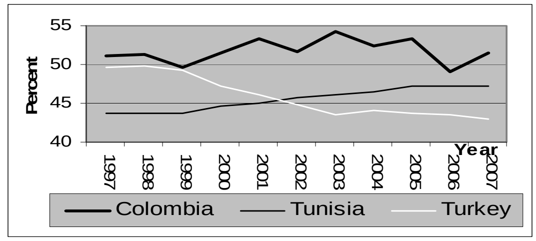
During 1998-2007, Colombia, Turkey, and Tunisia faced difficult employment challenges, as shown in the figure below. Over the first half of the review period, Colombia and Turkey experienced sharp increases in the unemployment rate as deep recessions reduced employment demand. As these three economies recovered, Colombia's unemployment declined and Turkey's remained higher. Despite Tunisia's economic stability, it had the highest unemployment rate of the three countries, although unemployment declined moderately during the review period (Panel A). Furthermore, the employment-to-population ratio ceased growing in Colombia during the review period after many years of increases in female participation. However, in Turkey it continued declining. Tunisia's employment-to-population ratio increased by a few percentage points (Panel B) because female participation increased from a very low level. Progress was made in reducing gender differences in two countries. From 1997 to 2006, the excess of male over female labor participation rates declined from 27.2 to 18.8 percentage points in Colombia and from 49.7 to 45.8 percentage points in Tunisia. It remained unchanged in Turkey at about 48.5 percentage points. Earnings declined and poverty increased during the recessions in Colombia and Turkey, but these improved toward the end of the review period. Earnings in Tunisia increased and poverty declined.

Employment Performance in Colombia, Tunisia, and Turkey

A. Unemployment Rate: 1997–2007



B. Employment-to-Population Ratio: 1997-2007



Sources: The World Bank (World Development Indicators); Colombia Statistical Office (DANE); Turkey Statistical Office (Turkstat).

This report evaluates World Bank support for employment and earnings growth in Colombia, Tunisia, and Turkey during 1998-2007. It aims at drawing findings that may help guide the Bank's work in this area, including its response during the current global crisis. The review looks at Bank support for the five areas embodied in the MILES framework developed by the Human Development and PREM networks: macroeconomic, investment climate, labor market, education, and social protection conditions and policies. These areas cover the key factors that affect the demand for labor, the workings of the labor market, and the supply of skills. Although the demand for labor is expected to respond positively to economic growth, the two need not move in tandem, as the sources of economic growth include growth in skills, physical capital, and total factor productivity, in addition to growth in employment.

Although the MILES framework was not explicitly used in formulating the objectives of the country programs reviewed in this report, the framework can be used to identify binding constraints to employment creation and earnings growth. Thus, it offers an organizing framework for the evaluation into which the three country programs can be retrofitted and assessed. This approach thus differs in some (though not all) respects from the standard approach in many IEG evaluations of "evaluating against objectives," where the outcome of the Bank program is assessed relative to objectives stated at the outset. In this case, although the programs in the three countries sought to help increase employment, the employment-related objectives were not always formulated and unbundled into more proximate objectives.

The table below shows that the largest amounts of lending support in the three countries were for macroeconomic policies (including financial sector policies) followed by investment climate.

Bank Lending (US$ million) and AAA (number of tasks) by MILES Area: 1998–2007

Country	*Colombia*		*Tunisia*		*Turkey*	
MILES Area	*Loans*	*AAA*	*Loans*	*AAA*	*Loans*	*AAA*
Macroeconomic conditions	1,235	9	562	11	4,988	6
Investment climate	1,100	4	436	17	1,961	7
Labor regulations	857	6	0	11	500	7
Education policy	662	3	385	10	704	2
Social protection	341	4	0	3	1,715	1
Total	4,195	26	1,383	52	9,868	23

Source: Appendixes D, I, and N.
Note: AAA= analytic and advisory activities; MILES=Macroeconomic conditions, Investment Climate and Infrastructure, Labor market regulations and institutions, Education and skill development; and Social safety net.

Colombia

Throughout the evaluation period, the Bank was engaged in the five areas of the MILES framework in varying degrees. Following the 1998-99 crisis, the Bank supported the government's efforts to strengthen fiscal performance (revenue collection, efficiency in the provision of health services, contingent liabilities, public administration, and public expenditure and debt management) and the financial system. These improvements were critical in redressing growth and earnings and in dampening a surge in cyclical unemployment. They did not, however, achieve a reduction in structural unemployment, which remained high due to, among other things, an excessive minimum wage and high payroll taxes.

Beginning in 2002, reflecting the government's priorities and concerns that the economic recovery was slow to yield better employment and social outcomes, especially for the poor, there was increased emphasis by the Bank on improving competitiveness (through investment climate strengthening and labor market reforms) and on improving the social risk management system.

Bank-supported objectives in the MILES areas were largely achieved, although the Bank was over optimistic about the elimination of fiscal structural rigidities given the political economy constraints. It did not adequately factor in the fiscal implications of the conditional cash transfer program. Nonetheless, Colombian counterparts acknowledged the contribution of the Bank in several areas, such as tax administration. In some areas, the Bank missed certain opportunities to use its convening power. For example, a number of stakeholder consultations suggested that the Bank (as well as the IMF) had been too timid in pressing the policy implications of its labor market diagnostics (particularly regarding the minimum wage and labor taxes), which were of good quality. In general, the Bank's interventions were relevant and AAA, technical assistance, and lending operations adapted to the government's changing priorities.

Bank-supported policies improved employment performance. The improvements in macroeconomic policy and the investment climate helped increase average yearly GDP growth from 0.5 percent during 1997-2002 to 5.6 percent during 2002-07, primarily through an increase in total factor productivity (TFP) growth. Faster GDP growth allowed the unemployment rate to decline and earnings to grow despite a slowdown in employment growth.

IEG rates the outcome of the Bank program in Colombia with respect to progress in employment and earnings growth as *moderately satisfactory*. Key achievements can be summarized as follows:

- *Higher-order outcomes:* increased earnings growth and lower poverty with stable employment growth; mitigation of cyclical unemployment, particularly during the second part of the review period.
- *Intermediate outcomes:* the restoration of fiscal stability, substantial progress in the investment climate, gains in the coverage and financing of education, and broader safety net coverage.
- *Bank interventions:* significant Bank contributions in tax administration, bank restructuring, business climate improvements, labor market diagnostics, coverage and financing of education, and design of the conditional cash transfer (CCT) system. There were shortfalls in resolving Colombia's revenue and expenditure rigidities, as well as in lowering the minimum wage and the burden of non-wage costs, relative to objectives. There was also lower growth and higher structural unemployment.

Tunisia

In Tunisia, the Bank was also engaged in the five pillars of the MILES framework, though there were important differences of emphasis. Regarding macroeconomic policy, performance was the best among the three countries. The Bank's role was positive, albeit marginal on the fiscal front. It was most important for trade liberalization and facilitation and financial sector reform, both of which benefited from AAA and lending, including high-quality diagnostic financial sector work undertaken jointly with the IMF. Regarding the investment climate, Bank support addressed important reforms, including a reduction in the regulatory gap that favored the offshore over the onshore economy, improving competition law, opening the information and communications technology sector, and developing the regulatory framework for infrastructure.

The Bank had little impact on policies governing the labor market. The Bank conducted AAA of good quality, but the government did not adopt any of the Bank's key recommendations. With respect to education, a great deal was achieved at the primary and secondary levels, and the Bank played a major role. The results of Bank support were more muted at the tertiary level, where there was less-than-full agreement on some key policy issues (such as financing and cost recovery reforms). Aggressive expansion in tertiary level coverage has been responsible for a deterioration of quality.

The key policies that improved GDP, employment, and earnings growth in Tunisia were macroeconomic stabilization and trade integration with the European Union (EU). The latter was largely established before the review period. Improvements in the investment climate may have further contributed to the growth in earnings suggested by rising formal sector wages through improvements in productivity growth. These improvements have not yet had a discernible effect on investment levels. Although education has contributed to rising productivity and earnings, it has also led to increased unemployment among the educated due to both skills mismatches and low investment levels. Unemployment has been persistently high, but declined moderately during the review period. Inadequate skills appear to be behind the high level of unemployment. This may also reflect the effect of minimum wages.

The outcome of the Bank program in Tunisia relating to employment and earnings growth is rated *satisfactory*. Key achievements can be summarized as follows:

- *Higher-order outcomes:* increased earnings growth and lower poverty with stable employment growth, lower structural unemployment, and increased GDP growth.
- *Intermediate outcomes:* sustained macroeconomic stability, significant progress in trade facilitation and the business environment, progress in the investment climate, and gains in coverage of education.
- *Bank interventions:* significant Bank contribution to trade, the investment climate, and coverage in education. However, there were shortfalls in making labor markets more flexible, in improving education quality, and in strengthening public sector governance.

Turkey

In Turkey, the Bank was heavily engaged in the five areas of the MILES framework, but to varying degrees. In the earlier years, the Bank concentrated on macroeconomic stabilization and attendant structural reforms. Bank support was delivered primarily through policy advice and development policy lending. Following the 2001-02 crises, the Bank supported reforms to strengthen fiscal performance and the financial system. This set of reforms was critical in redressing economic growth and earnings growth in Turkey. However, the reforms did not help reduce unemployment, which in fact increased. In later years, greater attention was devoted to employment and competitiveness issues. Within the scope of the MILES framework, the remaining problem areas are labor market regulations, education, and the investment climate.

Bank-supported objectives were largely achieved. Stabilization and related structural reforms were achieved, although the support was initially unsuccessful because weak macroeconomic stabilization undermined financial sector reforms. Regarding investment climate matters, active Foreign Investment Advisory Service (FIAS) participation supported important changes in foreign direct investment legislation. The more recent Investment Climate Assessment (ICA) has, however, been less successful and would benefit from stronger client engagement and dissemination. With respect to labor policy issues, the Bank provided high-quality advice, although this did not translate into policies to ease the rigid regulations and high labor taxes that had been diagnosed. Regarding education, the first operation was unfocused and suffered from procurement problems; however, follow-on lending fared better. Despite these operations and several pieces of AAA, the Bank's engagement in the education sector was less successful than in other areas relating to employment.

Bank-supported policies, particularly those in the macroeconomic area, helped reignite growth and the demand for employment, with the employment ratio stabilizing somewhat after a long-term decline. Higher productivity triggered by some of the supported reforms helped increase the earnings of the poor. However, structural adjustment, particularly migration away from agriculture, continued to decrease labor participation and increase productivity. On balance, average earnings declined until about 2003 and recovered thereafter.

The outcome of the Bank program in Turkey with respect to employment and earnings is rated *moderately satisfactory*. Key achievements can be summarized as follows:

- *Higher-order outcomes:* increased earnings, lower poverty, and higher GDP growth.
- *Intermediate outcomes:* the restoration of fiscal stability and gains in the coverage of education.
- *Bank interventions:* significant Bank contributions towards macroeconomic stability and the CCT program. There were shortfalls in the effectiveness of support for the business climate, lowering non-wage costs, and relaxing labor regulations (though some progress was achieved the year after the end of the review period). Effectiveness in contributing to education gains was also limited. Employment growth declined and unemployment increased.

Findings

Three sets of findings are worth highlighting. The first set concerns outcomes. In the three countries, progress in economic growth and earnings was notable, but not for the employment-to-population ratio or the unemployment rate. This finding underscores that higher economic growth does not always lead to lower unemployment. It also highlights the need to consider the full set of employment-related outcomes, not just employment, wherever employment objectives feature prominently in Bank strategies and programs. The full set of outcomes would cover employment growth, the employment-to-population-ratio, the unemployment rate and earnings growth, as well as the impact (including the uncertainties of the impact) of these measures on poverty. . Thus, policies and programs need to be understood in terms of their possible combined effects on those variables. As monitoring employment-related outcomes requires adequate data, the Bank can provide a valuable service by continuing to help client countries reduce the long lags with which critical data on employment performance (for example, earnings) are produced and disseminated.

A second set of findings involves Bank country strategies and programs. In the three countries covered in this evaluation, the Bank primarily targeted multiple objectives with a bearing on employment (for example, objectives relating to MILES components) rather than explicit employment outcomes. This points to the usefulness of situating Bank support for employment and earnings growth within an integrative framework. For client countries where employment-related objectives underlie Bank support, the Country Partnership Strategy takes on added importance as a vehicle for diagnosis, priority-setting, and cross-sector work on employment issues, which span the three networks (Human Development, PREM and PSD) and which may not otherwise get the requisite attention.

AAA has been an important component of the Bank's assistance for employment and earnings. Although the impact that it had was unclear, the Bank's AAA was generally of good quality. It addressed the right employment issues competently, and was well appreciated by the three clients. This experience suggests that where it is judged that employment-related outcomes are central to country strategies, it would be advisable to deploy AAA in the critical areas, including: understanding and addressing the roots of unemployment, including its cyclical, classical, frictional, and structural components; and assessing labor market regulations and institutions and their effects. In particular, the Bank can help improve and extend the coverage of estimates and cross-country comparisons of labor rigidities and labor taxes.

In some cases, the Bank was not sufficiently engaged in labor market issues. The experience of the three countries shows varying degrees of engagement, which in turn are likely to be driven by differences in the political economy of labor reform and by Bank proactivity regarding engagement on such issues. Where labor reform issues are deemed important to its country strategy, the Bank would be well advised to conduct the required AAA and find the right windows of opportunity to support the government (as was the case in Turkey).

Sustained macroeconomic and financial stability in Tunisia and stabilization in Colombia and Turkey, as well as higher education levels, explain increased or recovered economic growth and earnings in the three countries. Some additional role can also be attributed to improvement in the investment climate. However, progress in these three areas did not reduce unemployment rates in Colombia and Turkey, and reduced them only moderately in Tunisia. High remaining unemployment is likely to reflect skill mismatches, rigid wages, or other structural conditions.

A third set of findings concerns the specific areas of support. Bank support for macroeconomic policies contributed to efforts on the macroeconomic-financial crisis resolution in Colombia and Turkey and to trade and financial development in Tunisia. These efforts were the main factor that helped restore GDP growth in the first two countries and also contributed to sustaining higher growth in the third. Restored GDP growth increased the demand for labor, resulting primarily in the higher earnings growth documented earlier. Bank support for investment climate reforms in the three countries contributed to improvements in specific policy areas that helped raise investment or total factor productivity to varying degrees.

Support for labor market regulations and institutions occurred primarily through AAA that was relevant and technically competent. However, the impact was unclear. Labor rigidity and labor taxes remained a constraint to employment, particularly formal employment, in the three countries. Support for *education* contributed primarily to extensions in access and to an increased supply of the skills needed to raise output and earnings growth. However, the impact on quality was more limited. Finally, support for *social protection* arrangements contributed successfully to conditional cash transfer (CCT) programs in Colombia and Turkey, and less so to the unemployment insurance programs that are needed to move from job protection to worker protection. The three countries' experiences attest to the difficulties of setting up unemployment insurance systems.

From a more general cross-cutting perspective, the Bank could usefully strengthen its role as knowledge provider, broker, and facilitator of knowledge creation. The Bank is in a good position to exercise leadership on employment issues as it has demonstrated capacity to use research for developing operationally relevant policy. In this regard, AAA, not lending, is often the best instrument to deal with the more sensitive policy issues that affect employment outcomes. As with the three countries reviewed in this report, the Bank can contribute to understanding employment issues where those issues are a central concern. This would include advising countries on how to use available resources judiciously to address various employment challenges (such as unemployment insurance) while ensuring macroeconomic stability. It would also include looking at education quality, possibly with greater emphasis on addressing skills mismatches, which may be behind much of the structural unemployment observed in countries such as the three reviewed in this report.

The Current Global Jobs Crisis

The findings of this report suggest ways in which the Bank can strengthen its response to the current global economic crises. The crisis has reduced output growth from 5.2 percent in 2007 to -1.3 percent in 2009, and increased the world unemployment rate from 5.7 percent in 2007 to 6.8 percent in 2009 (with the higher increases in developed economies, Central and South Eastern Europe (non-EU) and Commonwealth of Independent States (CIS), and Latin America and the Caribbean). The findings suggest the following three directions:

Country programs can respond by focusing on both employment and earnings outcomes, which determine poverty outcomes. Country Directors are well positioned to deploy the Bank's multisector capacity to engage with client countries on how policies and adjustments to Bank programs can help improve the full set of employment-related outcomes, not just employment. Such engagement will require an understanding of how policies in different areas (including macroeconomy and labor market) can redress both employment and earnings in specific countries, presumably through increased demand for labor and skills and through higher labor productivity. Many governments have made adjustments to their policies in response to the financial crisis and/or may need well-tailored advice in these areas. Diagnoses and recommendations are likely to differ according to specific country circumstances, such as the degree of openness of the economy.

The Bank's effectiveness will be stronger as it integrates across networks to focus on those issues that are likely to be relevant during crises. Examples include: improving employment and earnings monitoring; assessing the impact of global recession on structural unemployment; developing strategies to promote job flexibility and worker protection; finding the right balance between macroeconomic stability and the fiscal cost of other employment-related policies; strengthening the interaction between macroeconomic and microeconomic conditions affecting growth and employment demand; understanding the interface between quality of education and absorption of labor services; and assessing the possible effect of differential changes in employment and earnings on migration.

Country programs will be more effective as they focus on areas where progress in the enabling conditions has been slow but where windows of opportunity for reform surface. The area where progress has typically been slow is in making labor regulations more flexible and in lowering labor taxes. Conversely, the Bank can also help countries maintain progress where it has been achieved, as was the case with macroeconomic stability in the three countries reviewed. In this regard, the Bank can deploy its multisector capacity to help countries avoid conflicts among employment policies (e.g., ensuring that stimulus packages or extended social protection are affordable).

Chairperson's Summary: Committee on Development Effectiveness

On June 29, 2009, the Informal Subcommittee (SC) of the Committee on Development Effectiveness (CODE) considered an Independent Evaluation Group (IEG) report entitled *Earnings Growth and Employment Creation: an Assessment of World Bank Support in Three Middle-Income Countries*. This new IEG initiative reviews World Bank support for earnings growth and employment creation during 1998-2007 in three middle income countries (Colombia, Turkey, and Tunisia), and blends features of a thematic evaluation with those of a country evaluation.

Overall Conclusions. CODE welcomed the opportunity to discuss the IEG report. It noted the relevance of the topic for poverty reduction. Members sought to better understand the objectives and lessons emerging from the report on the Bank's role in supporting employment and earnings growth in client countries. In this connection, some felt that despite detailed analysis of the employment and earnings growth issues, the report was not clear as to what changes could be made in the Bank's lending policies. They remarked that poverty reduction as the ultimate objective of the Bank's assistance to countries can be achieved only through earnings growth and increased employment.

Questions were asked about the criteria for selecting the three countries and applicability of the findings to the International Development Association (IDA) countries. Members noted that the report could have included more analysis on gender and demographic dimensions of labor markets, as well as more information about South-South cooperation and learning. They expressed interest in the effectiveness of a knowledge component in the Bank's programs.

Main issues raised at the meeting

Lessons learned from the evaluation. Some members sought clarifications on the report's objectives and main message emerging from the evaluation on the Bank's role in supporting employment and earnings growth. In this regard, a member noted that none of the three country programs included employment creation as a priority. *IEG clarified that it focused on the key systemic issues; evaluated consistency of the Bank's approaches in the three countries; and suggested directions for the Bank to move forward on employment creation and earnings growth. Management appreciated the depth and quality of the report as well as the fact that it draws attention to employment as a critical input for poverty reduction.*

Growth and employment. Members took note of the report finding about the weakness of employment-related outcomes in spite of notable progress in economic growth and poverty reduction. Some felt that employment generation should be a primary objective for the Bank so as more favorable outcomes can be developed. *Management acknowledged that over the last ten years employment was not considered a central development objective, but rather a growth-derived outcome.* A member queried as to changes in the Bank's approaches for targeting unemployment. Another member opined that employment and earnings growth can be influenced directly only through investments in labor intensive sectors (that is, crop production, cottage industry, and handicraft sector), that were not analyzed in the report. He also pointed out major marketing challenges which exist in these sectors. The need to analyze the situation from the perspective of equal distribution of employment opportunities among the population (that is, access to growth outcomes and job opportunities) was stressed. *Management agreed that the real challenge in the three countries was their inability to generate broad-based growth that provided employment to everyone who joined the labor force. IEG added that structural unemployment cannot be used as a single indicator by which to judge the success of the Bank's interventions in the areas of earnings growth and employment creation.*

MILES framework and agenda for action. Members appreciated the usefulness of the Macroeconomic conditions, Investment climate and infrastructure, Labor market regulations and institutions, Education and skill development; and Social safety net (MILES) framework and its multi-sector approach for employment outcomes of countries. In this vein, questions about an "endorsement" of the MILES framework and its continued use were raised. *IEG responded that it found the MILES framework to be very useful in dealing with the unemployment issues. Management clarified that the MILES approach was finalized only in 2007 and is still under testing. While very promising and highly appreciated by countries, more experience needs to be gained in particular in identifying the barriers to job creation.* Some members were interested in Management's future agenda, particularly in social protection (that is, employment insurance vis-à-vis conditional cash transfers) and policy advice. A speaker also reiterated the request for an IEG evaluation of social protection programs.

Country related issues. Some members wondered about the criteria for selecting the three countries for the evaluation, and the applicability of the findings for other countries including IDA countries. *IEG responded that the three countries were chosen based on similar levels of per capita income, similar economic backgrounds, and similar structural unemployment issues*. For the future, a member suggested reviewing a country with satisfactory outcomes in terms of employment creation and summarizing lessons learned based on its positive experience. A speaker sought elaboration on the political economy of the labor market reforms.

Gender and demographics. Members stressed the importance of considering gender and demographic (including youth unemployment and migration) dimensions. A member remarked that an analysis of gender aspects in the evaluation should have been included, observing that the Bank seem to be making limited progress in addressing significant gender issues in the labor markets. *IEG responded that there is a comprehensive on-going evaluation of the Bank's work on gender. IEG also added that none of the three country programs had targeted reduction of gender inequality on labor markets.*

Knowledge. A member sought elaboration on the impact of the Bank's advice and knowledge work on government policies and wondered what Management should do differently. *In response, IEG noted a close link between AAA and lending in the area of macroeconomic stabilization in both Colombia and Turkey. As for the regulatory and institutional aspects, the link was not that direct, but it existed, for example, the Bank's engagement in the policy dialogue on employment with the Turkish government resulted in a reduction of labor taxes. Management added that a research program to support labor market interventions was launched.* With regard to the labor taxes, a member opined that it is not a correct term for the costs associated with labor and employment (for example, labor insurance, injury insurance, and pension insurance).

Another member queried as to the Bank's role in sharing knowledge created in its client countries vis-à-vis redistributing knowledge created in the Bank itself. In this connection, he suggested to learn more about the China experience in linking strong economic growth to employment generation. The importance of South-South knowledge sharing was also emphasized. A speaker asked for a comparison between the report findings and the International Labor Organization (ILO) recommendations. *IEG explained that the evaluation focused on earnings growth and employment creation from the labor economic prospective, while ILO primarily focused on the quality of employment, child employment, and other multisectoral issues.*

Giovanni Majnoni, Chairperson

Chapter 1
Introduction

Evaluation Essentials

- The evaluation develops lessons for employment creation and earnings growth from the experience of Colombia, Tunisia, and Turkey during 1997-2007.
- It assesses the effect of Country Assistance Strategies (CASs), lending, and Analytic and Advisory Activities (AAA) on policies affecting employment creation and earnings growth.
- It uses the MILES framework, which is based on the idea that employment problems reflect multiple sector influences on labor supply and demand.

This evaluation has elements of both a country evaluation and a thematic evaluation. It focuses on employment creation and earnings growth, but is country-focused in that it looks in depth at the outcomes of Bank support in three middle-income countries (MICs), Colombia, Tunisia, and Turkey, during 1997-2007. Its main purpose is to extract lessons that may be useful for Bank operations, both in the three MICs considered here and in other Bank client countries where specific focus on employment and earnings issues are judged pivotal to the poverty reduction and development agenda. It is a pilot Independent Evaluation Group (IEG) product for this approach.

The evaluation looks at employment and earnings challenges using an integrative framework that covers macroeconomic, investment climate, labor market, education, and social protection conditions and policies (MILES). This **MILES** framework, developed by the Human Development (HD) and Poverty Reduction and Economic Management (PREM) Networks, can be used to identify binding constraints to employment creation and earnings growth. It is used here to cover the relevant aspects of the Bank's programs in the three selected countries.

Although the MILES framework was not explicitly used in developing or formulating the objectives of the country programs reviewed in this report, the framework offers a useful organizing device for the evaluation. These country programs can be easily accommodated or "retrofitted" into the framework and assessed in the light of their support for employment creation and earnings growth, which are critical for the Bank's goal of reducing poverty. Thus, the approach used in this report differs in some (though not all) respects from the standard approach in many IEG evaluations of "evaluating against objectives" where the outcome of the Bank program is assessed relative to objectives stated at the outset. The individual country assessments in this report focus both on the intermediate objectives sought by each country in each of the MILES areas, and on the extent to which each country achieved employment creation, earnings growth, and poverty reduction.

This first chapter provides the context for the evaluation, namely an account of the Bank's role in supporting employment creation and earnings growth, a statement and justification of the goal of the evaluation, and the methodological approach used. Chapters 2, 3 and 4 discuss the three country cases. Each includes an analysis of the country's issues relating to employment and an assessment of the relevance, effectiveness, and efficiency of the Bank's support. Chapter 5 integrates the findings from these cases by comparing employment outcomes, key employment policies, and the role of the Bank in supporting those policies across the three country cases.

Objective

The evaluation aims to develop lessons from assistance for employment creation and earnings growth from three middle-income countries during 1997-2007

The primary aim of this evaluation is to develop lessons from the Bank's experience in the three selected countries regarding assistance aimed at employment creation and earnings growth. The evaluation focuses on employment creation and earnings growth because these have a strong bearing on the extent to which the central objective of poverty reduction is achieved.

Employment creation is an explicit or implicit objective in most Country Assistance Strategies, as it was in the cases of Colombia, Tunisia, and Turkey. Appendix A summarizes the explicit CAS objectives in the three countries. It shows employment creation or human capital development as part of these objectives in most of the CASs. In some CASs, employment is absent from the explicit objectives, as in the case of Colombia (2002, 2005, and 2008 CASs). However, Colombia's CASs increasingly contain references to employment beginning with the 1999 CAS progress report, reflecting the unprecedented rise in unemployment that was taking place at the time. Some of these references point to country actions that the Bank intended to support in order to address the problem. The focus on employment is further justified because, as the appendix shows, other CAS objectives closely bear on the employment objectives. This is the case, for example, with economic growth and stabilization objectives.

The evaluation assesses the impact of the Bank's assistance (CASs, lending and AAA) on policies affecting employment creation and earnings growth.

Questions and Methods

The evaluation assesses the impact of the Bank's assistance on employment outcomes. This means assessing the effect of the Bank's CASs, lending, and analytic and advisory activities (AAA) on policies with a bearing on employment and earnings and, in turn, the effect of such policies on employment creation and earnings growth, as well as on economic growth and poverty reduction. The evaluation attempts to indicate whether impacts are significant, but does not attempt to arrive at any quantitative estimates of the impacts.

Table 1.1 The MILES Framework: Summary

Macroeconomic stability	A predictable and stable macroeconomic environment gives firms the incentive to create jobs.
Investment climate	Firms will expand and create formal sector jobs when the costs of doing business (for example, from regulation or poor infrastructure) are low and predictable.
Labor market policies	When employment regulations are strict and non-wage costs of labor are high, firms may be more reluctant to hire new formal sector workers. Labor market policies also influence decisions to enter the labor force.
Education and skills	Higher productivity jobs require appropriate skills, so better education and training improves the chances of finding the type of job demanded by firms.
Social safety net	A strong safety net protects workers from shocks to employment and, if linked to human capital improvement and active labor market policies, can stimulate better employment matching.

The underlying idea of the MILES framework is that employment problems reflect multiple sector influences on labor supply and demand.

The relevant relationships governing the assessment are as follows: employment outcomes result from policies, exogenous variables, and economic growth. In turn, policies result from the interplay of domestic actors, external actors, exogenous forces, and past employment and growth outcomes. Clearly, many policies—not just those directly concerning the labor market—affect employment and earnings outcomes. Disentangling these various influences, let alone identifying the particular impact of the World Bank, is difficult.

Since virtually all policies can influence labor demand or supply, this report organizes the discussion of the various policy influences around the MILES framework developed within the World Bank. The idea underlying the framework is that problems of unemployment and underemployment or low pay are not just labor market problems but reflect multisector influences on the supply and demand for labor. The relevant considerations are summarized in Table 1.[1]

In the MILES framework, policies are classified as follows:

- Macroeconomic policies—including fiscal, monetary, foreign exchange, trade, and financial sector stability.
- Investment climate—including policies affecting labor and capital productivity, access to finance, impact of health on the private sector, the cost of doing business, and exports.
- Labor market policies—including payroll taxes, labor flexibility, worker protection, and active employment policies, such as placement services, retraining, and public works.
- Education policies—including policies affecting coverage and/or quality of education.

- Social protection—including unemployment insurance, and pension coverage.

There are of course multiple linkages across MILES components that will ideally be considered in employment strategies. Four key linkages across MILES elements with a bearing on the cases discussed in this report can be highlighted: (i) Macroeconomic conditions and the microeconomic indicators normally covered under investment climate (e.g., taxes, labor regulations) work to increase investment and growth; (ii) education conditions, specifically technical quality and alignment to business needs, also shape the investment climate, and ideally will be built upon to accelerate employment and earnings growth; (iii) social protection conditions are critical for enabling and designing labor regulations, with the latter affecting the relative use of labor vis-à-vis capital and/or the relative size of the formal sector, largely independently of growth; and (d) the financing of enhanced social protection needs to be aligned to fiscal constraints to help maintain macroeconomic stability. Linkages within a MILES component may also be of interest, such as the need to include the interaction between the minimum wage and labor taxes in policies regarding labor regulations and institutions.

The evaluation focuses on relevance and effectiveness of Bank engagement on employment issues.

The evaluation focuses on questions on relevance and effectiveness as follows:

- **Relevance:** Were the employment/unemployment objectives the Bank sought to support well aligned with the government's program? Did the Bank diagnose the relevant constraints that needed to be addressed and give sensible advice to its clients on how to improve employment performance? Were the policies finally supported by the Bank necessary and sufficient to improve employment performance? Were such policies consistent with the country's overall development policy program?
- **Effectiveness:** Did employment, earnings, and overall economic outcomes improve? Were the short-term and long-term effects different? Did the AAA and research linked to the Bank's lending or on a free-standing basis support or enhance the adoption and effectiveness of policies with a bearing on employment? To what extent did finance extended by the Bank help the borrowers' overall employment outcomes?

The countries chosen—Colombia, Tunisia, and Turkey—cover conditions of either long-term growing, declining, or stagnant employment.

The choice of countries was guided first by a classification of all those countries that had received Bank assistance for employment into three groups: transition countries, non-transition countries with long-term declining or stagnant employment, and non-transition countries with growing employment. The transition countries were excluded from selection as they faced a very specific set of challenges and consequently were not comparable with other countries. The selection from the other two groups sought countries that satisfied four criteria : (i) they faced major employment challenges during the past decade; (ii) they received significant overall Bank support; (iii) they had sufficient data available; and (iv) they provided cross-regional representation.

Following a review of all countries with employment and unemployment data,[2] Colombia, Tunisia, and Turkey were selected as useful examples that have presented policy makers with challenging and contrasting employment and earnings performance experiences and that have also received attention in recent Bank assistance programs.[3] Colombia, a country that experienced long-term growth in the employment-to-population ratio, suffered from a severe unemployment shock in the late 1990s from which it recovered slowly. Turkey, a country that experienced a long-term decline in the employment-to-population ratio, has been challenged by a long-term decline in its employment ratio and a more recent sharp increase in the unemployment rate following its macroeconomic crises at the turn of the century. Tunisia, a country with an almost stagnant and low employment-to population ratio, has experienced exceptionally high unemployment for many years. Within the middle-income group, these three countries offer a wide range of income and poverty levels. In 2007, per capita gross domestic product (GDP) levels at purchasing power parity (PPP) prices were $8,587 for Colombia, $7,520 for Tunisia, and $12,955 for Turkey. Poverty levels (head count ratio for a $2.50 a day poverty line at PPP prices for the last year available) were respectively 35 percent (2006) in Colombia, 21 percent (2000) in Tunisia, and 15 percent (2005) in Turkey.

The country studies draw on a wide range of evidence, including a review of World Bank loan documents, AAA reports, CASs and completion reports and government documents; academic research papers; previous IEG reviews of relevant components of the Bank's activities; impact evaluations of specific programs undertaken in each country; a client survey conducted as part of the IEG review of Bank support for middle-income countries[4] and interviews with a wide range of individuals in Colombia, Tunisia, and Turkey as well as in the World Bank (see Appendix E,

The country studies draw on a wide range of evidence.

Appendix I, and Appendix M). The interviews in the field were conducted during visits that took place from October 23-November 11, 2008.

Chapter 2
Colombia

Evaluation Essentials

- Unemployment outcomes in Colombia mirrored the recession-recovery cycle in GDP growth.
- Major progress has been made on policies affecting economic performance and the labor market.
- Labor market outcomes are attributable to both exogenous factors and to inflexibility in the market and high unemployment among women.
- The Bank CASs had few employment and earnings objectives, but the Bank engaged heavily in all areas of the MILES framework.
- The Bank made significant contributions to financial sector reforms and improved economic performance.
- Analytic work on labor market issues was of high quality and identified clear reform priorities.

Introduction

During the past decade Colombia's labor market performance was challenged by: (i) the recession of 1998-99 that was driven by reduced global growth, curtailed access to capital, the adverse security situation, poor fiscal performance, and disruptions to the financial sector; (ii) an inflexible labor market with high payroll taxes and minimum wages; and (iii) an increased labor supply driven by rising female participation. Urban unemployment more than doubled from 8.8 percent in 1995 to 20.2 percent in 2000. It declined only slowly as growth recovered after 2002, reflecting better external conditions, improved security, and policy actions that facilitated the operation of businesses. Fiscal performance had improved by the middle of the period, albeit without resolving many of the underlying fiscal rigidities. Once the fiscal and financial sector concerns were eased, the focus was on the slow response of employment and unemployment to the output recovery, suggesting that policies influencing the investment climate and the functioning of labor markets, including the matching of skills to the needs of the economy, were the most significant constraints. Rates of informality remain high by cross-country comparisons.

Throughout the evaluation period, the Bank has been heavily engaged in all of the five areas of the MILES framework, but the relative emphasis has changed over time. Following the 1998-99 crisis, the Bank supported the government's macroeconomic stabilization efforts through a series of adjustment loans focused on the fiscal and financial sectors. Since 2002, reflecting the government's priorities and concerns that the ongoing economic recovery was slow to yield better employment and social outcomes, especially for the poor, there has been greater emphasis on improving competitiveness (through the investment climate and labor market reforms), as well as on improving the social risk management system.

The Bank's strategy and interventions were highly relevant in addressing Colombia's key employment and earnings-related issues. This is despite strategic planning that failed to anticipate well country priorities or that was not well timed to country planning cycles. The Bank's support, through its AAA, technical assistance, and lending operations, adapted to the government's changing priorities and generally addressed (or attempted to address) the most critical policy constraints

Table 2.1 Colombia: Ratings Summary

<table>
<tr><th></th><th>Outcomes</th><th colspan="3">Bank Contribution</th><th>Bank Program Outcome Rating</th></tr>
<tr><td>Macroeconomy</td><td>Considerable gains in restoring fiscal and financial sector stability, to which the Bank contributed significantly. Key revenue and expenditure rigidities remain and are an obstacle to reforming the financing of social insurance and high payroll taxes.</td><td colspan="3">Lending operations in the fiscal area overestimated what could be delivered, given political economy constraints. However, the Bank did assist in a major reversal in adverse fiscal trends, albeit through partial, "second best" reforms. The Bank contributed significantly to improving tax administration and restructuring the financial sector.</td><td>Moderately satisfactory[1]</td></tr>
<tr><td>Investment climate</td><td>Private investment recovered after 2000.
Streamlining of administrative procedures. Frameworks for private participation in infrastructure and quality standards were strengthened, albeit less than expected, as were frameworks for expansion of credit to underserved groups.</td><td colspan="3">Operations supported improvements in competition, a strong domestic priority. Bank AAA and lending operations helped to catalyze a policy debate on how to push forward the competitiveness agenda.</td><td>Satisfactory</td></tr>
<tr><td>Labor Regulations and Institutions</td><td>Increased flexibility for labor market contracts and moderate gains in the public training regime. However, no progress in addressing key obstacles of high non-wage costs and high minimum wages.</td><td colspan="3">Bank AAA consistently and competently diagnosed key issues, but the Bank did not use its convening power aggressively to advance its policy proposals.[2]</td><td>Moderately satisfactory</td></tr>
<tr><td>Education Policies</td><td>Substantial gains in coverage, including in rural areas, with the Bank making significant contributions to innovative approaches to rural education and financing access of the poor to tertiary education. Although test scores in international assessments improved modestly between 2003 and 2006, these scores remain below-average.</td><td colspan="3">Bank made significant contributions to innovative approaches to rural education and financing access of the poor to tertiary education.</td><td>Satisfactory</td></tr>
<tr><td>Social protection</td><td>Significant gains in coverage of social safety nets. However, longer-term financing of social protection (including health insurance) in a manner that does not impose an undue burden on formal sector remains a challenge</td><td colspan="3">The Bank contributed importantly to improving the design and implementation of CCTs and to broadening the scope of health insurance for informal sector workers. More attention should have been paid to longer-term financing and sustainability from the outset.[3]</td><td>Satisfactory</td></tr>
<tr><td rowspan="6">Combined rating of MILES outcomes and of higher order outcomes (at right).</td><td rowspan="6"></td><td>Outcomes during ten years ending in:</td><td>1997</td><td>2007</td><td rowspan="6">Moderately satisfactory</td></tr>
<tr><td>Slower (per capita) GDP growth (average)</td><td>2.0</td><td>1.4</td></tr>
<tr><td>Lower Poverty (eop)</td><td>52.7</td><td>45.0</td></tr>
<tr><td>Stable Employment Growth (average).</td><td>2.3</td><td>2.3</td></tr>
<tr><td>Higher Unemployment (eop)</td><td>9.8</td><td>10.7</td></tr>
<tr><td>Higher Adjusted (per capita) GNI Growth (average).</td><td>1.2</td><td>1.6</td></tr>
</table>

Note: AAA= analytic and advisory activities; CCT= conditional cash transfers; eop=end of period; GDP= gross domestic product; GNI= gross national income; MILES= Macroeconomic conditions, Investment climate and infrastructure, Labor market regulations and institutions, Education and skill development; and Social safety net.

(as reflected, for example, in investment surveys and econometric analysis of constraints on productivity and employment).

In terms of effectiveness, the picture is more mixed. Much has been achieved: fiscal stability and financial sector soundness have been restored; the investment climate significantly improved; some greater flexibility was injected into labor contracts and training systems improved, even if weaknesses remain; and social safety nets have been widened. Although attribution is difficult, the evidence discussed in this chapter suggests that Bank activities made an important contribution in all of these areas.

The main areas where little has been achieved concern the interconnected issues of high payroll costs and the financing of social insurance, which cannot be resolved without addressing the considerable remaining rigidities in the tax and expenditure systems that Bank-supported macroeconomic programs failed to remove. In this area, although the Bank-supported fiscal adjustment operations contributed importantly to the restoration of fiscal stability, they promised more than could be delivered to eliminate structural rigidities given political economy constraints. A summary of the ratings for overall outcomes and Bank performance is shown in Table 2.1.

This chapter summarizes the employment and earnings growth outcomes, the exogenous factors and policies with a bearing on those outcomes, the impact of those factors and policies on the outcomes, and the Bank's support for the policies.

Growth, Employment, and Earnings Outcomes

Table 2.2 provides key indicators of Colombia's performance relating to growth, employment, and earnings. Colombia's GDP growth from 1970 to 2007 averaged 4.0 percent but decelerated markedly, with major recessions in the early 1980s and late 1990s. The latter recession (1998-99) was especially severe, with real GDP contracting by 4.2 percent in 1999. Average annual per capita GDP growth declined from 2.0 percent during the 1988-97 decade to 1.5 percent during 1998-07, the period covered by this study. Long-term poverty trends show a substantial decline that was disrupted by the 1998-99 recession, but eventually resumed as growth recovered. Inequality also increased through the recession and then declined. However, unlike poverty, inequality does not show a net long-term decline.

Average growth rates of 4 percent over 1970-2007 were punctuated by major recessions in the early 1980s and late 1990s.

Table 2.2 Colombia: Key Economic Trends, 1970–2007

Indicator (percent, except wage index)	1970–1975	1976–1980	1980–1985	1986–1990	1991–1995	1996–2000	2001–2005	2006–2007
GDP growth (period average)[1/]	5.7	5.4	2.2	4.9	4.1	0.9	3.4	7.2
Per Capita GDP Growth (period average [1/]	3.2	3.0	0.1	2.9	2.2	-0.8	1.8	5.8
Poverty (Headcount Ratio) (end year) [1/]				48.6	46.2	51.7	50.3	47.9
Gini Coefficient (end year) [1/]	52.8	54.5	53.2	49.1	55.9	56.3	58.0	59.0
Labor Participation Rate (end year) [2/]				57.1	56.9	61.8	60.0	57.6
Employment-to-Population (end year) [3/]				52.8	52.3	51.5	53.3	52.1
Unemployment (end year) [4/]				7.6	8.1	16.7	11.2	10.7
Wage Index (Manufacturing) (end year) [5/]				89.8	109.6	130.1	133.7	136.5

Sources: See *Appendix D. Colombia: Annex Tables* [1/] *Table D.1* [2/] *Table D.2* ; [3/] Table D.3 [4/] Table D.5 [5/] Table D.4
Note: GDP= gross domestic product.

Labor market outcomes are influenced by both policies and exogenous factors that determine the supply and demand for labor, interacting in complex ways to affect both wages and employment. For example, in Colombia it appears that a combination of influences--some stemming from domestic policies (e.g. tax policies favoring investment and hence more capital-intensive production) and some from changes in the structure of global demand and technology—have increased the demand for skilled labor relative to unskilled labor. This combined with factors that have increased the supply of unskilled labor, especially in rural areas (e.g., increased female participation rates from poor households and the displacement of rural population by the armed conflict), has meant an increase in relative wages for skilled workers. This trend has coincided with the substantial segmentation/informalization of Colombia's labor markets—which most analysts attribute in large part to specific domestic policies.

The participation rate rose by about 5 percentage points during the recession, but has declined steadily since then (see table 2.2). These changes largely reflect fluctuations in female participation caused by the interaction of two factors: (i) a long-term trend of structural increase in women's participation in the labor force that is attributable to their rising educational levels, increases in the proportion of households headed by women, and declines in fertility rates (see Arango and Posada 2002); and (ii) a substantial cyclical component as women sought work during the recession to offset declining household incomes. As a result, the female participation rate rose by a striking 10 percentage points (to over 57percent) during 1995-2000 as large numbers of adult females, especially from poorer households, joined the labor force. The participation rate declined again in recent years as stronger growth reduced pressure on household incomes.

Unemployment outcomes mirrored the recession-recovery cycle in GDP growth. The unemployment rate rose sharply during the 1998-99 recession and was only slowly reversed. The rise in the unemployment rate occurred primarily through an increase in the labor participation rate driven by rising female labor participation, although a short-lived decline in the employment-to-population ratio was also a contributory factor. Annual employment growth averaged 2.7 percent during the review period (equal to employment growth during the prior decade) and the employment-to-population ratio declined briefly during the recession. It increased during the economic recovery and declined toward the end of the review period to about its original level in 1997.

Unemployment outcomes mirrored the growth cycle, with employment growth averaging 2.7 percent over the period.

Female unemployment rates were consistently higher than those of men. The female urban unemployment rate (in 7 major cities) reached a peak of 24.5 percent in 2000 and was still 14.5 percent in 2007. The unemployment rate fell as growth rebounded, with labor participation rates declining slowly and the employment-to-population ratio recovering. Unemployment remained high for a number of years, not regaining its pre-recession levels until 2006-07.

Unemployment rates were consistently higher for women.

Labor earnings reflect two contrasting trends: an increase in formal sector wages combined with a reduction in the relative size of formal sector employment and a decline in informal sector wages combined with an increase in informal sector employment.[4] GNI and household survey data suggest that average incomes declined after 1997 and up to some point of the first half of the 2000, and then recovered after about 2003 (see Appendix D, Table D.4

Earnings were influenced by increased formal sector wages offset by a reduction in the size of the formal sector and a decline in informal sector wages.

Factors Underlying the Outcomes

Exogenous Factors. The performance depicted above was influenced by both exogenous factors and policies determining growth as well as the supply and demand for labor, all interacting in complex ways to affect both wages and employment. Three key ***exogenous (non-policy) factors*** influenced Colombia's economic and employment performance during the period reviewed:

- The country's security situation deteriorated toward the end of the Pastrana administration (1998-2002) and improved thereafter.
- After deteriorating in the late 1990s, Colombia's terms of trade improved dramatically—rising by about 50 percent in the last five years as prices for oil, coffee, and other commodities boomed because of strong global growth.
- Access to capital markets declined in the late 1990s following the Asian crisis, but increased in recent years.

Colombia has made major progress in policies affecting economic performance and the labor market.

Policies. Partly in response to the above developments, Colombia made major progress over the 1998-2007 period in policies that affected economic performance and the labor market. Some problems have not been resolved, however, and new challenges have arisen. Appendix B presents detailed outcome indicators in 1998 and 2007, the two end years of this evaluation.

Policy progress and the remaining challenges are summarized as follows.

Policy Achievements

- After deteriorating at the end of the 1990s, macroeconomic stability was restored, with lower fiscal deficits and public debt, as well as a stronger financial sector.
- Following stabilization, other policies influencing the investment climate were greatly improved.
- Some better flexibility was introduced into labor market contracts.
- Coverage of primary and secondary education was expanded, and opportunities for access to tertiary education by the less well off were improved. However, improving the quality of education has been more difficult.
- Social safety nets were expanded, most notably through the introduction and rapid expansion of conditional cash transfer (CCT) programs, linked to school attendance and health interventions for children.

Some closely interlinked challenges remain.

Remaining Challenges

- Many fiscal rigidities remain (for example, the tax system is not sufficiently broad-based and widespread earmarking of expenditures continues).
- High non-wage (payroll) charges interact with high minimum wages to constrain job growth in the formal sector.
- An exit strategy for participants in the rapidly expanding CCT programs in a manner that maintains their fiscal sustainability and fosters good incentives for employment has not yet been designed.

The remaining challenges are closely interlinked, since reducing the heavy non-wage charges would require shifting the financing of social insurance and other expenditures away from payroll taxation toward the general budget. This is not possible without further fiscal reform.

Link of Outcomes to Exogenous Factors and Policies

Colombia's recession (Table 2.2) and poor total factor productivity (TFP) performance in the late 1990s should be attributed partly to deteriorating external conditions, including reduced global growth and curtailed access to capital in Latin America. However, Colombia's recession was deeper than normal, with the first decline in the *level of* GDP in several decades. This was due, in part, to the poor investment climate resulting from adverse security conditions and the weak fiscal performance and disruptions to the financial sector at the time. Conversely, recovering growth after 2002 reflected better external conditions and an improved investment climate. These improvements were due to improved security and policy actions to facilitate the operation of businesses. Poverty and inequality trends mirror the cycle described above. These trends can ultimately be largely explained by the same exogenous and policy developments that determined the GDP recession and recovery.

The path of labor market outcomes is also largely attributable to the factors behind the GDP cycle. In addition, the inflexibility of the labor market in response to a fall in demand, together with an increased supply because of higher, primarily female labor force participation, caused a doubling of urban unemployment to about 20 percent in 2000. Female unemployment rates were consistently higher than those of men. The unemployment rate declined as growth rebounded, but it remained high for a number of years, not regaining its pre-recession levels until 2006-07. It increased again more recently, possibly in response to the global economic crisis.

Labor market outcomes are attributable not only to the factors affecting the GDP cycle, but also to inflexibility in the labor market, as well as high unemployment among women.

Trends in labor participation largely reflect changes in female participation, which had increased over a long period (since about 1970) as a result of increased education, an increased share of female heads of households, reduced fertility, and an increased average age of children in households (Arango and Posada, 2005). During the period reviewed, female participation increased further and then declined again as women sought to offset changes in the earnings of other household members. The employment-to-population ratio declined briefly because of the recession and then increased again as the economy recovered.

However, the pace of employment growth in recent years did not match the acceleration in output growth. In particular, while formal employment has been facilitated by more flexible labor contracts, it was hampered by high minimum wages and payroll taxes. Without any downward wage flexibility, the formal market adjusted to the decline in labor demand during the recession through job losses; in contrast, the self-employed market increased in size—absorbing about one-third of laid-off wage earners[5]—through large reductions in average earnings Accordingly, Figure 2.1 shows that the ratio of salaried workers to self-employed workers declined as the ratio of salaries to self-employed earnings increased.

The Bank's Strategy and Contribution

The Bank's support was aligned with Colombia's development strategies, adapting to several governmental administrations.

Overall strategy, objectives, and political constraints. The Bank's support for Colombia was aligned with the national development strategies of the Pastrana (1998–2002) and Uribe administrations (2002-2010). However, this reflected flexibility in adapting the Bank's program as circumstances evolved. In practice, the role of the Country Assistance Strategy as a strategic planning instrument was limited for much of the period. The 1997 CAS was soon overtaken by the 1998-99 crisis. The 2002 CAS was prepared based on discussions with the incoming Uribe administration, but was finalized six months before the government's own National Development Plan. Differences in approaches between the two meant that the Bank's program had to be adapted to keep it aligned with the government's strategy. The judgment of the 2008 review of the CAS Completion Report was that "the scope of the CAS was very large and (at least in hindsight) overly ambitious. The Bank committed itself to deliver on some reforms which ended up having no government buy-in or not being its priorities or not being realistic given the country's political economy. As a result, these reforms and related Bank support foreseen in the CAS did not materialize…."[6] These conclusions were supported by the views of a number of interviewees for this evaluation, who said that the Bank had adapted well to the government's strategy and objectives. However, the CASs had not played a central role in setting priorities for Bank activities.

Figure 2.1: Evolution of Relative Formal/Informal Sector Sizes and Wages and Salaried/Self-employment, 1984–2006

Source: World Bank estimates from Household Surveys. See also Mondragon-Velez et. al. (2009). The smooth lines are included to depict the trends in relative employment (............) and relative wages(- - - -).

The CASs had few employment and earnings objectives, but the Bank engaged heavily in all areas of the MILES framework.

The CASs contained few explicit objectives for employment and earnings against which the overall effectiveness of Bank support in this dimension can be judged. The only employment-related quantitative objectives mentioned are: (i) in the 1999 CAS Progress Report, the training of 60,000 youths for the job market (achieved) and creating 80,000 jobs through labor-intensive public works (not achieved) and, (ii) in the 2002 CAS, reducing by half the gap between female and male unemployment rates (no reduction achieved).

Relations between the Bank and the Colombia were excellent, but many observers thought that the Bank had been too timid on some politically sensitive matters.

Throughout the evaluation period, the Bank was heavily engaged in all areas of the MILES framework, although that framework was never used in the various CAS papers. However, the relative emphasis changed over time. Following the 1998-99 crisis, the Bank supported the government's macroeconomic stabilization efforts through a series of adjustment loans focused on the fiscal and financial sectors. It also pioneered approaches to using conditional cash transfers to strengthen the social safety net. Since 2002, reflecting the government's priorities and concerns that the ongoing economic recovery was slow to yield better employment and social outcomes, there has been a greater emphasis on improving competitiveness (through the investment climate and labor market reforms), and on improving the social risk management system.

Three general points about the Bank's contribution emerged from the interviews. First, almost all interviewees characterized the relationship between the Bank and Colombia as excellent. The quality of the Bank's policy analysis was judged to be high and the practice (followed frequently but not always) of involving Colombia-based researchers had helped to ground the analysis in country-specific realities. Second, the custom of preparing a set of "policy notes" on key issues for each new government has had an important impact on the domestic policy debate. Third, despite this very positive overall view, many (but not all) of those interviewed in Colombia thought that the Bank had been "too timid" in advancing its views on some critical, but politically sensitive, matters—most notably the interlinked issues of high payroll charges, the financing of social safety nets, and incentives for formal sector employment.

Bank assistance and interventions. Discussion of the Bank's contribution is organized around each component of the MILES framework. Appendix C provides details of major loan operations with substantial MILES components, together with any available IEG assessments of outcomes and Bank performance.

*Macroeconomic policy***.** Helping Colombia restore fiscal and financial sector stability was a central element of the Bank's strategy from 1999 onward. The key vehicles for this purpose were seven structural adjustment and development policy loans approved between FY2000 and FY2005.

Outcomes relating to fiscal and institutional reform fell short of targets.

The outcomes of the four loans to support **fiscal and institutional reform**, negotiated in close collaboration with the International Monetary Fund (IMF),[7] collectively fell well short of target, both in the overall magnitude of fiscal adjustment and progress in addressing the key rigidities. Nevertheless, although the outcome was messy—with many "second best" solutions to the institutional challenges (such as the arrangements for transfers to sub-national governments) and the eventual fiscal adjustment aided by stronger growth and higher oil prices—the result was still a major reversal in an unsustainable trend for Colombia's fiscal deficit and public debt. The Bank contributed to this turnaround, even if the outcome was not fully satisfactory. Key messages are:

- The loan targets overpromised the amount of fiscal adjustment that could be delivered, especially in the early years, given the political constraints on the government.
- The Bank's response to the Executive branch of government's difficulties in moving its proposals through Congress was often to set ever finer loan benchmarks on stages of processing the reform packages. This was not effective.
- Nevertheless, Bank support did have a significant positive impact. For example, its technical support for strengthening of

tax administration was identified by many interviewees, including IMF staff, as a critical contribution.

- The main unmet challenge is how to finance social insurance/protection in a manner that will not hamper strong employment growth. The Bank's AAA has clearly identified the problem, but has not been successful so far in helping the government to address it.

The Bank made significant contributions to financial sector reforms.

The Bank has been heavily involved in supporting Colombia's **financial sector reforms** through an initial financial sector adjustment operation undertaken at the height of the banking crisis and two subsequent programmatic loans. It has also provided critical diagnostic inputs, including a 2004 report on the supervision of financial conglomerates. More recent reforms, including preparation of a new insolvency law, have been supported under the series of Business Productivity and Efficiency development policy loans (DPLs).

Interviews with officials confirmed the judgment of earlier IEG assessments (IEG 2008) that the Bank had made significant contributions in the following areas: (i) completing the clean-up of the banking system, including the upgrading of mechanisms for bank resolution and the disposal of assets; (ii) the design and implementation of strengthened banking regulation; (iii) reforms to strengthen the housing finance market which had been severely weakened by the 1998-99 crisis; and (iv) reforms to strengthen the institutional framework of capital markets. The first two reforms contributed to the improved outcomes for the financial health of the banking system. Interviewees generally agreed that two types of inputs from the Bank had been especially useful. First, the Bank's influence on the policy debate through its convening power had been high (for example, it had helped to initiate the process of formulating the financial sector reform law now in Congress, through a series of high-level seminars with policy makers and outside experts). Second, it had contributed specialized technical knowledge to help the authorities draft laws and regulations following the broad direction set by the government.

Operations aimed at improving financial soundness were more successful than those aimed at financial deepening.

The components of the Bank's operations aimed at improving financial soundness have had more success in terms of identifiable outcomes than those aimed at financial deepening. Regarding the latter, the institutional frameworks have been strengthened (for example, for mortgage finance and through a new Securities Law), but the outcomes so far have been mixed. For example, housing credit still remains low almost a decade after the crisis. Two important constraints to financial deepening could not be addressed comprehensively primarily because of political economy reasons. The financial transactions tax remains a significant obstacle to efficient financial intermediation and interest rate caps have crowded some borrowers out of the formal financial system. However, the Bank's operations have contributed to some improvements at the margin.

Investment climate. The Bank's support for actions to improve the business environment increased substantially in the past 4-5 years as competitiveness became a greater priority for the government. Analytical work undertaken jointly with the government, most notably the 2005 Country Economic Memorandum (CEM) on Competitiveness, but also AAA that analyzed impediments in particular sectors, provided the basis for a series of three Business Productivity and Efficiency DPLs.

The Bank focused on investment climate issues critical to economic performance and made significant contributions.

Although it is too early to assess the outcomes of some of these activities, the evidence suggests that the Bank support was focused on issues that were most critical to economic performance and made significant contributions on a number of issues:

- The reforms supported by the loans addressed many of the most critical constraints identified in investment climate surveys and in econometric analysis of firm-level productivity. The only variable with a sizable influence on productivity not addressed was the degree of labor informality.
- A major streamlining of administrative procedures affecting business activities and foreign trade was implemented during 2005-07. These reforms were high on the government's agenda, so they cannot be attributed specifically to the Bank's operations. Nevertheless, officials said the Bank had played a catalytic role through its lending and the Doing Business rankings. Its detailed studies on particular issues (administrative procedures for doing business, intellectual property regulations, foreign trade procedures) also had a substantial influence on the changes implemented.
- Many interviewees said that the 2007 Bank report on regional competitiveness[8] had a major effect on the domestic policy debate on how to push forward the competitiveness agenda. Many officials flagged this as an example of the kind of innovative, fast-response analytical work—tailored to Colombia's specific circumstances—that is wanted from the Bank.
- The business productivity DPLs supported regulatory changes to strengthen private participation in the provision of infrastructure. Interviewees said these inputs had helped to improve the framework, but that problems still existed with the public/private concession contracts in some areas, most notably for roads. The Bank had provided policy advice on the issues, but some thought it could have been more proactive.
- Some interviewees in the Bank noted that some of the more ambitious agenda items set out in the first business productivi-

Analytic work on labor market issues was of high quality, and identified a short list of clear reform priorities.

ty DPL in 2005 had been scaled back in the subsequent loans as the government lost momentum in pushing its reforms through Congress.

Labor market policies. The Bank has undertaken a wide range of analytical work on Colombia's labor market, most notably an assessment of the links between labor market outcomes and poverty (The World Bank, 2002a); and the 2005 report on *Labor Market Adjustment, Reform and Productivity* (2005a), which analyzed factors underlying labor market segmentation. Currently, the Bank is providing advice on income generation, including active labor market policies. Lending operations with significant direct labor market components included the FY02 Community Works project, which supported the *Empleo en Accion* program, the FY03 Social Sector Structural Adjustment Loan (SAL), and three programmatic loans supporting labor reform and social development policy (Programmatic Loan Supporting Labor Reform and Social Development Policy (PLaSSALs); see Appendix C).

The review of the documentary record and interviews in Colombia and with Bank staff suggest the following messages:

- The Bank's analyses of labor market issues were of high quality and provided convincing, evidence-based analysis. They were conducted in close collaboration with Colombian researchers and focused on key elements of the domestic policy debate, as well as identifying a short list of clear reform priorities. The AAA outputs gave a clear message about the importance of easing the disincentives to formal sector employment caused by high minimum wages and high non-wage charges, as well as emphasizing the close links with reform of social insurance.
- Although there was widespread praise for the quality of the Bank's analysis, many of those interviewed in Colombia thought the Bank had been too timid in pressing the implications of its analysis in the broader policy debate.
- The impact of the Bank's support on the 2002 labor reforms is not clear. Its most significant, indirect contribution was probably through the influence of its analysis on the domestic policy debate, beginning many years before the reforms were eventually implemented. The PLaSSALs probably had little effect on the reform, which was approved by Congress well before the first of the loans was negotiated. Rather, the main contributions of these loans in the area of labor market policies was in implementing some aspects of the law, especially improvements in the training system and in fostering a few useful changes at the margin to the social insurance system that

helped reduce disincentives to employment even though they did not address the central obstacles noted earlier.

- Bank support for a range of government pilot schemes to boost employment of vulnerable groups in the years following the recession were unsuccessful. For example, a community works project to provide temporary employment to poor workers had high costs per job created and low ratios of income transferred to the poor. In another case, tax waivers and temporary wage subsidies for hiring hard-to-employ groups had very low uptake.

Future efforts should focus on high payroll taxes and the minimum wage, and bring fresh ideas on promoting better quality employment and wage growth in the informal sector.

Looking ahead, interviewees said the Bank's main inputs on labor market policies in the next few years should cover two areas (although considerable differences of view existed on their relative importance). The first was a sustained effort to use the Bank's policy analysis and convening power to influence the policy debate on the central issues of high payroll taxes and the minimum wage. (Many of those interviewed said that, without progress on these issues, other policy actions would yield limited gains. In contrast, a few thought the Bank had already said all it could on the issue). The second area was to draw on its international experience to bring fresh ideas on how to promote better quality employment and wage growth in the informal sector. This should include further analysis of how to refine social protection policies to decrease disincentives to employment and to strengthen the links with human capital development to make recipients more productive and employable.

Education and training. The Bank's assistance in education involved a combination of policy and investment lending as well as AAA that addressed specific issues. Other policy loans, notably the PLaSSALs, included a significant education component. The Bank also conducted a review of public training reform issues (the role of Servicio Nacional de Apprendizaje (SENA) in 2004, but—at the government's request—the report was never finalized or made public. The Bank's strategy was to support the government's agenda of expanding coverage and improving the quality of basic and secondary education. These goals were recognized as key to improving competitiveness and growth, although no explicit link was made to employment objectives. It is difficult to identify the specific impact of Bank operations on overall outcomes, but the following points are worth noting:

- Targets for the expansion of primary and secondary enrollment were met or exceeded. Total net enrollment increased from 7.8 million in 2002 to 9.2 million in 2007, in line with the target under the PLaSSALs. Bank support for policy reforms helped to generate efficiency gains and improve incentives to local authorities to enroll students.

- Bank technical and financial support helped the government introduce a number of initiatives to improve quality, including teacher quality testing mechanisms and systematic student testing. However, student performance on recent international assessments was below average.
- Many interviewees in Colombia said that the Bank's Rural Education project had played a major catalytic role in helping the authorities reform its approach to delivering education services in poor, hard-to-reach rural communities. The Bank's technical and financial support for innovative curriculum methodologies was especially influential.
- The Bank contribution most frequently mentioned by interviewees was the higher education project, ACCES (*Acceso con Calidad a la Educacion Superior*). It provided financial resources and technical assistance to develop a student loan scheme addressing the problems of demand for formal education. It is estimated to have increased access to tertiary education by 30 percent, especially among lower-income students.
- In the area of non-formal training, the Bank contributed significantly to what was only a "partial" success. SENA used to be a virtual monopoly, with high unit costs and output not well suited to private sector employment needs. Substantial headway has been made in some areas (such as a quadrupling of graduates from SENA training courses, lower costs of training, and progress toward a national framework for defining training standards and needs). However, although private sector training groups have been allowed entry, there are still problems in matching training to private sector needs. SENA continues to play the triple role of financier, provider, and regulator of training. Nonetheless, a number of officials said less progress would have been made without Bank involvement. For example, the benchmarks in the PLaSSALs helped to catalyze progress, even if less than originally expected.

Targets for expansion of primary and secondary enrollment were met or exceeded, but success in the area of non-formal training was only partial.

Social protection. The Bank's AAA work concerning social protection issues included a *Social Safety Net Assessment* (2002a), and the *Poverty Report* (2002b). Key lending included the FY01 Human Capital Protection project, which supported the introduction of the *Familias en Accion* conditional cash transfer program and three subsequent social sector operations that provided additional financing. In addition, the three PLaSSALs heavily emphasized actions to strengthen Colombia's social risk management system and improve health insurance coverage for the poor.

The Bank has made a major contribution to efforts to expand coverage and improve the efficiency of the safety net.

The evidence suggests that the Bank has made a major contribution to the government's efforts to expand the coverage and improve the efficiency of its social safety net. However, it needs to do more to help address issues of long-term fiscal sustainability.[9]

The Bank was one of the principal catalysts behind the introduction of the *Familias en Accion* CCT program in 2000. The Bank and the Inter-American Development Bank (IADB) have been the main sources of program financing since its inception.[10] Interviewees in Colombia attributed to the Bank significant improvements in the program's initial design (including targeting and administration) through an effective mixture of AAA, lending, and close technical collaboration. They also said that the Bank had pressed for a strong monitoring and evaluation system.

Evaluation results showed a significant impact on nutritional health status as well as school attendance in rural areas, with much smaller effects in urban areas. Nevertheless, the government took a political decision to expand the program in urban areas. In light of this rapid expansion, many interviewees said the Bank should have given more emphasis to helping Colombia manage the challenges of sustaining the program efficiently, with suitable exit policies for participants.

Chapter 3
Tunisia

Evaluation Essentials

- Though growth averaged 5 percent during the 1997-2007period, unemployment was persistently high, particularly among women and highly educated young people.
- Growth and stability have helped to spur a modest rise in incomes at the low end of the distribution, contributing to poverty reduction.
- The Bank's strategies have reflected mounting government concern about employment.
- Analytic work contributed to financial sector reforms and helped narrow the gap between the onshore and offshore economies.
- Unfinished reforms have resulted in a disappointing private investment response.
- Labor market policies have been addressed in programmatic AAA, but the advisory work has had very little influence so far.

Introduction

Tunisia's economic performance during the review period was impressive. Of the three countries reviewed in this report, Tunisia had the highest GDP growth rate, which contributed to its sustained record of poverty reduction. Yet, despite this impressive performance, Tunisia's high rate of unemployment of over 14 percent was a major continuing challenge. A particular cause for concern is the fact that more than 20 percent of highly educated young people are unemployed. The economy is creating between 75,000 and 80,000 jobs per year and producing about 70,000 university graduates. This means that, unless the demand for skilled labor can be dramatically increased, or an outlet found for this skilled labor in other countries, unemployment could grow further.

The underlying causes of persistent high unemployment are many and complex. Tunisia's rate of growth is insufficient to absorb the surplus supply of labor. Achieving higher growth is impeded by weak national private investment performance. Investment is undermined by deficiencies in the business environment. Labor market institutions and regulations impede job creation in the formal sector. There is an incongruity between the skills supplied by the tertiary education system and the demands of the labor market, and current social protection policies do not sufficiently encourage labor mobility and enterprise restructuring. There is, as yet, no coherent strategy for increasing employment that simultaneously embraces all of the key factors behind employment creation.

In general, the Bank is well regarded in Tunisia. Using a wide range of instruments, both lending and analytical, it has demonstrated itself to be a useful and relevant partner to the country in meeting its development aspirations. National priorities, expressed in a series of five-year development plans, have found both resonance and support in the Bank's strategy for the country and in its operations.

Throughout the period, the Bank engaged in all five pillars of the MILES framework, though there have been important differences of emphasis. By far the most significant intervention targeted banking and the investment climate. Lending covering these two areas and

Table 3.1 Tunisia: Ratings Summary

<table>
<tr><th></th><th>Outcomes</th><th colspan="3">Bank Contribution</th><th>Rating</th></tr>
<tr><td>Macroeconomy</td><td>Fiscal stability achieved before 1998 and sustained throughout the review period. Basically sound macroeconomic framework with less than 3 percent deficit sustained. Considerable achievements in opening economy to international competition. Shortfalls in reducing non-performing loans of banking system.</td><td colspan="3">Bank contribution marginal but positive on fiscal front. Bank support significant in supporting trade liberalization and facilitation. Medium-term challenges include reducing subsidies and addressing expenditure rigidities.</td><td>Satisfactory</td></tr>
<tr><td>Investment climate</td><td>Private investment remains low despite a wide range of policies and actions with substantial Bank and AAA support. This is partly due to weaknesses in the public sector accountability component of governance. Reform agenda in most areas unfinished. Key governance issues in onshore economy still to be tackled. Reduced discrimination against onshore economy. Opened information and communications technologies (ITC) sector. Impetus of infrastructure privatization waned.</td><td colspan="3">Substantial Bank lending and AAA support. Interventions are of high technical quality and in most cases well appreciated by the authorities. Significant breakthroughs in trade facilitation and improvements to business climate. Main outstanding issues relate to governance, a very difficult area to tackle.</td><td>Satisfactory</td></tr>
<tr><td>Labor market</td><td>Little progress in addressing high minimum wages and labor market rigidities impeding formal sector job creation especially for highly educated young. Most active labor market policies of limited effectiveness and fiscally expensive.</td><td colspan="3">Bank AAA consistently diagnosed key issues but efforts to formulate agreed employment strategy lost momentum. Persistent gender issues in labor market performance require analysis.</td><td>Moderately satisfactory</td></tr>
<tr><td>Education</td><td>Near universal primary coverage and literacy for both genders. Improvements in vocational training and rapid expansion in tertiary education. Primary and secondary quality issues being addressed. Key challenges remain in the tertiary subsector, which is failing to meet requirements of rapidly increasing graduate population and labor market. Potential for outward migration of educated labor and policy implications require analysis.</td><td colspan="3">Long-term support has been critical in achieving near-universal primary and high secondary coverage for both genders. The focus on quality improvement at primary and secondary levels is appropriate. Diagnostic AAA on tertiary has been useful.</td><td>Satisfactory</td></tr>
<tr><td>Social protection</td><td></td><td colspan="3">Substantial coverage of pensions, health care and direct subsidies for low income households. Bank analytical contribution to social security reform. Lack of unemployment insurance contributes to labor market rigidities.</td><td>Satisfactory</td></tr>
<tr><td rowspan="6">Combined rating of MILES outcomes and of higher order outcomes at right.</td><td rowspan="6">Moderately satisfactory</td><td>Outcomes during ten years ending in:</td><td>1997</td><td>2007</td><td rowspan="6">Satisfactory</td></tr>
<tr><td>Faster per capita GDP growth (average)</td><td>2.3</td><td>3.9</td></tr>
<tr><td>Lower Poverty (eop)</td><td>6.2</td><td>3.8</td></tr>
<tr><td>Stable Employment Growth (average)</td><td>2.7</td><td>2.7</td></tr>
<tr><td>Lower Unemployment (eop)</td><td>15.9</td><td>14.1</td></tr>
<tr><td>Higher Adj. per capita GNI Growth (average)</td><td>2.4</td><td>4.3</td></tr>
</table>

Note: AAA= analytic and advisory services; eop=end of period; GDP= gross domestic product; GNI= gross national income; ICT= information and communications technology: MILES= Macroeconomic conditions, Investment climate and infrastructure, Labor market regulations and institutions, Education and skill development; and Social safety net.

underpinned by a substantial body of analytical work, has totaled nearly three times as much as that of the other four pillars combined. While the Bank's programs were largely successful, its efforts failed in a number of areas, including the development of more effective dialogue on public governance issues that affect investment. So too, its good diagnostic work on labor market policies could have had a stronger impact. In addition, Bank support could have had a better impact on education expenditures to improve education quality, particularly of higher education.

Table 3.1 summarizes the main factors considered in this assessment of Bank support for employment creation and earnings growth as well as the corresponding ratings. As a whole, the Bank's strategy and interventions were highly relevant in addressing Tunisia's key employment and earnings-related issues. Results, however, have been mixed. In macroeconomic policy, the Bank's role has been positive but marginal on the fiscal front. Trade liberalization and facilitation have benefited from both AAA and lending. Regarding the investment climate, although considerable progress has been achieved in specific policy areas, the reform agenda is far from complete, and private investment has not yet convincingly responded.

Until now, the Bank has had little impact on policies governing the institutions and operations of the labor market. Despite six years of programmatic analytical work and technical assistance, the government has not adopted any of the Bank's key policy recommendations. With respect to education, a great deal has been achieved at the primary and secondary levels, and the Bank has played a major role in this. The impact on policy has been more muted at the tertiary level where, once again, there is less than full agreement on some key policy issues.

This chapter summarizes the employment and earnings growth outcomes, the exogenous factors and policies with a bearing on those outcomes, the impact of those factors and policies on the outcomes, and the role of the Bank's support for the policies.

GDP growth averaged 5 percent during 1997-2007, outpacing the preceding two decades.

Growth, Employment, and Earnings Outcomes

Viewed from a long-term perspective, Tunisia's real per capita incomes have nearly quadrupled since independence in 1954. Tunisia's GDP growth averaged 5.1 from 1970 to 2007, decelerating through the late 1980s and accelerating during the first half of the 1990s. The average GDP growth rate increased from 4.1 percent during 1987-97 to 5.0 percent during 1997-2007, with the acceleration of growth taking place in 1996, just before the beginning of the period under review.

Employment growth averaged 2.7 percent, but there has been no discernable trend in participation and employment since 1984.

The 1997-2007 growth was faster than growth in the previous two decades (4.6 percent and 4.1 percent), but less rapid than during 1967-77. Average annual per capita GDP growth increased from 2.3 percent during the 1988-97 decade to 3.9 percent during 1998-2007. The headcount poverty ratio, which had already fallen to about 6.2 percent by 1995, declined further to 3.8 by 2005.[1] Income inequality declined in the late 1990s and increased thereafter through 2000, the last year for which data are available.

Annual employment growth in Tunisia averaged 2.7 percent during the review period (equal to employment growth during the prior decade) and the employment-to-population ratio increased by about 2.1 percentage points, the result of a 1.5 percentage point increase in participation and a 1.9 percentage point decline in unemployment. These changes do not reflect any strong long-term trends. Indeed, there has been no discernable trend in both the labor participation rate and the employment-to-population ratio since 1984, the first year for which statistics are available.

There is very little data regarding earnings. Formal sector wages increased during the period, as well as income in general, as indicated by GNI data. There is no information on informal sector wages.

Exogenous factors include economic growth in export destination countries, competition for exports, and a demographic transition leading to higher growth in the labor force.

Factors Underlying the Outcomes

Since 1999, Tunisia's performance has been influenced by both exogenous (non-policy) factors and by policies. These have interacted in complex ways to affect outcomes, including growth, poverty, employment, and wages.

Exogenous Factors. The main exogenous phenomena have been:

- Strong external economic growth in the main destination countries for Tunisian exports.
- Increasing international competition for Tunisia's main export products, especially textiles, following the ending of the Multi-Fiber Arrangement and the enlargement of the EU.
- Avoidance of direct participation in Middle East conflicts.
- Vulnerability to political turbulence in the region, particularly after the events of September 11, 2001.
- Susceptibility of the agricultural sector to periodic droughts (four consecutive droughts during 1999-02)
- Demographic transition, leading to high growth of the labor force and especially of the expected number of graduates from the secondary schools and the universities.

Policies. At the same time, the authorities have carried out a wide range of policies affecting economic and employment performance. Policy progress and remaining challenges are summarized as follows:

Policy Achievements

- Sustained macroeconomic stability.
- Continued trade openness, particularly under the EU-Tunisia Association Agreement, signed in 1995.
- Continued foreign investment openness, particularly with the establishment of the offshore economy from 1972 and the modified investment code in 1992.
- A strong defense and promotion of women's rights.
- Implementation of active labor market policies, including wage subsidies, training schemes and other forms of assistance.
- Substantial investment in education since the 1970s which has led to greatly increased enrollment rates.
- Some improvements in the business climate.

Policy achievements include macroeconomic stability, openness to trade and foreign investment, and promotion of women's rights.

Remaining Challenges

- Tunisia currently faces increased fiscal pressures.
- Private investment performance remains weak.
- Many of the ways in which the labor market is governed, and the nature of labor laws and institutions, impede or fail to encourage job creation in the formal sector.
- Tunisia's higher education system is currently failing to cater to the needs either of its clients (that is, the graduates) or of the economy as a whole, a factor that may have an adverse impact on investment.
- Current social protection policies, particularly the absence of an unemployment insurance system, do not provide adequate income protection to workers.

Challenges remain in all of the MILES framework areas.

Link of Outcomes to Exogenous Factors and Policies

Acceleration of the growth rate from 1986-1995 coincided with the structural adjustment program.

Acceleration of Tunisia's GDP growth rate, from 3.4 percent during 1986-95 to 5.1 during 1990-99, coincides with the ***structural adjustment program*** started in 1987. This program covered increased competition, financial sector liberalization, integration with the EU, public enterprise reform, and privatization of certain sectors. The increased ***stability of the growth rate*** has been another factor behind increased growth levels after 1995. This increased stability has been attributed to export diversification[2] and declining inflation, the latter also achieved before 1998. Despite its satisfactory level, Tunisia's GDP growth rate may well be less than its potential because private investment levels have been considerably below those attained by other successful emerging countries. This could possibly be due to deficiencies in the investment climate.

Table 3.2 Tunisia: Key Economic Trends, 1970–2007

Indicator (percent, except Formal Wage Index)	1970–75	1976–80	1980–85	1986–90	1991–95	1996–2000	2001–05	2006–07
GDP growth period average. 1/	7.9	6.3	4.2	3.0	3.9	5.6	4.4	5.9
Per Capita GDP Growth period average 1/	6.5	3.6	1.5	0.6	1.9	4.2	3.4	4.9
Poverty (Headcount Ratio), end year 1/	22.0	12.9	7.7	6.7	6.2	4.2	3.8	
Gini Coefficient, end year 1/	44.0		43.4	40.2	41.7	39.8	40.0	
Employment Growth period average 6/	3.0	3.1		2.6	2.8	2.6	2.8	2.6
Labor Participation end year 2/			47.6	46.1	45.3	45.3	46.3	46.8
Employment-to-Population, end year 3//			39.8	38.8	38.1	38.1	39.7	40.2
Unemployment end year 4/	14.0	12.8	16.4[3]	15.9	15.8	15.7	14.2	14.1
Formal Wage Index, end year 5/					103.7	100.0	110.9	114.2
Unemployment, end year (Higher Education) 4/			2.3	5.0	3.8	8.6	14.8	19.0

Sources: See Appendix H, Tunisia: Annex Tables: 1/ Table H.1 2/ Table H.2 3/ Table H.3 4/ Table H.5 ; 5/ Table H.4 6/ *Tunisia, National Institute of Statistics.*

Growth and its stability have helped to modestly raise incomes at the low end of the distribution, contributing to poverty reduction.

Still, growth and its stability have been the major drivers of poverty reduction, as measured by growth-incidence curves that have been pro-poor (with the exception of the 1990-95 period). The modest rise in employment and increased productivity and wages, supported by investment in human and physical capital, may explain rising incomes at the low end of the income distribution. Increases in employment resulted from increased demand driven by GDP growth in a rather predictable way. The employment elasticity of growth has been around 0.4 for many years, a level consistent with positive labor productivity and employment growth, and above average in an international comparison for 1999-2003 (see Kapsos 2005, p. 4). Although female employment has increased in recent years, its level remains constrained by the diverse set of factors.

Unemployment remains high by international standards.

However, despite Tunisia's satisfactory rates of economic growth, its unemployment rate, at 14 percent, remains high by international standards. Indeed, the unemployment rate has been persistently high and fairly constant over a long period. This persistency appears to occur because investment-driven increases in productivity that appear to lower unemployment and raise real wages are offset by exogenous real wage shocks (for example, minimum wages) that lead to increases in unemployment.[3] In addition, a demographic bunching of labor force growth and high growth of university graduates due to a significant expansion of universities has also put pressure on the unemployment rate, particularly at high skill levels.

Disaggregation helps explain the performance of unemployment. Unemployment rates vary by level of schooling, from 5.9 percent for the illiterate level to 19 percent for those with post secondary and by gender, with widening differences over time. The unemployment rate for university graduates more than doubled from 8.6 percent in 1999 to 19.0 percent in 2007. There are now over 100,000 unemployed people with tertiary education qualifications. Due to the significant expansion of universities, and rapid increase in the number of secondary students obtaining a Baccalaureate,[4] a growing share of new entrants to the labor force will be university graduates. Already, some 70,000 students are graduating each year from the universities. With the 80,000 total jobs generated by the economy each year, graduate unemployment is rising rapidly. Evidence from a tracer study carried out by the Ministry of Education and supported by the Bank suggests that inadequate skills are another reason for the high unemployment rate among those with tertiary education.[5]

Unemployment rates vary by levels of schooling and by gender.

The gender dimension of participation, employment and unemployment presents something of a puzzle. Despite Tunisia's unswerving defense and support of women's rights, the overall female labor participation rate has risen only slightly since 1999. At about 26 percent today, it remains far below that of men. Although it is somewhat higher than the average for the MENA region (though lower than Morocco, for instance) it is low by middle-income country standards. The survey of 2004 graduates also found significant gender differences: 40 months after graduation, 71 percent of the men had found work compared with only 55 percent of the women.

Overall women's labor participation rate has risen only slightly since 1999, though it remains low by middle-income country standards.

Even in the informal sector, female participation is low compared with other countries.[6] Five factors may explain this low participation. First, registered labor participation rates are considerably lower among rural than urban women. The level of education is lower and both the absolute and relative illiteracy rates are higher, hence there is a strong rural-urban divide. Second, the relatively weak maternity leave regulations and the limited coverage provided by the child care system may impede labor force participation by women. Third, restrictive employment termination regulations, which protect primary workers (usually male and experienced) and those employed at the expense of those seeking employment, may also limit the demand for female workers. Fourth, women show a strong preference for public sector as opposed to private sector employment, and the expansion of the public sector has slowed markedly in recent years. Fifth, notwithstanding Tunisia's progressive record, cultural factors may still play a role.

The Bank's Strategy and Contribution

Overall strategy, objectives, and political constraints. At least since the early 1990s, there has been a close correlation between Tunisia's overall development objectives and the Bank's country strategy. The Bank's strategic documents have often been used by the Tunisian authorities in the preparation of their plans, drawing on an extensive and in-depth policy dialogue.

Since the mid-1990s, the Bank's strategic documents have reflected the government's mounting concern over employment issues.

The government's mounting concern regarding the employment issue, dating roughly from the mid-1990s, has been reflected in the increasing attention given to the topic in the Bank's strategic documents. While the 1996 CAS made little reference to employment *per se*, the focus sharpened considerably in the 2000 CAS, and even more so in the 2004 CAS. The 2004 CAS stated that the "the first and most pressing challenge" facing Tunisia was to reduce unemployment. Added urgency stemmed from the evidence that an increasing proportion of the unemployed were highly educated. In order to meet this challenge, the CAS emphasized the second and fourth pillars of the MILES framework—improving the investment climate and reforming the education system, especially the tertiary subsector. Significantly, the CAS also explicitly recognized the importance of the governance dimension—for the first time in a publicly available Bank document on Tunisia.

The Bank's focus on macroeconomic policy has mainly been on trade liberalization and facilitation.

None of the CASs contains any quantitative performance or output indicators specifically related to the employment issue. , there are no qualitative indicators related to the reform of labor market institutions. Except for a number of quantitative and policy targets in the education sector, the detailed Results Framework, which is used to assess advances in the 2007 CAS Progress Report, is lacking employment-related indicators against which the effectiveness of Bank interventions could be measured.

Bank Group Assistance and Interventions. The following discussion of the Bank's contribution is organized around each component of the MILES framework. Appendix G gives details of major loan operations with substantial MILES components, together with available IEG assessments of outcomes and Bank performance.

Macroeconomic Policy. Tunisia's principal external partner on the fiscal front is the IMF. The Bank's focus has been on trade liberalization and facilitation, though it has supported improved fiscal management at the margin. There has been extensive analytical work on the challenges posed by the evolving external environment, and both AAA and lending operations in trade promotion and facilitation. Two Export Development Loans totaling $72 million were more successful in furthering facilitation than promotion. Among the important achievements have been the modernization of the customs service, dramatic reductions in clearance delays for exports and imports, and simplification of trade documentation. However, there is no convincing evidence that instruments chosen to promote exports were appropriate or that they had the desired effect. The very rapid expansion in manufactured exports is difficult to attribute to Bank intervention.

In reforming the financial sector, Bank interventions were based on high-quality diagnostic work, notably a 2002 FSAP, updated in 2006, and undertaken jointly with the IMF. There have been a number of important reforms—two publicly owned banks have been privatized, regulation and supervision have been strengthened, the Civil Code has been revised to facilitate loan recovery, and vulnerability indicators have improved. However, results were less satisfactory than the Bank had anticipated, and the dialogue was sometimes challenging. Even when acknowledging the need for reform, the government preferred a considerably more gradual approach than that advocated by the Bank and the IMF. Moreover, not all the government's policies or actions had the support of the Bank. The proliferation of public credit institutions, with their overlapping responsibilities, less than fully transparent criteria, and potential for crowding out the private sector, were not in accordance with Bank advice.

High-quality diagnostic work contributed to financial sector reforms.

Investment Climate. The Bank has been very active in supporting investment climate improvements. Three policy-based loans (ECALs) were approved, and were underpinned by a substantial body of analytical work. Results, however, have been mixed. Although considerable progress has been achieved in specific policy areas, the reform agenda is far from complete, and private investment has lagged below target (Table 3.3 Investors, especially Tunisian nationals, have not yet convincingly responded.

Table 3.3 Tunisia: Targets Established in the Fourth Economic Competitiveness Adjustment Loan (ECAL)

Investment growth 2004-2007	Onshore investment	Offshore investment
Target value	+9.7%	+37.9%
Actual value achieved	+6.1%	17.7%

Source: Economic Competitiveness Adjustment Loans IV Implementation Completion Report (ICR) and ICR Review

The lending program had a very strong focus on improving the investment climate.

Bank support has been focused on the following policy areas:

Analytic work focused on narrowing the gap between the onshore and offshore economies.

- The gap between the onshore and offshore economies has been narrowed by a series of measures including: (i) reductions in the regulatory and administrative obstacles to starting and running a business in the onshore economy; (ii) reforming and simplifying the taxation regime to reduce the relative advantages of offshore businesses; (iii) extending the simplification of customs procedures to onshore transactions; (iv) permitting offshore enterprises to sell up to 30 percent of their output in the local market; (v) widening the availability of export promotion facilities to onshore firms; (vi) establishment of a one-stop window, publication of all administrative procedures, and commitment to a time frame with the user having the right to claim damages in the event of delay; (vii) reductions in prior authorizations for foreign direct investment (FDI) in onshore activities; and (viii) substantial reductions in the legal capital requirements to start a business. Moreover, in December 2007, a new Economic Initiative Law was passed that aims to further simplify procedures, facilitate access to financing for small and medium enterprises (SMEs), and reduce the tax burden for onshore businesses. These accomplishments are the result of a productive policy dialogue in which the Bank has successfully brought to bear its international knowledge and experience.

- Unfair competition has been addressed through amendments to the Competition Law promulgated in 2006. It is too early to judge the effects of the new legislation, since businesses have not been surveyed since it came into effect.

The Bank also helped transform the country's information and communications technology sector, and addressed infrastructure bottlenecks.

- The Bank has played an important role in transforming Tunisia's Information and Communications Technology (ICT) sector. Reforms were based on a sector strategy note formally delivered in 2002, after more than two years of intense and productive dialogue. This was followed by a lending operation. According to interview sources, the authorities were particularly impressed by the technical excellence of the Bank team. The result was a decision to open the sector to private investment and to international competition. Issues yet to be addressed include the predominance of the still 65 percent state-owned Tunisia Telecom, limited collaboration between enterprises and universities, a weak and fragmented regulatory framework, and poor connectivity among small firms which are the basis of Tunisia's industry.
- The Bank has also played an important role in addressing infrastructure bottlenecks. In addition to lending to finance infrastructure improvements, the Bank helped to develop a legal and regulatory framework permitting private sector participation in large-scale infrastructure investments (PPI). The AAA was of good quality. However, early government enthusiasm waned in the face of departmental rivalries. Although the government agreed to adopt a strategy to encourage PPI, subsequent progress has been limited.

An unfinished reform agenda for infrastructure has resulted in a disappointing private investment response.

The disappointing private investment response to business environment reforms is due, first, to the unfinished reform agenda and, second, to prevailing ***weaknesses in economic governance***. Although Tunisia is given relatively favorable ratings in many of the international investment climate indices, it does less well when indicators isolate the governance factor more precisely. Such indicators have been published every year since 2005 in the Bank's "Economic Developments and Prospects for the Middle East and North Africa (MENA) Region." Although Tunisia is ranked in the top half of countries worldwide for Trade Policy, Business Climate, and Quality of Public Administration, it is ranked in the bottom quartile worldwide for current status and in the bottom half for progress made since 2000 regarding Public Sector Accountability.

The Bank has approached this difficult issue through informal dialogue, where senior country and regional management engaged with the Authorities, and constructive criticism of some policies. The Bank also sharpened its analytical tools for measuring perceived comparative performance in the governance area. Finally, the Bank took firm action where it perceived governance issues in areas where it is directly affected.[7] It is hoped, that by such measures, the Bank's reputation in a difficult situation will be protected.

Box 3.1 Tunisia: Areas of Support Under the Employment Programmatic Analytic and Advisory Assistance (PAAA)

1. Development of modeling tools to evaluate the employment impact of different sectoral growth patterns.

2. Survey of the business environment, including employment issues.

3. Diagnosis of the constraints in employment creation from the point of view of SMEs.

4. Improvement of labor market information and dissemination for both enterprises and households.

5. Evaluation of employment programs (ALMPs, including training), and a review of policy options, based on international experience, to improve the social protection system.

Source: 2004 Country Assistance Strategy and Mission Findings
Note: ALMP= Active Labor Market Policies; PAAA= Programmatic Analytical and Advisory Assistance; SME= small and medium enterprise.

Labor Market Policies. The Bank has no lending program in Tunisia in the area of labor market institutions and regulation**.** Rather, it has relied on programmatic analytical and advisory assistance (PAAA), a multiyear program of studies, technical assistance,[8] and capacity building. During the first stage, which ended in 2004, a major piece of diagnostic analytical work was completed covering all aspects of the demand for and supply of labor, as well as the functioning of the labor market. The program identified five areas for Bank assistance

Programmatic analytical and advisory assistance has been the principal tool in addressing labor market policies.

over the coming three years (Box 3.1). Work on these topics commenced following the signing of a Memorandum of Understanding with the government. Based on this work, an integrated strategy for employment creation covering all dimensions of the MILES framework was to be developed. A Policy Note containing the outlines of such a strategy was completed in mid-2008.

The PAAA program has had very little influence on the labor market policies so far.

Although the exercise started well and at the right strategic moment, the Bank's PAAA has had almost no influence on labor market policies. The early momentum of the diagnostic phase has not been sustained. The 2008 Policy Note is of a high technical quality and contains detailed recommendations on all aspects of labor market policy, including the demand for and supply of labor. However, it is clear from the interviews with Tunisian officials that the recommendations, and even the analysis, do not reflect a consensus within the government. The PAAA task team has changed composition and leadership a number of times since the outset of the program. The Tunisians perceive that the degree of engagement of the Bank—frequency and length of missions, depth of discussions—is insufficient given the complexities and sensitivities of the task. The question was raised as to whether the budgetary resources made available were still adequate. In these circumstances, it is unsurprising that the set of active labor market policies (ALMPs) put in place by the authorities have not, for the most part, evolved from the PAAA (indeed, they are contrary to the thrust of its recommendations), and do not have the support of the Bank.

Substantial involvement in education focused on improving coverage and quality at all levels, including vocational training.

Education and Training. The Bank has had substantial involvement in Tunisia's education system. Two Education Quality Improvement Loans ($99 million and $135 million) supported, respectively, the universal completion of primary education and improved quality and school management at both primary and secondary levels. The second loan also aims to enhance vocational training, which is now the responsibility of the Education Ministry.

Two further loans (of $80 million and $76 million) support reforms in the higher education subsector, including: increased access to, and enhanced quality of, higher education; greater autonomy in university management; greater market relevance of university study programs; development of a system of quality assurance; and a sustainable financial strategy with cost-sharing mechanisms and grants and loans for needy students. The projects draw upon a Higher Education Strategy Paper completed in 2004.

The Higher Education projects proceeded without full consensus between the Bank and the authorities concerning reform. Notably, there was no agreement on financing and cost recovery reforms. It is, therefore, not surprising that the extent of reform achieved is somewhat tentative. This has affected the Bank's credibility in the Tunisian higher education subsector. Several independent interviewees (notably from the academic community) perceive the Bank's interventions as being restricted to areas in which the government feels comfortable. The decision to proceed with the projects was made in order to keep the Bank's "seat at the table" and to push forward the reform agenda, albeit more slowly than had been hoped.

Future work may consider outward migration as a source of employment for educated Tunisians

Outward Migration. One policy option that has received little attention so far, but that would merit in-depth study, is encouraging outward migration as a source of employment for educated Tunisians. This would be especially relevant given the likelihood that the supply of skilled labor in the domestic market will exceed the demand for some years to come. Historically, outward migration from the Maghreb countries, including Tunisia, has been predominantly low-skilled. However, there may be an important potential for highly educated emigration to the Gulf States and, to a lesser extent, to Europe. Previously, the Tunisian authorities considered skilled labor only in terms of domestic needs. Recently, there has been a change in focus. The Bank is preparing a preliminary report on the subject. A strategic approach would include: coherent and coordinated analysis of the migration; the implications for the education sector—which skills are likely to be needed, what type of certificate would be required, etc.; and the possibilities of financial assistance and contributions from receiving countries, especially the Gulf States.

Social Protection. No action has been taken on the Bank's recommendation to study the introduction of employment insurance with a view to encouraging greater labor mobility.

Chapter 4
Turkey

Evaluation Essentials

- Growth during the 1997-2007 period was unstable. However, per capita GDP increased and poverty likely declined, although the unemployment rate has increased.
- The main constraints to employment generation and earnings growth are in education, labor market regulations, and the investment climate.
- Bank support for macroeconomic and financial sector stabilization helped improve the investment climate.
- Analytic work on the labor market was followed by lending operations to overhaul labor regulations.
- Though the Bank has supported education for many years in Turkey, its role in the sector's progress has been limited.
- Important safety net features—pension reform and unemployment insurance—received effective Bank support.

Introduction

The beginning of the period 1998-2007 saw a major change in Turkey's economic policies and an attendant change in the relations between the World Bank and the Turkish government. A number of events spurred the change. These events were exogenous to the Bank, and included: (i) a persistent macroeconomic crisis that had eroded the political resistance to economic reform and given rise to the political will to proceed with reform; (ii) the emergence of a single party government that reinforced this political will; (iii) the earthquakes of 1999 that dramatized the Turkish government's need for outside assistance, presenting an opportunity for the Bank and paving the way for a much closer and more productive Bank-government relationship; (iv) improved prospects for accession into the European Union, strengthening incentives to modernize the economy and body politic and to implement reforms to comply with EU standards and directives in all the MILES categories; and (v) a favorable international economic environment over the 2001-07 period, consisting of expanding world markets and high commodity prices.

The role and support of the Bank have undergone a gradual change over the review period. In the early years, the Bank concentrated, appropriately and effectively, on macroeconomic stabilization and accompanying structural reforms. In more recent years, greater attention has been devoted to employment and competitiveness issues.

Within the scope of the MILES framework, the remaining problem areas are labor market regulations, education, and the investment climate. The role played by the Bank in reforming labor regulations, although perhaps a bit belated, has been relevant, effective, and even decisive. The Bank Group's involvement on investment climate matters has also been productive, especially in the early part of the period with active Foreign Investment Advisory Service (FIAS) participation. Overall, and in relation to employment generation and earnings growth, the Bank has pursued relevant objectives, which for the most part have been well aligned with the government's program and general development objectives. Moreover, seen as a whole over the five MILES categories, the Bank has been effective in pursuing such employment-generating objectives. Table 4.1 presented below, summarizes the evaluation and provides the ratings.

Table 4.1 Turkey: Ratings Summary

<table>
<tr><th></th><th>Outcomes</th><th colspan="3">Bank Contribution</th><th>Rating</th></tr>
<tr><td>Macro</td><td>Inflation was reduced from 85 percent in 1998 to 9 percent in 2007. Under the FY01 FSAL, the absence of a stable macroeconomic environment contributed to a banking crisis two months after loan approval. Later, major improvements occurred in the fiscal accounts and in strengthening the financial system. A major challenge remains in reducing the continuing external vulnerability, as evidenced by the high current account deficits (6 percent in 2007).</td><td colspan="3">High-quality AAA prepared the Bank to provide support for government finances, agricultural subsidies and personnel outlays, taxes, social security, and SOEs, all critical structural areas in need of reform. Support initially failed to duly account for macroeconomic risks to the success of financial sector reforms.</td><td>Satisfactory</td></tr>
<tr><td>Investment Climate</td><td>Private investment increased, but largely due to stabilization. Improved legal and regulatory treatment of FDI contributed to increased FDI net inflow from 0.4 percent of GDP in 1998 to over 3 percent by 2007). There were improvement s in some business transactions costs (for example, starting a new business), but little or no progress in others.</td><td colspan="3">FIAS was especially effective in supporting improvements in FDI policy. High-quality AAA (ICA Report) generated private sector interest but was accompanied by a somewhat disappointing subsequent engagement, apart from some lending support, of the Bank with the government.</td><td>Moderately satisfactory</td></tr>
<tr><td>Labor Market</td><td>Labor regulations were made more rigid and labor taxes increased.</td><td colspan="3">Bank AAA consistently and competently diagnosed the key issues, and used its convening power to advance its policy proposals.</td><td>Moderately Satisfactory</td></tr>
<tr><td>Education</td><td>Important improvements were made in enrollments, coverage, and gender equality in the educational system. Major challenges remain in improving quality and in strengthening secondary education to better adapt it to changing labor force requirements.</td><td colspan="3">The Bank's role was largely ineffective and even marginal in relation to the recorded sector gains. The Bank's AAA was of good quality.</td><td>Moderately unsatisfactory</td></tr>
<tr><td>Social Protection</td><td>Establishment of an unemployment insurance system and the initiation of a conditional cash transfer (CCT) system in 2001, which now reaches over 2.8 million children in poor households.</td><td colspan="3">The Bank played an effective role through AAA and lending support.</td><td>Satisfactory</td></tr>
<tr><td rowspan="6">Combined rating of MILES outcomes and of higher order outcomes (at right)</td><td rowspan="6"></td><td>Outcomes during ten years ending in:</td><td>1997</td><td>2007</td><td rowspan="6">Moderately satisfactory</td></tr>
<tr><td>Faster per capita GDP growth (average)</td><td>2.2</td><td>2.5</td></tr>
<tr><td>Lower Poverty (eop)</td><td>34.5</td><td>27.0</td></tr>
<tr><td>Lower Employment Growth (average).</td><td>1.9</td><td>0.8</td></tr>
<tr><td>Higher Unemployment (eop)</td><td>6.8</td><td>10.1</td></tr>
<tr><td>Stable Adj. per capita GNI Growth (average.)</td><td>2.5</td><td>3.2</td></tr>
</table>

Note: AAA= analytic and advisory activities; CCT= conditional cash transfer; eop=end of period; FDI= foreign direct investment; FIAS= Foreign Investment Advisory Service; FSAL= Financial Sector Adjustment Loan; FY= fiscal year; GDP= gross domestic product; GNI= gross national income; ICA= Investment Climate Assessment; MILES= Macroeconomic conditions, Investment Climate and infrastructure; Labor market regulations and institutions; Education and skill development; and Social safety net; SOE= state-owned enterprise.

This chapter summarizes the employment and earnings growth outcomes, the exogenous factors and policies with a bearing on those outcomes, the impact of those factors and policies on the outcomes, and the role of the Bank's support for the policies.

Growth, Employment, and Earnings Outcomes

Growth was unstable during the 1997-2007 period, but per capita GDP increased and poverty most likely declined.

Turkey's average annual ***GDP growth rate*** from 1970 to 2007 was 4.5 percent, albeit with considerable instability, including recessions in 1980, 1994, 1999, and 2001. Growth became higher and more stable after 2002, and despite the 1999 and 2001 recessions. The average rate of growth declined from 4.3 percent during 1987-97 to 3.9 percent during the decade under review (1997-07) but annual per capita GDP increased from 2.2 percent during the 1988-97 decade to 2.5 percent during 1997-07.

Poverty most likely declined during this period. Between 1994 and 2002, the years for which comparable survey data are available, the proportion of the population with incomes beneath the national poverty line declined from 28.3 percent to 27.0 percent.[1] Additional information, not fully comparable, suggests that the downward trend of the poverty headcount ratio continued (down to 18 percent in 2006). This decline was probably uneven, with likely temporary increases during the recession years. A slight increase in inequality is observed between 1994 and 2002. Although less comparable, GINI coefficient estimates show a further increase in inequality since 2002.

While labor participation stabilized or increased after 2001, the employment-to-population ratio continued to decline; hence, the unemployment rate increased despite GDP recovery.

At the beginning of the period under review, the ***labor participation rate and the employment-to-population ratio*** continued to decline, as they had for many years before, with female employment rates much lower than men's. The labor participation rate and the employment-to-population ratio stabilized after 2002. The unemployment rate increased markedly between 2000 and 2002 and remained high thereafter, despite the recovery in GDP growth.

In 2007, the Turkish labor force participation rate was 51 percent of the 15-64 year old population. This was the lowest of any OECD country and compared poorly with the OECD average of 70.9 percent. With respect to female labor force participation, the comparison was more striking—26.6 percent for Turkey versus 61.1 percent for the OECD average, with Turkey having by far the lowest rate.[2]

Information on labor earnings is limited.

Extensive labor ***earnings*** information is limited. An index for real labor compensation for the manufacturing sector indicates high real wage volatility and a decline in real average manufacturing wages since 1999. However, agricultural wages recovered after 2004 and broader household survey and GNI data (Appendix L, Table L.4 indicate that incomes and earnings declined sharply in 2001, but began to recover in 2002.

On balance, exogenous factors have had a positive impact on Turkey's economic performance.

Factors Underlying the Outcomes

Exogenous Factors. When attempting to assess the effects of policies on economic growth, employment, and earnings, it is important at the outset to identify the relevant exogenous economic factors that have had a bearing on Turkey's economic performance. These factors have, on balance, been positive:

- Robust (3.1 percent) world GDP growth during the period 1998-2007, as during the prior decade; and increased GDP growth in the Europe and Central Asia region from about -2.3 percent to 5.0 percent between the two decades.
- Stronger terms of trade after 2001.
- The ascendency of Turkey's candidacy for full European Union.
- Expansion of international financial markets during the period.

A number of policies relevant for economic and employment outcomes were implemented during the period.

Policies. During the period reviewed, Turkey implemented a number of policies that are relevant for economic and employment outcomes. With the exception of labor market regulations and taxes, policies have, on balance, been positive. They can be summarized as follows:

- Macroeconomic stabilization after 2002 that required fiscal reforms to bring the deficit down, establishment of central bank independence to ensure monetary stability, and banking reforms to stabilize the financial system.
- Additional policies to improve the investment climate, including relaxation of requirements to open new businesses, conduct border trade, and to a lesser extent to pay taxes.
- Establishment of a new employment service agency.
- Increased mandatory school attendance, from 5 to 8 years, massive new school construction, and increased resources for education.
- Creation of an unemployment insurance system and a conditional cash transfer arrangement.

Remaining challenges include increasing the current account balance, business climate issues, and coverage and quality of education.

Challenges

- While the current account balance in the early stages of stabilization was reduced (as a percentage of GDP), it reemerged recently as a sign of macroeconomic imbalance and vulnerability.
- A number of business climate areas still rate relatively low. These cover mainly the categories of obtaining credit, dealing

with construction permits, registering property, employing workers, protecting investors, enforcing contracts, and closing a business.

- Labor reforms in 2002-03 made job dismissal, subcontracting, and temporary employment more restrictive.[3] The minimum wage increased as a percentage of average GDP and the overall tax rate on wages also increased. Both were among the highest in OECD countries.[4]
- Although much progress has been achieved, the coverage and quality of education in Turkey still have considerable room for improvement.
- Again, in comparison with other OECD countries, Turkey lags in terms of social protection afforded to workers "outside the firm."

Drawing from the discussion of existing policies and their effects, it would appear that, *at present*, the main binding constraints to employment generation and earnings growth lie in the MILES categories of education, labor market regulations, and investment climate. The main economic problem affecting employment at the beginning of the 1998-2007 period—the adverse macroeconomic policy environment—has been largely removed through concerted policy action and reform.

The main constraints to employment generation and earnings growth concern education, labor market regulations, and the investment climate.

Link of Outcomes to Exogenous Factors and Policies

During the 1990s, growth and labor productivity growth slowed, largely due to macroeconomic instability. GDP and TFP growth accelerated after 2002 primarily because of macroeconomic stabilization. Other contributing factors included: accession prospects and privatization, which also helped encourage private investment; openness, which encouraged competitiveness and demand under a robust world and regional economy; and availability of international finance.

The impact of stabilization occurred not only through better fiscal performance, which was needed to contain inflation. Central Bank independence also improved confidence regarding fiscal probity. Stabilization after 2002 went hand in hand with policies to strengthen and develop the banking system after the previous failed stabilization attempt undermined efforts to strengthen banking and trigger financial development, which has been shown to have an effect, at least in the short run, on growth in Turkey. Finally, the removal of agricultural subsidies that was needed to achieve fiscal balance encouraged reallocation of resources to the more productive economic activities.

Growth and total factor productivity accelerated after 2002 primarily because of macroeconomic stabilization.

Table 4.2 Turkey, Key Economic Trends, 1970–2007

Indicator (percent, except formal wage index)	*1970–1975*	*1976–1980*	*1980–1985*	*1986–1990*	*1991–1995*	*1996–2000*	*2001–2005*	*2006–2007*
GDP Growth period average [a]	5.4	2.5	4.9	5.7	3.3	4.1	4.7	5.7
Per Capita GDP Growth period average. [a]	3.2	0.2	2.3	3.3	1.3	2.2	3.2	4.4
Poverty (Headcount Ratio) end year [f]					16.9		14.7	
Gini Coefficient end year [a]	--	--	--	43.0	41.5	44.0	38.0	
Labor Force Participation Rate end year [b/]	68.9	66.3	58.9	56.6	54.1	49.9	48.3	48.2
Employment-to-population end year [c]	63.9	61.1	54.8	52.1	50.0	46.7	43.3	43.5
Unemployment end year [d]	7.2	7.9	6.9	8.0	7.6	6.5	10.3	9.7
Formal Wage Index end year [e]	77.8	77.5	72.2	102.7	93.7	100.0	75.7	69.3

Sources: See Appendix L: Turkey: Annex Tables: [a/] Table L.1 [b/] Table L.2 [;c/] Table L.3 [d/] Table L.5 [;e/] Table L.4 ; [f/] *Staff estimates from multiple sources.*

Note: GDP= gross domestic product.

Higher per capita GDP growth strongly influenced the reduction in poverty during the period 1997-2007.

Higher per capita GDP growth played a strong role in explaining, at least in part, the reduction in poverty between 1997 and 2007. Available research suggests that poverty reduction is also attributable to reductions in income inequality observed between the mid-1990s and mid-2000s, which in Turkey originate in declines in the income shares of the bottom and top quintiles. The declines in poverty may well be linked to rural-urban migration, as urban wages are higher than rural wages.

Despite increased economic growth, the declining trend in the employment-to-population ratio was not reversed. There are four primary explanations. First and most dramatic is the structural change away from agriculture—especially relevant in explaining declining *female* labor force participation, as women who have been commonly active in the agricultural labor force as unpaid family labor are more apt to find their skills unsuited to the urban labor markets, particularly in the formal sector. Second, productivity in agriculture is low and growing slowly, and productivity in industry and services are seen to be growing fast. Third, there is a mismatch of labor demand and skills in the growing sectors, with employers complaining that they are unable to locate qualified employees for the positions that they seek to fill. Finally, rigid labor market regulations and institutions have also restrained employment growth.

The question of the falling labor participation rate for women has been a special concern of the government and the topic of some empirical analyses.[5] The sector shift of employment out of agriculture and the accompanying rural-to-urban migration, as indicated above, explains much of the falling female labor participation ratio. The agricultural sector still employs the greatest share of women, and most of these women are unpaid family workers, that is, unregistered, informal sector workers. With continuing structural transformation and urbanization these jobs disappear.

Beyond this sector shift, there are other important dimensions and determinants as well. Most importantly, educational attainment directly affects female labor market participation, with the most marked increases coming from university-level education. There are also considerable regional variations in female labor market participation, with Turkey's poorest regions, such as the southeast, having the lowest rates. One study, based upon econometric analysis of time series and regional data, presents evidence supporting the U-shaped curve hypothesis (for female labor force participation rates) and contends that it is likely that "there will be a secular upturn in female participation rates during the coming decades."[6] This conclusion is based upon: the eventual decline of the workforce shift out of agriculture; increased female enrollments and educational attainment; and the reduction of regional income disparities and the eventual economic catch up of the poorer regions to those in the more prosperous western areas (the Aegean and Mediterranean regions).

Unemployment rates have not decreased appreciably, even with higher growth since 2002. The accelerated structural transformation occurring over the past six years, which has been an important explanation for the noted slow *overall* employment generation, unquestionably has had a bearing on the inertia in the unemployment rate, with female unemployment rates for urban areas substantially higher than those for males (but lower than those for males in the rural sector). With the shift of resources out of agriculture, females have faced increased employment difficulties in urban labor markets.

Unemployment rates have not decreased appreciably, even with higher growth since 2002.

The Bank's Strategy and Contribution

The issue of employment generation has been less common in Bank strategy documents than in government strategies and plans.

Overall strategy and objectives. In the periodic economic plans and pronouncements of the Turkish government, employment generation has been a constant objective and priority for policy action. This was the case for the Seventh Five Year Development Plan (for 1996-2000) and for the Eighth Development Plan as well. In the Ninth Development Plan (for 2007-13), increasing employment was ranked second out of five main economic objectives. Under the overall employment generation objective, more specific objectives include: improving the functioning of the labor market; increasing the sensitivity of education to labor demand; and developing active labor market policies.

The employment generation theme and objective in Bank strategy documents has been less explicitly articulated than in Turkish government plans and policy statements. The four CAS-type documents examined (dated 1997, 2000, 2003, and 2008) mention employment generation and/or earnings. However, if indicated as an objective, it has been subdued and, until recently, not actively pursued as a part of Bank Group strategy.

In the 1997 CAS, presented to the Board in FY98, employment generation was explicitly identified as a part of one (enhancing competitiveness and employment growth) of three broad development priorities for Turkey, along with accelerating structural reforms and addressing poverty and social development. The CAS correctly emphasized that substantial employment could only come through private sector expansion. No specific employment, labor force, or labor market progress benchmarks were included.

In the 2000 CAS, employment generation was also set forth as a theme for Bank action and support, but no benchmarks were included. With the Turkish economic crisis in 2001, a Progress Report related to the 2000 CAS was prepared and discussed by the Board in June 2001. It dealt primarily with Bank support to Turkey during the crisis and focused on various dimensions of macroeconomic stabilization such as public finances, public sector reform, and financial sector issues. There was little mention of employment questions.

The 2003 CAS does not contain an explicit mention of employment generation as part of one of the pillars for Bank support, although the emphasis on macroeconomic stability, growth, and increased competitiveness indirectly involves job generation.

The most recent strategy includes a component on increasing employment.

The most recent CAS-type document, now called a Country Partnership Strategy (CPS) and presented to the Board in January 2008, includes a specific and explicit mention of increased employment as one of the four components of the first pillar for Bank strategy entitled "Improved Competitiveness and Employment Opportunities." It closely reflects a similar objective expressed in the government's Ninth Development Plan, as well as a number of other government objectives. In line with expressed government priorities, the CPS also explicitly mentions "enhancing the educational system and increasing the sensitivity of education to labor demand."[7]

Throughout the 1998-2007 review period, the major pillars for Bank strategy have entailed: macroeconomic stability; economic growth, competitiveness, and productivity; and poverty reduction and social development. These building blocks of the Bank's strategy have evolved over time, but have been consistently present.[8] The pursuit of assistance under these pillars has been consistent, albeit indirectly, with a general objective of employment generation and earnings growth. After the urgency of macroeconomic stability abated through policy changes and economic reform, employment generation objectives been more explicitly pursued in recent years.

Bank Group Assistance and Interventions. The Bank has been active and heavily involved in all five of the MILES areas, with differing emphases over the 1998-2007 period. To the extent that the investment climate encompasses the infrastructure sectors, there is little in the Bank's program that is not included in the MILES areas.[9] Appendix K presents a summary of Bank assistance in accordance with the five MILES categories. Lending and analytical work are listed separately.

Bank involvement has intensified over the period and covers all five MILES areas.

In general terms, Bank involvement in Turkey has intensified dramatically over the 1998-2007 period. Lending commitments grew from $18.5 million in FY97 to $1.16 billion in FY07. AAA and other non-lending support have increased commensurately. The lending portfolio improved from a problematic one to one without major problems.

Macroeconomic Policies. The mid-1990s were characterized by macroeconomic volatility, Bank ESW outlining the means to macroeconomic stabilization and adjustment,[10] and low scale Bank-government relations. For some time preceding 1998, the Bank had identified macroeconomic instability as the major economic challenge for Turkey and pursued AAA on those issues. However, Bank advice frequently fell upon deaf ears within the government. Indeed, Bank persistence on such matters at times ruffled government sensitivities and served to undermine Bank-government relations.

When the government's political will to proceed with stabilization emerged, the Bank through its previous analytical work was in a good position to play a useful role to provide support.[11] Because of the relevance and timeliness of Bank economic and sector work (ESW) and the government's need for international financial support, the Bank became an important actor having considerable influence, along with the IMF, in the design of the government's macroeconomic policy reforms, especially those related to public finances and the financial sector.

In the initial stages, from 1999-2000, the Bank played a secondary role to the Fund in the design and pursuit of financial and banking sector measures.[12] However, this role evolved subsequently with later lending operations. Accordingly, the Bank's risky investment in pursuing macroeconomic issues in its AAA ultimately paid high dividends for both the country and the Bank.

The Bank collaborated with the IMF on the first Stand-by Agreement.

Collaboration with the IMF on the first Stand-by Arrangement (SBA) in 1999 was intense, and this work gave rise to the period's first quick disbursing, policy-based adjustment loan—the Economic Reform Loan (ERL) in FY00. The milestone ERL operation focused its macroeconomic support on improved fiscal measures, the beginning of social security reform, and the introduction of an unemployment insurance system.

The Bank also advised Turkey on bank failure resolution, deposit insurance, and restructuring and privatization of state-owned banks.

The Bank also advised Turkey on bank failure resolution, deposit insurance, and restructuring and privatization of state-owned banks. After the ERL, an FSAL supporting a strengthening of prudential regulations and banking supervision for the financial sector was made effective. The FSAL had one major shortcoming from the outcomes perspective: the absence of a stable macroeconomic environment based on a robust fiscal program. These conditions contributed to a major banking crisis two months after loan approval.

Learning from difficulties experienced in the ERL, the Bank modified lending instrument design with the introduction of programmatic adjustment loans. Fairly quickly, a series of three programmatic financial and public sector adjustment loans (PFPSALs, approved in FY02 and FY04) was initiated. These were followed by the two programmatic development policy loans (PPDPLs approved in 2007 and 2008). The PPDPLs supported the structural reform program to maintain a macroeconomic stability framework, financial controls and expenditure management of public resources, and to improve the administration and governance of the public sector. In FY07, a new programmatic development policy loan series was initiated—the Competiveness and Employment Development Policy Loans (CEDPLs); these loans, like their predecessors, are anchored in the maintenance of a stable macroeconomic policy environment. Over the 1998-2007 period, a total of nine such adjustment loans were made, amounting to $6.29 billion.

Bank-supported policies had a beneficial effect in achieving macroeconomic stabilization.

There can be little doubt that the policies supported by the Bank and implemented by the authorities had a beneficial effect in achieving macroeconomic stabilization. Without the involvement of the Bank, and the Fund, it is doubtful that the necessary adjustment for the Turkish economy could have been so successfully achieved. The resumption of robust growth during the 2002-07 period is an outcome of those policy reforms. Indirectly, the demand for labor and employment has increased (or, rather, declined less) as a result.

Investment Climate. The more general AAA led to an emphasis on growth, competitiveness, the financial sector and private sector development, and the investment climate in general. Analytical work on investment climate issues has involved a number of infrastructure sector analyses and studies (including for electric energy, gas and oil, and water); a series of FIAS reports (starting in FY2000) focusing on the treatment and role of foreign direct investment, the private sector regulatory environment, tax issues for private sector development and investment promotion; and the recently disclosed *Investment Climate Assessment* (2007).

Regarding lending support, the Economic Reform Loan (ERL, FY00) contained, apart from its strictly macroeconomic (and financial sector) areas, elements related to privatization, the reduction of agricultural subsidies, and deregulation of the energy sector. Subsequent lending for agriculture (the Agricultural Reform Investment Project, or ARIP) provided resources for severance payments in agricultural state-owned enterprises as part of their privatization or closure, and the further reduction of agricultural subsidies. A number of credit line projects (the Export Finance Intermediation Loan (EFIL) series) were also pursued, as were several projects in the electrical energy sector. In 2007, the first CEDPL was approved. In addition to maintaining the macroeconomic policy framework, it supported various measures to improve the investment climate.

Macroeconomic and financial sector stabilization was perhaps most important for the improvement in the investment climate.

The Bank's support for macroeconomic and financial sector stabilization was perhaps most important for improving the investment climate, as it was macroeconomic stabilization that really made the difference in spurring investment and growth. After the macroeconomic and financial sector reforms, the area where the Bank Group has had the greatest impact in improving the investment climate has been with various features of the business legal and regulatory environment. The FIAS reports and engagement in the early part of the 1998-2007 period were of high quality and had a major impact. The successful FIAS engagement with the government resulted in close working collaboration, including the drafting and passage of the Foreign Investment Law of 2003 that eliminated the legal discrimination against foreign-owned firms operating in Turkey. It also reduced the top corporate income tax rate from 30 percent to 20 percent, and led to the establishment of governmental institutions more effective at pursuing private sector investment promotion and improving the business enabling environment.

These regulatory and policy changes, attributed in large part to FIAS initiatives and subsequent engagement, have been partly responsible for the expansion of private sector investment in general and foreign direct investment in particular. The FIAS engagement also resulted in a number of institutional changes designed to facilitate private and government collaboration on investment climate impediments.

Another AAA effort of potential usefulness and importance is the recently disclosed *Investment Climate Assessment* (2007). It was carried out, based in large part on an insightful survey of manufacturing firms, in conjunction with a leading Turkish research and academic organization (TEPAV). To date, the report's dissemination and engagement of Turkish stakeholders on these matters have not advanced very far, perhaps due to inadequate budgeting of Bank resources for such important follow-up activities.

Analytic work on the labor market led to related lending operations to overhaul labor regulations.

Labor Regulations and Institutions. The Bank's Labor Market Study initiated more active and direct Bank participation on employment issues. This effort was planned in the 2000 CAS, but was delayed because of shifting Bank priorities related to the 2001 economic crisis, as well as staffing difficulties, including the reassignment of the Task Manager to additional functions in the study's final stages. There was considerable interest on the part of the government, and after some initial discussions of results and recommendations, the report was finally disclosed (in grey cover) in April 2006. This is a high-quality report, and it has had a considerable impact within the government. Additional government requests for work on related topics were extended, and the original report spawned additional AAA, including separate reports on estimating the impact of payroll taxes and youth employment.

This analytical work and related government policy actions paved the way for directly related lending operations. The first programmatic CEDPL supported initial actions to overhaul labor market regulations. The second loan (CEDPL2), approved in November 2008, supports measures undertaken in the 2008 Employment Package along with various other measures designed to increase competitiveness.

As with reforms in the macroeconomic framework, the financial sector, and some investment climate measures, the Bank exercised a decisive and key role in supporting improvements in the labor market regulatory environment, but only toward the end of the review period. While the Bank's *Labor Market Study* was considerably delayed, it has served as a milestone in the Bank's involvement on such issues. It established the basis for a productive partnership between the government and Bank on labor market questions, spawning additional reports and collaborative work. The measures implemented as part of the Employment Package of May 2008 were a result of that work, and are being supported by the Competitiveness and Employment DPL series. These measures included, in particular, a general 5 percent reduction in employer social security contributions, as well as a reduction of social security contributions for the young and women for firms hiring young people and women who have been out of the formal sector for at least six months.[13] These are now being covered by the treasury. Excessive payroll taxation has been one of the issues that the Bank has focused on for a number of years. Bank employment-related advice was developed in particular by the 2006 Labor Market Study (The World Bank (2006b)), the 2007 ICA (The World Bank (2007a)), and the 2008 CEM (The World Bank (2008e). Research conducted by Betcherman and Pagés (2008) was also instrumental in addressing the labor taxation issue.[14]

Education. Education has been a central focus of the Bank's activity and lending in Turkey over an extended period. In 1997, the Education Reform Law imposed sweeping changes in the educational system and extended mandatory education from five to eight years. There was a large school construction program to try to meet the newly expanded demand, as well as other efforts. The Bank responded with a Basic Education Loan (an Adaptable Program Loan — APL), totaling $300 million in 1999—at a critical juncture in Bank-government relations. Although the project was beset with problems from the beginning, including thorny procurement issues,[15] it did come at an important time and was commonly seen as a willingness on the part of the Bank to support Turkey.

Additional educational sector lending, although also problematic, has fared better than the first Basic Education project. A second Basic Education Loan (APL2 in FY03) had much more specific project objectives—increasing coverage and improving the quality of basic education for low-income children. A Secondary Education project was approved in FY05.

Although the Bank has long provided education support to Turkey, its role in the sector's progress has been limited.

As a means of supporting lending and conducting a meaningful dialogue with the government, the Bank undertook an *Education Sector Report* (The World Bank (2005b), which was disseminated in December 2005. It is a finished piece of analysis, drawing on considerable Turkish expertise and experience. It is unclear why this effort has not been more effective in pursuing a productive engagement with the government education authorities. A more recent *Higher Education Assessment* (The World Bank (2007b) raises equally relevant issues and also warrants more attention.

In many countries, the education sector has proved to be a difficult challenge for the Bank. This has indeed been the case for Turkey. While substantial and important advances have been made in the Turkish educational system, as witnessed by the increased enrollment rates, the Bank's role in this progress has been quite limited and perhaps even marginal. Effective engagement with the Ministry of Education over recent years has been, and continues to be, a challenge.

The Bank continuously encouraged pension reforms and supported the establishment of unemployment insurance.

Social Protection. The ERL (FY00) included provisions and measures to address initial reforms of the pension system and the establishment of an unemployment insurance system in 2001. Those two systems remain at the forefront of Bank-government discussions on social protection. The PPDPL (FY06) supported government measures to further reform the pension system, revamp universal health insurance, and revise other social assistance programs. The pension (social security) system has recently undergone a new round of Bank-supported revisions (in the 2008 Employment Package). In addition, drawing from the earlier *Living Standards Study* (The World Bank (2000b), the

Bank's Social Risk Mitigation Project (SRMP) of FY02 provided resources for conditional cash transfers to the poorest six percent of Turkish families. Monthly stipends were provided to poor families conditioned upon school attendance and basic health care for their children. By mid-2008, 2.8 million children were benefitting from this program.

The Bank has played an effective, important, and even decisive role in strengthening social protection. It has effectively pushed for ongoing reforms in the pension system, supported the nascent unemployment insurance system, and pioneered the conditional cash transfer (CCT) program to poor families.

Chapter 5
Key Findings

Evaluation Essentials

- Progress on economic growth and earnings was better than progress on employment and unemployment.
- Availability of data has improved, but more progress is needed.
- Bank support addressed areas with a bearing on employment more than on employment outcomes.
- The Bank's AAA was generally of good quality and was appreciated by the three clients, though its impact is unclear.
- The Bank's proactivity and engagement on employment issues may not always have been well matched to country circumstances.
- The Bank provided some successful support in all of the MILES areas.
- All three countries are facing employment challenges in the current crisis.

The cases reviewed in the preceding three chapters of this report depict a range of experiences relating to Bank support for addressing employment challenges. This chapter discusses a set of findings that can be drawn from Bank experiences assisting Colombia, Tunisia, and Turkey. The discussion focuses on the country's achievement of outcomes (GDP, poverty, employment, and earnings growth) and the contribution of Bank inputs, first from a cross-cutting perspective and then with reference to each of the five MILES areas of support. The chapter concludes with implications for Bank support during the current jobs crisis.[1]

Comparison of Outcomes Across the Three Countries

Two findings in connection with outcomes across the three countries are highlighted. First, progress in economic growth and earnings was better than progress in employment and unemployment. Second, although the availability of statistics on employment and earnings outcomes has improved, there are still significant deficiencies.

When comparing the decade reviewed (1997-2007) with the previous decade, *the broad outcomes* (Table 5.1 ***are as follows***: **Tunisia** performed the best. With stable employment growth, Tunisia increased its employment-to-population ratio and reduced the unemployment rate. Per capita GDP, GNI, and earnings growth rates also increased and poverty declined at a higher rate. **Colombia** also registered stable employment growth and a minor increase in the employment-to-population ratio, but the unemployment rate increased. The per-capita GNI and GDP growth rates declined, but earnings growth may have increased due to a decline in the growth of inequality. Poverty declined after having increased during the recession years of the late 1990s. **Turkey** experienced declines in employment growth and in the employment-to-population ratio, and an increase in the unemployment rate. The per-capita GNI and GDP growth rates increased. Earnings growth may also have increased due to an improved income distribution. Poverty declined at an increasing rate, particularly after 2002. The last column of Table 5.1 shows per worker output growth and TFP. Although Turkey, like Tunisia, increased TFP growth markedly, Turkey's growth, unlike Tunisia's, was "jobless." Based on this data, this assessment rates the Tunisia outcomes "satisfactory," and the Colombia and Turkey outcomes "moderately satisfactory."

Although employment growth is positively correlated with GDP growth, changes in average growth over two decades were reflected primarily in changes in earnings growth.

Although employment growth is positively correlated with GDP growth, as indicated by the International Labour Organization (ILO) (2009) estimates of the GDP elasticity of employment, ***changes* in average GDP growth rates between 1987-97 and 1997-2007 were reflected primarily in changes in earnings growth**, not in employment growth. A positive relationship between GDP and employment growth is to be expected because growth triggers demand for labor and because employment is one of the sources of growth. However, the simple correlation between employment and GDP growth is weakened by the relationship that has also been found between changes in GDP growth and changes in TFP growth (another source of GDP growth), particularly when fundamental changes in relevant policies have taken place. In fact, worldwide acceleration of GDP growth during the review period was linked to worldwide acceleration of TFP growth, and the three countries were no exception. Changes in factor productivity growth allowed earnings growth to increase in Tunisia and Turkey, but possibly not in Colombia, where average TFP growth declined considerably during the recession years (see Annex N, Table N.2).

Table 5.1 Colombia, Tunisia, and Turkey: Outcome Indicators

	Employment				Unemployment		Income		Poverty			Income distribution			Output/TFP	
	Average annual change (%)		Employment-to-population ratio (%)		Unemployment Rate		Real per capita GNI growth		Headcount ratio (not comparable across countries) Data at or closest to (as indicated):			Gini coefficient (not comparable across countries) Data closest to (as indicated)			Per-worker GDP growth/of which: TFP	
Year/ period	1987-97	1997-07	1997	2007	1997	2007	1987-97	1997-07	1987	1997	2007	1987	1997	2007	1989-95	1995-05
Colombia	2.3	2.3	51.0	51.4	9.8	10.7	2.2	1.9	51.2	49.4	47.9	52.5	57.4	58.6	1.58/ -0.01	1.16/ -0.18
Tunisia	2.7	2.7	38.1[1/]	40.2	16.0[2/]	14.1	2.1	4.0	7.7[3/]	6.2[4/]	3.8[5/]	43.4[3/]	41.7[4/]	40.0[5/]	2.37/ 0.75	3.04/ 1.42
Turkey	1.9	0.8	49.0	43.5	6.8	9.7	2.3	2.5	38.5	28.3[6/] 30.3[7/]	27.0[7/] 9.5	43.0[8/] 41.5[6/]	42.0[9/] 42.7[7/]	38.0[10/] 43.2[5/]	2.83/ -0.05	3.61/ 1.50
World average	1.7	1.6	63.0	61.8	6.1	6.0	1.4	1.9	71.8	67.2	56.6	61.9[11/]	64.2[12/] 65.1[13/]	63.4[14/]	0.83/ -0.44	2.99/ 1.32

Sources and Note: GNI, Population and working age population: The World Bank(WDI). Employment and Unemployment: DANE (Colombia), Tunisia Institute of Statistics (Tunisia), OECD (Turkey), The World Bank (WDI) and ILO, "Global Employment Trends", 2009 (World). Poverty Headcount Ratio: DNP (Colombia); Tunisia Institute of Statistics (Tunisia); The World Bank (2005c) and Turkish Statistical Institute (Turkey); The World Bank (WDI) (World). Gini Coefficient: DNP (Colombia); World Bank updated (2008) poverty estimates (<www..worldbank.org>) *(Tunisia); Turkish Statistical Institute and* World Bank updated (2008) poverty estimates (<www.worldbank.org>) *(Turkey).* Output/TFP: staff estimates from *Dale W. Jorgenson; Khuong Vu, "Information Technology and the World Growth Resurgence", hdl:1902.1/10702 UNF:3:vE7B5m3aMRtK6ZZi4lP4DA==; Average of 122 Economies. Indicated years: 1/1999; 2/ 1999; 3/1985 4/ 1995; 5/ 2005; 6/ 1994; 7/ 2002; 8/ 1986; 9/ 1996; 9/ 2002 10/ 2006; 11/* 1988 and 12/ 1998: Milanovic (2005), p. 108; 13/ 2000 and 14/ 2005: Hillebrand (2008), Table 2.

Note: GDP= gross domestic product; GNI= gross national income; TFP= total factor productivity.

Differences in outcomes across the three countries were linked primarily to differences in local exogenous forces and policies. External forces were favorable. Improvements in the world and regional economic environment increased local demand for labor in the three countries. World per capita GDP growth rose from 1.4 percent during 1987-97 to 1.8 percent during 1997-2007, with even larger increases in Latin America, Europe and Central Asia, and the Middle East and North Africa. Access to international finance improved and the cost of finance declined.

Improvements in *macroeconomic policies and other investment climate policies* were also a factor in helping to increase investment and the demand for labor in the three countries. However, good macroeconomic policies were already in place at the outset of the review period in Tunisia, but these policies initially deteriorated in Colombia and Turkey. *Labor market rigidity*, non-wage costs, and minimum wages increased throughout the period in Turkey and remained unchanged in Tunisia. Rigidity was somewhat relaxed in Colombia, but non-wage costs and the minimum wage also increased.

Improved policies helped to increase investment and labor demand in all three countries.

Regarding *education*, the three countries achieved increases in enrollment, particularly at the secondary and tertiary levels, that is, toward the working-age range. These increases as well as a demographic transition that reduced working-age population growth contributed to tame aggregate labor supply growth. Past education efforts also generated the supply of skills that allowed earnings to increase. Rural-urban migration spurred by economic sector adjustment in Turkey and rural violence in Colombia produced a shock to urban labor supply. Furthermore, in Colombia, deteriorated security during the first half of the review period discouraged economic activity. Local exogenous forces and policies were most favorable in Tunisia, less so in Turkey, and least so in Colombia.

Increases in education enrollment and a demographic transition helped tame labor supply growth.

In Tunisia and Turkey, poverty declined at an accelerating pace during the review period (Table N.3 Appendix N. ***).*** This development does not come as a surprise because economic growth accelerated in these two countries. Conversely, with slower growth, poverty reduction also slowed down in Colombia. At the same time, the experiences of the three countries suggest that periods of economic distress, with low productivity growth, hit the poor harder. This is demonstrated by growth incidence curves in Tunisia and Colombia, which depict the incidence of growth by percentile of the income distribution. These curves indicated a pro-rich pattern during distress years.

Employment abroad has been an important source of income/transfers for nationals of the three countries, both for those living and employed abroad and for those living in their country and receiving remittances. In Colombia**,** the economic and security crisis at the turn of the century triggered a substantial rise in the stock of emigrants (up to 4 percent of population) and in remittances (up to 7 percent of GNI), the latter declining as the economy improved (See Figure N.1 Appendix N.). In Tunisia, there was a gradual rise in the stock of emigrants after the year 2000 (up to 10 percent of population in 2007), and a rise in the level of remittances (up to a little over 10 percent of GNI; (See Figure N.2 Appendix N). Turkey had a sharp decline in remittances as the economy improved, as well as a decline in the stock of emigrants (See Figure N.3 Appendix N).

Labor participation rates varied widely, as did the reasons for particular patterns.

The dynamics of labor participation rates varied significantly across the three countries. Turkey's long-term decline in participation rates continued and is primarily correlated with the decline in the share of the agricultural sector,[2] a decline that was given additional impetus by the removal of agricultural subsidies as part of the structural adjustment measures underpinning stabilization. Colombia's long-term increase in labor participation rates, primarily explained by increased education levels that raised female participation rates, ceased during the period under review. This reflected the diminished capacity of the economy to generate employment due to lower growth and possibly minimum wages. Participation rates in Tunisia increased, reflecting higher economic growth.

Similarly, ***the experience of unemployment in the three countries also varied considerably***. It suggests that changes in unemployment (Table N.3 , Appendix N) in Colombia during the decade were primarily cyclical. It also suggests that changes in Turkey's unemployment reflected changes in the cyclical component prior to 2002, when indeed there were wide swings of economic activity, with a rise in structural and/or frictional unemployment during stabilization, possibly as structural policies accelerated the rural-urban human resource reallocation. In Tunisia, changes in unemployment were minor, reflecting the absence of cycles or major structural changes.

Unemployment rates remained high in all three countries, regardless of growth.

In the three countries, unemployment rates remained very high. In 2007, these rates were 10.7 percent in Colombia, 14.1 percent in Tunisia, and 10.1 in Turkey. These rates were high even by regional standards in Colombia and Tunisia. They are not likely to reflect significant cyclical unemployment, for in 2007 output was close to potential in the three economies. They are more likely to reflect classical unemployment due to high minimum wages or structural unemployment due, for example, to skill mismatches, both issues of considerable importance in the three countries. Some frictional unemployment due to imperfect information may also be at work.

The data suggest that the Bank might usefully consider putting more resources into elucidating the hysteresis and structural roots of unemployment, including its cyclical, classical, frictional and structural components, as there appears to have been little success in reducing the long-term level of unemployment. The 10-year experience of the three countries reviewed in this report is striking in terms of the impact (or lack thereof) of policies on structural unemployment. Understanding better the "classical unemployment" implications of minimum wages and the other sources of long-term unemployment may help sharpen engagement and dialogue on this critical issue.[3]

There are also considerable differences in performance in employment indicators by gender. In both Tunisia and Turkey, female participation rates are much lower than male participation rates for a variety of reasons discussed in the country chapters. These include structural (for example, rural-urban migration in Turkey) and cultural factors (strong views of female roles at home). In Colombia, female participation rates, the highest of the three countries, declined after 2000— this after several years of increasing. In addition, male participation rates declined after many years of constancy. As with employment trends, the decline is linked primarily to slower economic growth, with some decline attributed to minimum wage and labor taxes. In Turkey, female participation continued declining slowly, with no net changes in male participation. In Tunisia, female participation continued increasing and male participation continued declining.

Gender employment indicators differed significantly across the three countries.

In all three countries, the authorities have been proactive in supporting women's right to work. Nevertheless, female unemployment rates are higher than male unemployment rates in Tunisia. They are even higher in Colombia. The gap between male and female unemployment rates increased in Tunisia largely as a result of skill mismatches. Turkey's unemployment rates do not vary by gender. A distinguishing feature in Tunisia is that unemployment is higher among the educated, again due to a skills (quality) mismatch.

The experience regarding employment outcomes suggests that Bank programs with employment objectives would benefit by considering the full set of employment-related outcomes when designing country programs. Outcomes to be considered would cover employment growth, the employment-to-population-ratio, the unemployment rate and earnings growth, and the impact of these on growth and poverty, as well as the uncertainties of that impact. This is not to say that programs necessarily need to have quantitative targets for these variables, but that policies and programs need to be understood in terms of their possible effects on those variables.

A review of the data that was available for this report concludes that while much progress has been achieved in collecting information, there are still important shortcomings. For example, in Colombia, data is now being produced on a monthly basis and at the national level since 2001. However, limited comparability with previous years constrains the analyses. Delays in production of the data, particularly on earnings, prevent timely monitoring. Furthermore, sources (official, ILO, Bank) sometimes conflict with one another. Although Colombian national data indicate that the participation rate ceased growing during the review period, both ILO and World Bank (World Development Indicators-WDI) estimates indicate that the participation rate continued growing. The Bank could increase its support, in coordination with other institutions, for better information gathering and availability on employment and earnings. The Bank has already been active in assisting countries in strengthening their household survey data. But more could be done. One good area to target is the timeliness of data dissemination. For example, the last available household survey data on earnings for Colombia, which allowed analysis of formal/informal sector differences at the time of writing of this report (2009), was for 2006. The implied delays are too long for the needs of analysts, observers, and policy makers. In Tunisia and Turkey, the situation is not any better.

Data collection has improved, but more progress is needed.

Comparisons of Overall Bank Support Across the Three Countries

Three findings are highlighted in connection with country program strategies. First, Bank objectives targeted primarily areas with a bearing on employment (e.g., MILES areas) rather than explicit employment outcomes. Second, although its impact is unclear, the Bank's AAA was generally of good quality in terms of addressing the right employment issues competently. The AAA was well appreciated by the three clients. Third, the Bank's proactivity and engagement on employment issues may not always have been well-matched to country circumstances.

Most policies supported by the Bank in the three countries had implications for employment.

Although employment objectives have not been an explicit part of Bank programs, most policies supported by the Bank in the three countries had some bearing on employment. Bank strategies by and large have focused on growth and poverty reduction as "grand objectives." Their references to employment or unemployment objectives are common, albeit often included only in passing.

However, in the three countries covered by this report, references to employment in Bank programs increased during the review period, reflecting the greater importance assigned to employment growth by authorities. Furthermore, the more concrete objectives generally included the policy areas with a bearing on employment, that is, the MILES areas.

This experience suggests that where employment issues are important, Bank strategies could move from noting employment as an objective to better articulating how its support in different areas will affect the full set employment outcomes and poverty. Where employment issues are pivotal, country programs could articulate their impacts on employment outcomes by indicating the links between concrete intermediate outcome indicators and employment outcomes, as defined above. This will enable employment objectives to be more easily tracked and to be more credible, and employment impacts more explicit or transparent. The rationale for this suggestion is that employment outcomes are the key channel through which country programs affect poverty, and poverty reduction is the Bank's overriding Bank objective.

The Bank's strategy and interventions were highly relevant in addressing key employment and earnings-related issues in the three countries. Bank support (through its AAA, TA, and lending operations) adapted to the governments' changing priorities, and generally addressed (or attempted to address) the most critical policy constraints. The Bank's ideas and its international perspective and experience mattered considerably. High-quality AAA was important in establishing and maintaining the extent and depth of the Bank's access to senior policy makers.

This suggests that the Bank could usefully strengthen its role as knowledge provider and engage more strongly with its clients on employment policy. The Bank is in a strong position to strengthen its leadership on employment issues for a number of reasons. First, it has developed an integrative framework to identify constraints to employment. This framework allows the Bank to develop balanced views on policies affecting employment outcomes. Second, it has demonstrated a capacity, as in other areas, to bring research into operationally relevant policy implications. AAA is the key instrument to deal with some of the more sensitive policy issues with a bearing on employment outcomes. Third, its mandate of poverty reduction involves strong attention to employment outcomes. The Bank contributed to understanding employment issues in the three countries reviewed in this report. It can do so in many other countries that would benefit from this knowledge, even if the benefit takes time to materialize.

The Bank is in a strong position to strengthen its leadership on employment issues.

In terms of the effectiveness of Bank inputs, the picture is mixed. Much has been achieved. In Colombia and Turkey, the Bank correctly identified macroeconomic instability and financial sector weaknesses as the key constraints to growth at the beginning of the review period. Both macroeconomic stability and financial sector soundness were restored partly as a result of Bank supported policies. During the latter part of the review period, the Bank's focus rightly shifted to improving the investment climate, and was successful in supporting achievements in this area. Furthermore, the Bank provided AAA on labor market issues that have proved useful in informing the debate on labor market policies in these two countries. The Bank's contribution on education was probably stronger in Colombia than in Turkey, both in terms of engagement and innovation. In both countries, the Bank was helpful in helping develop social protection (CCT and/or unemployment insurance) arrangements.

In Tunisia, macroeconomic and financial sector stability, which was already in place prior to the period under review, was sustained during this period. Indeed, stability was maintained despite a challenging combination of shocks in the early 2000s. Sustained macroeconomic stability clearly contributed to growth and better outcomes. Partly as a result of Bank support, the government made further progress in the macroeconomic areas relating to export development and financial sector reform. The Bank was more focused on investment climate issues than in the other two countries and successfully supported the achievement of a more balanced playing field between the offshore and on-shore economies and the transformation of the ICT sector. The Bank also engaged with effectiveness in improving coverage of education. However, its impact on improving social protection arrangements was limited.

Other goals remain elusive. The three countries did not resolve a number of constraints relating to MILES policies. For example, there are considerable remaining rigidities in the tax and expenditure systems in Colombia. In Tunisia, governance problems which constrained private investment did not receive enough attention. Little or no improvements in labor flexibility or in reducing the taxation of labor while financing social insurance were achieved in Tunisia or Turkey, and progress in Colombia was modest. Minimum wages remained binding, and could possibly explain part of the informality and high unemployment rates in the three countries. There was not much progress with respect to education quality in any of the three countries, with a particular concern regarding the quality of higher education in Tunisia. A broad-based financing of social insurance that would ease payroll taxes and contributions and remaining fiscally sound was not put in place. In Colombia, social safety nets were widened, although they generated discernible fiscal pressures which cannot be resolved without addressing the considerable remaining rigidities in the tax and expenditure systems.

In the final analysis, while rigorous "attribution" of results to Bank support is virtually impossible, the evidence discussed and summarized in the country chapters suggests that most Bank activities made important contributions. Bank AAA has been generally appreciated for its quality in the three countries. It appeared most critical in Tunisia, where the Bank is possibly the foremost provider of development knowledge products. The Bank's AAA covered all of the MILES areas. Regarding lending, Bank-supported fiscal adjustment operations contributed importantly to the restoration of fiscal stability in Colombia and Turkey.

However, some of the Bank's lending operations supported messy, "second-best" reforms. The Bank was right to do so, but overpromised as to what could be achieved. In Colombia fiscal adjustment operations promised more than could be delivered to eliminate structural rigidities given political economy constraints. Other specific examples include support for the reform of the public training system, the Investment Stability Law in Colombia for secondary education in Turkey, and infrastructure in Tunisia. The Bank's involvement contributed to better outcomes in these areas even though the results were less than expected.

Some of the Bank's lending operations were "second-best" reforms.

Bank Support on the Specific MILES Areas: Similarities and Differences Across the Three Countries

Key findings are summarized as follows:

(i) Bank support for *macroeconomic policies* effectively contributed to country efforts regarding stabilization and financial crisis resolution in Colombia and Turkey, and to trade and financial development in Tunisia. These efforts were the main force that helped restore GDP growth in the first two countries, and also contributed to sustaining higher growth in the third. Restored GDP growth increased the demand for labor, resulting primarily in higher earnings growth;

(ii) Bank support for *investment climate* policies covered the three countries and contributed to improvements in specific policy areas that helped raise investment or total factor productivity to varying degrees;

(iii) Support for *labor market regulations and institutions* occurred primarily through AAA of good quality in terms of relevance and competence, but with somewhat uncertain and perhaps limited impact;

(iv) Support for *education* contributed primarily to coverage and supported the increased supply of skills needed to raise output and earnings growth;

(v) Support for *social protection* arrangements contributed successfully to CCT programs in Colombia, albeit with an unsustainable fiscal cost. and less so to unemployment insurance programs.

Bank support for macroeconomic policies contributed to country efforts to crisis resolution in Colombia and Turkey, and to trade and financial development in Tunisia,

Macroeconomic Policies. Growth in Colombia and Turkey would have been less were it not for the stabilization that brought both countries out of recession during the first half of the review period. Bank support for macroeconomic policies was most important for employment growth in Turkey and Colombia. In Turkey, macroeconomic policies that, on balance, enhanced growth included reduction of fiscal deficits through both tax and expenditure measures that involved important structural reforms in the financial system, pensions, privatization and agriculture. Although initial stabilization efforts failed, the IMF and Bank provided considerable support to the macroeconomic stabilization efforts that were ultimately successful, with the exception of pension reforms. Similarly, the Bank assisted Colombia in its macroeconomic stabilization efforts with success in helping tax administration. However, it failed in its support to lessen fiscal rigidities. Clearly the structural reform challenges to stabilize were far more challenging in Turkey than in Colombia and, accordingly, the Bank's engagement in this area was correspondingly stronger in Turkey. Regarding trade, the Bank successfully helped Tunisia in the area of facilitation and this may have contributed to positive employment outcomes.

This experience suggests that the Bank needs to work with the IMF in advising countries to ensure fiscal prudence and use available policies and resources judiciously in terms of addressing varying employment challenges. This requires relying largely on automatic stabilizers (allowing moderate deficits as revenue growth falters in recession and building treasury reserves during booms) rather than on discretionary policies that have often been biased toward increased public expenditure and that risk remission into fiscal distress. Discretion is likely to make more sense in expenditure allocation, with periods of employment distress requiring more resources into unemployment insurance and CCT programs. Alternatively, periods of employment booms would allow more resources to be spent on public investment. The Bank can help in this area through its Public Expenditure Reviews (PERs), which typically involve multi-sector analyses. . The rationale to avoid expenditure expansions to any significant degree is illustrated by the experience of Colombia and Turkey. In both countries, the first half of the review period was characterized by recession and deteriorating employment outcomes originating in declining confidence from an unsustainable fiscal stance (and deteriorating security in Colombia).

Investment Climate. In Tunisia, private investment was relatively stable as compared with Colombia and Turkey, where the crises at the turn of the century led to a major decline in the ratio of investment to GDP (figure N.4, Appendix N). The ratio declined until after the time when the recessions bottomed out in Colombia and Turkey and then recovered significantly, even surpassing the prior maximum ratio in Colombia. The cyclical behavior of private investment in Colombia and Turkey and the relative macroeconomic stability in Tunisia reflect the major role of macroeconomic conditions in determining private decisions to invest, although a deterioration of security may also have played an important role in diminishing investment around the turn of the century in Colombia.[4] No progress was achieved in raising Tunisia's low private investment ratio, possibly due to concerns with public governance noted above. Foreign direct investment was more erratic, but displayed a clear upward trend towards the end of the period under review in the three countries, reflecting both buoyant international capital markets as well as strong domestic recovery.

Bank support for investment climate policies contributed to improvements in specific policy areas that helped raise investment or total factor productivity.

Stabilization in Colombia and Turkey, improved security in Colombia, and the prospect of accession in Turkey helped these countries to recover their investment performance. Policies in the areas normally covered by investment climate analyses also improved, with legislation providing for insurance against changes in most laws and regulations in Colombia and legislation removing discrimination against foreign investment in Turkey being some of the successful reforms supported by the Bank. These improvements may have contributed more to total factor productivity growth than to the investment-to-GDP ratios.

Given the close relationship between investment and growth, it would be worthwhile for the Bank's PREM and PSD units to work more closely together to better integrate macroeconomic with microeconomic approaches to growth. Although macroeconomic changes probably explain increases in investment in Colombia and Turkey, improvements in investment in the restricted business climate variables (that is, excluding macroeconomic and trade variables) may have been primarily reflected in increased productivity, rather than captured by aggregate private investment. Some of the increases in TFP observed in the three countries toward the second half of the period reviewed may be due to better product market regulations. Furthermore, the Bank can strengthen its diagnostic work by following IEG recommendations on the Doing Business indicators, particularly with regard to tracing the impact of reforms and using more of the available analyses to choose indicators.

Support for labor market regulations and institutions —primarily through AAA was of good quality, but with somewhat uncertain and perhaps limited impact.

Labor Regulations and Institutions. The Bank's analytical work on labor market issues in the three countries has been of high quality. It has provided convincing, evidence-based analysis, and was conducted in close collaboration with local researchers and/or stakeholders. The work focused on key elements of the domestic policy debate, and identified reform priorities. The analysis also took clear account of the interaction between policies in different areas (that is, it often effectively applied to a varying extent a broad framework similar to MILES). It addressed the two key components of the gap between the demand price and the supply price for labor that discourage employment: the rigidity of labor contract regulations, which creates a cost expectation to businesses, and payroll taxes and contributions. The Bank's work on contributions has been closely linked to its work on the social services that these contributions finance. Not surprisingly given the sensitivity of labor policy issues, this AAA work was delinked from lending.

Unfortunately, moving toward less rigid regulations or lower contributions is rarely an objective that countries pursue on any sustained basis. The idea of making contracts more flexible is controversial and politically sensitive and reducing taxes faces either fiscal constraints or reductions in government services on which it can be difficult to reach consensus. Data on Colombia, Tunisia, and Turkey suggest little or no movement in these directions, although measuring rigidity of labor markets is not easy and available indices are sometimes contradictory.[5]

Continuing and extending AAA on labor markets can help improve labor market performance. Using AAA capitalizes on the Bank's capacity for labor market analysis and lowers the risks of undermining reform that often come with the difficult political economy of labor reform. In particular, the Bank can help improve and extend (perhaps in partnership with the OECD and the Bank's *Doing Business* report) estimates and cross-country comparisons of labor rigidities and labor taxes. It can also further the understanding of low female participation and employment rates in countries such as Tunisia and Turkey. The dialogue, dissemination, and advice part of AAA, although challenging, can make this instrument more effective. At the same time, though, there are always risks such as the weakened dialogue on this matter in Tunisia.

Support for education contributed primarily to coverage and the increased supply of skills needed to raise output and earnings growth.

Education. Key standard aims of education policies in most if not all countries have been to increase coverage, technical quality, and fit to the needs of labor markets. This has been the case as well in the three countries reviewed. To achieve these aims, and in addition to higher expenditures, policies in Colombia combined decentralization of expenditures, programs to target hard-to-reach populations, changes in curricula aimed at improving below-average quality of education, and expansion of non-formal training in an effort to improve the relevance of courses. Policies in Tunisia were aimed at increasing coverage and reducing gender gaps. In Turkey, the key policy was to expand coverage by extending mandatory schooling from five to eight years. Progress in the three countries is summarized as follows (see also table N.5, Appendix N):

- Based on increases in average years of schooling for the population 15 years and older, progress during the past decade has been fastest in Tunisia, followed by Turkey.
- Net enrollment in primary education did not change in Colombia during the evaluation period and declined in Tunisia and more so in Turkey. It had increased considerably in Colombia and Tunisia during the previous decade.
- Net enrollment in secondary education increased most in Turkey, followed by Colombia.
- Gross enrollment in tertiary education increased most in Turkey, followed by Tunisia.
- Average years of education continued increasing at a rate of about 0.1 per year in Colombia and Tunisia, and 0.04 per year in Turkey. During the previous decade, years of education had increased faster in Turkey, at about the same rate in Tunisia, and more slowly in Colombia.
- Expected years of schooling today are somewhat higher in Tunisia, followed by Turkey.
- Improvements in test scores between 2003 and 2006 suggest an increase in the quality of education during the review period.
- The increase in the percentage of businesses that view the workforce as inadequately educated, particularly large in Turkey, suggests that increases in quality through education and training are not keeping pace with the changes in market requirements.

The Bank supported policies and expenditures to achieve the progress reflected in the results outlined above. Of Bank support in the three countries, support in Colombia, which included both AAA and project lending, was appreciated the most. This support helped improve quality, delivery of education services in poor, hard-to-reach rural communities, develop a student loan scheme for formal higher education, set up information systems within the Ministry of Education, and improve the effectiveness of non-formal training. Nevertheless, from an evaluation perspective, some of these projects were not entirely satisfactory either because they did not fully meet the original objectives or because these objectives were not clearly articulated.

The Bank's support in Turkey during the review period aimed to improve vocational training, help Turkey meet the Organisation of Economic Co-operation and Development's (OECD's) educational standards, and expand coverage and quality of basic education. IEG Implementation Completion Report (ICR) reviews rated these projects less than fully satisfactory to varying degrees in that they did not entirely meet their original objectives, or where the objectives were not clearly articulated, or where implementation, particularly of procurement, was difficult. AAA contributions have been of good quality and highlighted important policy issues directed to improving education of the poor. Among the three countries, however, the education sector in Turkey has proved the most difficult sector for the Bank's work, where its impact has probably been more limited.

The Bank's support in Tunisia focused on training to improve the fit of the labor force to market opportunities, restructuring of higher education to improve its responsiveness to the country's needs, expanded coverage in anticipation of expected increases in enrollment, and enhanced quality to address the concern that large numbers of students fail to master basic skills. The projects have been rated satisfactory but the perceptions of stakeholders are that the Bank's support of higher education has not been sufficiently far-reaching, particularly in addressing issues of quality. As noted in Chapter 3, exceptionally high unemployment of university graduates must be, at least in part, attributable to the poor quality and/or fit of university education.

In the higher education sub-sector in Tunisia, the Bank's credibility has been damaged in the eyes of some observers because it has supported a rapid and quality– compromising expansion in physical university facilities without first insisting on critical policy changes to increase university autonomy and accountability.

Support for social protection addressed different issues in the three countries.

The Bank may find it appropriate to continue focusing on advice and projects to improve coverage and quality. With regard to quality, greater emphasis might usefully be ascribed to addressing skill mismatches, which appear to be behind much of the structural unemployment observed in these countries Mismatches of skills between supply and demand are thought to be an important source of structural unemployment, triggered, for example, by sector restructuring in Turkey and poor technical quality and inadequate skills in Tunisia. As discussed in the section on results, structural unemployment is an area where little or no progress was made in any of the three countries. Indeed, the data indicate that skill mismatches may be increasing. In this regard, the Bank's Education Network could work more closely with the PSD Network. The Bank should also continue its pursuit of gender equality in education and gender balance in labor force participation. *Social Protection.* Social protection policies may have an impact on employment when they assure worker protection. They can substitute for job protection, thereby facilitating labor flexibility and mobility. Indeed, there is some evidence of this trade off in international comparisons,[6] albeit separating countries in the Anglo-American tradition, where social protection "buys" more labor flex

ibility, from those in the European tradition. The key social protection instrument to substitute for job protection is unemployment insurance, but old age and health insurance, and cash transfer systems will also be relevant. There was little movement in this direction during the period under review. In Turkey, job protection was strengthened and an unemployment insurance system was introduced in August 1999 (it started paying benefits in 2002) as well as a CCT arrangement, together with pension reform. In Tunisia, there was no change in either. Colombia provides the richer experience as some relaxation of worker protection and a strengthening of a CCT system took place during the period reviewed.

Bank support in the three countries addressed different issues. In Turkey— which has a three-tier social insurance system comprised of pension, health, and unemployment insurance (including both formal unemployment insurance and mandatory severance payments)— the Bank recommended measures to improve the financial viability of the pension system. It also recommended developing a system that finances and purchases a basic system from a pluralistic provider market, and eliminating mandatory severance in view of the presence of unemployment insurance. In addition, the Bank promoted the introduction of unemployment benefit rates that decline with unemployment duration to encourage job search.[7]

In Colombia, the Bank played a strong role, together with the Inter-American Development Bank (IADB), acting as a catalyst of the conditional cash transfer program. In Tunisia, the Bank recommended introduction of employment insurance with a view to encouraging greater labor mobility.

Strategies for dealing with the long-term fiscal costs of expanding social protection networks need to be built into the program design from the outset. The Bank (and the IADB) helped to improve the design and finance the implementation of the main CCT program, *Familias en Accion*, which has had a positive impact on a range of social outcomes. However, the program is growing rapidly, well beyond its original role as a temporary response to alleviate the social consequences of the 1999 crisis. The Bank should have given more attention earlier to the longer-term fiscal implications of the program, including how it would be financed when external financing was no longer available.

The apparently insurmountable problems have led to establishing partial and imperfect systems that are unlikely to fit the bill from the perspective of delinking worker protection from job protection. The Bank needs to continue working on implementing worker protection instead of job protection. This has not been easy, as the Colombian and Turkish experiences demonstrate. The key constraints, affordability on the one hand and a correct incentive structure on the other, need to compatible. Efforts in this area should also factor in the informal sector, as an affordable and efficient unemployment insurance system may help encourage formality.

The Current Global Employment Crisis

Countries are introducing a variety of policies to help contain the deepening of global unemployment.

As world GDP growth declined sharply as a result of the solvency and credit crises in world financial markets during 2008-09, unemployment rates increased and employment and earnings growth declined. In its 2009 Global Employment Trends Report, the International Labor Office estimated that world unemployment would increase from 5.7 percent in 2007 and 6.0 percent in 2008, and to within 6.1 percent and 7.1 percent by the end of 2009.[8] In its "Scenario 2" projection, where the "negative impact on unemployment is taken in each country at the time of the largest year-on-year drop in GDP," and IMF November 2008 GDP growth projections are used (2.2 percent in 2009), the unemployment rate would have reached 6.5 percent by the end of 2009, resulting in an increase of 31 million unemployed compared to 2007.

Increases in world unemployment may have been even higher (to 6.8 percent) under the most recent (October 2009) IMF growth projections for 2009 of minus 1.1 percent.[9] The largest increases in the unemployment rate are probably occurring in developed economies, Central and South Eastern Europe (non-EU) and CIS, and Latin America and the Caribbean. The employment-to-population ratio, which had been recovering since 2004, already declined by 0.2 percentage points in 2008 and possibly declined further in 2009. With declining output growth, declining earnings growth is projected to raise $2-a-day poverty rates by up to 5 percentage points between 2007 and 2009.[10] All of these projections are of course quite fluid and likely to change significantly. Although world GDP growth has started to recover with an IMF October 2009 projection of 3.1 percent for 2010, unemployment effects are likely to linger for a while longer.

The major economies have responded to the crisis primarily by increasing public expenditure (bailouts, infrastructure, education, health) and lowering interest rates, with the expectation that these measures will rekindle growth in late 2009 or 2010. The United States is also raising its low unemployment benefits. Many European countries are subsidizing part-time employment, and the United Kingdom is subsidizing hiring and training. Middle-income economies are reacting in various ways.

Performance and policy response in the three economies covered by this report provide a sample of the challenges being faced:

- In Colombia, the government (Central Bank/National Planning Department [DNP]) estimates that growth declined to 2.5 percent in 2008 and to about 0.0 percent in 2009, down from 6.9 percent and 7.5 percent respectively in 2006 and 2007. Average annual (past 12 months) urban unemployment increased steadily from 10.4 percent in May 2008 to 11.6 percent in July 2009. Colombia's response to the crisis includes countercyclical fiscal policies with some tax reduction, and expenditures on infrastructure and business subsidies; increasing access to international financing, expanded business finance, training and employment services, and conditional cash transfers. The Bank is supporting the CCT program and private sector efficiency and competitiveness programs.

- In Tunisia, the unemployment rate had remained stable at a rate of just over 14 percent in 2008. As in Colombia and Turkey, both fiscal and monetary policies are expansionary at this point. Macroeconomic/investment climate policies are designed in part to combat the possible adverse impact of recession in Europe and to target enhancements in global integration, business climate, and the financial sector. The Bank is supporting these policies.
- In Turkey, growth is estimated to decline to 0.9 percent in 2008, and is expected to decline further to -8.0 percent in 2009, down from 6.9 percent and 4.7 percent respectively in 2006 and 2007. Unemployment increased from 9.9 percent in 2007 to 10.7 percent in 2008 and may increase further to 13.4 percent in September 2009 as a result of declining growth. The Bank is supporting programs in education, competitiveness, employment and finance.

The following points summarize a number of the implications concerning Bank support during job crises:

The Bank may adjust its programs to emphasize more strongly its support for employment-related objectives. Country Directors are the logical focal points to engage with country authorities on ways to increase the impact of Bank programs on employment outcomes. Many governments have made adjustments to their policies in reaction to the financial crisis. The Bank can follow suit by emphasizing those areas it can support that best address constraints to employment creation and earnings growth. One obvious adjustment is to emphasize more AAA to diagnose constraints to employment in many of the countries (as the program in Turkey is doing at present).

The Bank's integrative capability can be put to good use in providing support in the different areas affecting employment outcomes. The current exogenous factors are likely to raise challenges in the macroeconomic, investment climate, labor regulation, education, and social protection areas. As current exogenous shocks to output in developing countries raise unemployment, the Bank is well-positioned to help develop policy options in the various areas that have a bearing on the full set of employment outcomes, including unemployment and earnings. In a recession, slow employment growth, cyclical unemployment, and declining earnings or declining earnings growth become major issues. The Bank has a good integrative framework to help countries address these issues with a good balance between countercyclical policies and fiscal prudence, measures to speed up improvements in the business climate, measures to encourage employers to hire, training arrangements for those unemployed to speed up their rehiring, and safety nets. These are of course unlikely to apply uniformly. For example, the macroeconomic policy component will likely be more critical in a country like Turkey than in one such as Tunisia.

Monitoring and analyzing employment and earnings conditions as they evolve has now become more of a priority. Yet there are important gaps in developing country employment and earnings statistics in particular. The Bank can work in concert with other partners, including the ILO, the Organisation for Economic Co-operation and Development (OECD), the International Monetary Fund (IMF), and the regional Multilateral Development Banks (MDBs) to help countries speed up the delivery and improve the quality of employment and employment-related data (such as earnings, taxation of wages, minimum wages, and others).

Given that employment policy issues span across several Bank networks— particularly Poverty Reduction and Economic Management (PREM), Human Development and private sector development (PSD)— integrative work across these networks is likely to strengthen the Bank's effectiveness. Examples of key employment policy issues of interest with regard to the current crisis include:

- Improving monitoring of how the employment and earnings situations evolve and diagnosing evolving constraints to employment in many of the countries. To assist in this endeavor, the Bank can consider work in concert with other partners, including the ILO, the OECD, the IMF and the regional MDBs to help affected countries speed up the delivery and improve the quality of data on employment-related variables. This data is sorely needed to assess the jobs and earnings situation as it unfolds.
- *The impact of the global recession on structural unemployment.* As economies restructure in the face of recession, much of the new cyclical unemployment is likely to become structural. This strengthens the case for the Bank to consider helping design policies to reduce skills mismatches. Bank engagement might also usefully spotlight minimum wages and their interaction with non-wage costs, which in the three countries re-

viewed may have caused unemployment and informality. These effects are likely to deepen during recession.

- *Strategies to promote job flexibility and worker protection*. Developing job flexibility today is likely to help bolster employment and earnings growth, particularly as economies recover. Strengthening worker protection will help the unemployed, particularly as unemployment rates increase under the present crisis.
- *Finding the right balance between macroeconomic stability and the fiscal cost of other employment-related policies.* The experience reviewed in this report (Colombia) calls attention to ensuring the financing sustainability of expansion in social protection systems.
- Strengthening the interaction between macroeconomic and microeconomic conditions affecting growth and employment demand. As this evaluation report argues, an improved investment climate, that good macroeconomic policies will help achieve, may increase total factor productivity growth and investment and thereby encourage employment and earnings growth.
- Understanding the interface between quality of education and absorption of labor services. Skill mismatches remain an important source of structural unemployment that education policies may help address.
- *Assessing the possible effect of differential changes in employment and earnings on migratory flows.* Some countries are likely to be more adversely affected than others. This may trigger migratory flows with multiple effects on employment–related and other key macroeconomic variables.

Country programs will be more effective as they focus on areas where progress in the enabling conditions has been slow but where windows of opportunity for reform may surface as a result of the crisis, as has happened in Colombia and Turkey. The area where progress has been typically slow is in making labor regulations more flexible and labor taxes lower. Employment crises in Colombia and Turkey created windows of opportunity for reform in this area, and the current global crisis may also create further opportunities in this and other areas.

Conversely, the Bank can also help countries maintain progress where it has been achieved, as was the case with macroeconomic stability in the three countries reviewed. In this regard, the Bank can deploy its multi-sector capacity to help countries avoid conflicts between employment policies (e.g., making sure that stimulus packages or extended social protection are affordable).

Appendix A. Country Assistance Strategy (CAS) Objectives

Colombia, Tunisia, and Turkey

Country	CAS Date	CAS Objectives: 1997-2008
Colombia	1997/10/15	1) Promoting peace and development through a focus on the socio-economic determinants of violence, 2) promoting rural development, 3) developing human capital, 4) attaining public sector efficiency, 5) improving infrastructure services, and 6) ensuring sustainable development. (CAS, p. 10).
	1999/11/01 (Progress Report)	1) Promoting peace and development through a focus on the socio-economic determinants of violence, 2) promoting rural development, 3) developing human capital, 4) attaining public sector efficiency, 5) improving infrastructure services, and 6) ensuring sustainable development. (CAS Progress Report, p. 2).
	2002/12/24	Supporting Colombia's quest for peace in three essential areas: (1) achieving fast and sustainable growth; (2) sharing the fruits of growth; and, (3) building efficient, accountable, and transparent governance. (CAS, p.22).
	2005/09/09	(1) Achieving fast and sustainable growth; (2) sharing the fruits of growth; (3) building efficient, accountable and transparent governance; and (4) building the foundations for peace. (CAS, p.11)
	2008/03/04	(1) Peace and Security for Citizens, promotion of Equity; (2) high and sustainable growth; (3) a state at the service of its citizens; and (4) promotion of Environmental Sustainability, as well as support for its Transversal Themes[1] (CAS, p. 14).
Tunisia	1996/06/25	(1) Deepening structural reforms; (2) human capital development; (3) modernization of services; (4) environmental management. (CAS, p. 15)
	2000/03/28	(1) Consolidating long-term development through activities in sectors of traditional Bank involvement; (2) supporting economic reforms to enhance competitiveness and increase employment; (3) new initiatives of a catalytic nature to strengthen local institutions launching new development niches (e.g., information technology), and mobilizing external finance. (CAS, p. 21)
	2004/06/03	(1) Strengthening the business environment to support the development of a more competitive, internationally integrated private sector and improving competitiveness of the Tunisian economy; (2) enhancing the skills and employability of graduates and labor force in a knowledge economy; and (3) improving the quality of social services through enhanced efficiency of public expenditures. (CAS, p. i-ii)
	2007/08/13 (Progress Report)	1) Strengthening the investment climate and competitiveness, (2) improving education quality and graduate employability for an increasingly knowledge-based economy, and (2) improving social services through more efficient public expenditure. (CAS, p.3)
Turkey	1997/08/06	1) Improving economic management (privatization, social security, agricultural subsidies, public financial management, banking); 2) reducing poverty and increasing social development (agricultural productivity, universal schooling through 8th grade; health indicators; health insurance, pensions); and 3) improving competitiveness and employment (government's policy and regulatory role). (CAS, p.14-17)
	2000/11/28	Reducing vulnerability through: 1) restoring stable and higher growth; 2) creating employment; 3) reducing inflation; 4) improving public management and accountability; and 5) expanding social services and social protection. (CAS, p.ii).
	2001/07/10 (Progress Report)	Reducing vulnerability through: 1) restoring stable and higher growth; 2) creating employment; 3) reducing inflation; 4) improving public management and accountability; and 5) expanding social services and social protection. (p 14)
	2003/10/02	1) Mitigating the impact of financial and tectonic crises on people, and (2) supporting the modernization and strengthening of institutions for the future. (CAS, p.8)
	2005/11/08 (Progress Report)	1) Reducing economic vulnerability; 2) achieving high and stable growth; 3) reducing the risk of a reemergence of crisis; and 4) addressing the many challenges of preparing for EU membership. (CAS, p.3)
	2008/01/25	Unlocking Turkey's potential for fast and sustained growth while establishing equal opportunity and allowing more citizens to share in the benefits of growth, through reforms that also facilitate Turkey's EU accession. Three pillars: 1) improved competitiveness and employment; 2) equitable human and social development, and efficient provision of high quality public services; 3) with emphasis on the reduction of regional differences. (CAS, p.23)

Appendix B. Colombia: Baseline and Latest Outcome Indicators by MILES Component

Colombia: Indicators of Outcomes Organized Along the MILES Framework

Indicator	Baseline 1998	Latest 2007/8	Comments
Macroeconomic			
Inflation (12-month, %)	16.7	5.7	Major improvements in inflation and external debt service indictors.
External debt service ratio (%)	48.7	27.9 [2006]	
Central government deficit (% of GDP)	5.4	3.3	
Non-financial public sector deficit (% of GDP)	4.6	1.0	Deficit peaked at 6.4 percent in 1999; sustained reduction began in 2003.
Tax revenue (% of GDP)	17.6	24.1	Most of the gains in tax revenue/GDP occurred in the last three years covered.
Public capital expenditure (% of GDP)	8.0	7.2	
Public debt (% of GDP)	34.1	38.3	Public debt reached a peak of 60 percent of GDP in 2002, and has fallen sharply since.
Capital adequacy of banks: capital to risk-weighted assets (%)	9.4 [2000]	13.6 [Aug 2008]	Dramatic improvements in all financial soundness indicators.
Non-performing loans (% of total)	10.7	4 [Aug 2008]	
Provisions to non-performing loans	37.9	120 [Aug 2008]	
Investment Climate			
Ranking in WEF Global Competitiveness survey (% of countries ranked lower)	13	45	
ICRG score for corruption [a/]	1.5	2.5	
Time required to start a business (days) [b/]	60 [2003]	36	
Average time to enforce a contract (days) [c/]	1,510 [2004]	1,346	
Average time to file all business tax returns (hours) [d/]	456 [2004]	256	
Time required to complete foreign trade procedures (days) [e]			
Export	34 [2006]	14	
Import	48 [2006]	15	
Domestic credit to private sector (% of GDP)	36.7	39.6 (check)	Credit to private sector slumped to 25 percent of GDP in 2003 before rebounding.
Foreign direct investment, net ($ billion)	2.03	8.66	Large increases in FDI inflows in last few years.
Private investment (% of GDP)	14.3	17.6	

Colombia: Indicators of Outcomes Organized Along the MILES Framework

Indicator	Baseline 1998	Latest 2007/8	Comments
Labor Market			
Non-wage payroll costs (% of wage)	52.2	55.2	The non-wage costs of employing labor in the formal sector rose from under 40 percent to about 52 percent in the mid-1990s, and increased 3 more percentage points in 2002-03 as a result of increased pension and unemployment insurance costs.
Numbers of apprenticeship contracts (annually) of which: from non-SENA training institutions	33,000 [2000] 0	75,000 [2005] 16,000	Substantial expansion in apprenticeship contracts, with growing share for non-SENA courses.
Average dismissal costs (months of wages)	13.4	10.1 [2004]	Dismissal costs reduced moderately as a result of the 2002 reform.
Rigidity of employment index [f/]	27 [2004]	24	
Number of graduates from SENA training courses (annually)	0.9 million [2003]	4.1 million	
Education			
School enrollment (% net)			Significant increases in primary and secondary enrollment
Primary	87.3	88.5 [2006]	
Secondary	53.6	64.9	
Tertiary (% gross)	22.0	31.0 [2006]	
Primary completion rate (% of relevant age group)	90.1	105.2 [2006]	Increased primary completion rates.
Male	87.9	103.4 [2006]	
Female	92.3	107.1 [2006]	
Social Protection			
Number of beneficiaries of unemployment subsidies; of which:	0	110,000 [2005]	
Share of informal sector workers (%)	(0)	(46)	
Number of beneficiaries of conditional cash transfer schemes (million)	0	1.5	
Number of beneficiaries of subsidized health insurance (million)	10.7 [2002]	18.6 [2006]	

[a] 0=worst; 6=best.
[b] From World Bank "Doing Business" reports.
[c] Ibid; [d] Ibid. [e] Ibid.
[f] From World Bank "Doing Business" reports. The rigidity of employment index is the average of three sub-indices: difficulty of hiring, rigidity of hours, and difficulty of firing. Index range is 0-100, with higher values indicating greater rigidity.
Sources: Banco de la Republica,, National Administrative Department of Statistics (DANE), Ministry of Finance, Ministry of Labor and Social Protection, Superintendency of Financial Institutions, National Planning Department, World Development Indicators (World Bank), World Economic Forum: Global Competitiveness Survey Indicators, Doing Business Indicators (The World Bank).
Note: FDI= foreign direct investment; GDP= gross domestic product; ICRG= International Country Risk Guide; MILES= Macroeconomic Conditions, Investment climate and infrastructure, Labor market regulations and institutions, Education and skills development; and Social safety net; SENA= Servicio Nacional de Aprendizaje (National Learning Service, Colombia); WEF= World Economic Forum

Appendix C. Colombia: World Bank Program by MILES Component

Colombia

Bank Program	Amount (US$ millions)	IEG Outcome Rating	Comment (Including conclusions of IEG reviews)
Macroeconomic Policy			
Lending			
Public Financial Management II [FY01]-P040109	35	Satisfactory	The objective was to strengthen the institutional capacity of the tax agency (DIAN) and public expenditure management. Improvements in tax administration targeted were judged as very likely to be sustained, but the project did not significantly improve the discretionary tax policies.
Structural Fiscal Adjustment Loan [FY02]-P073572	400	Moderately Satisfactory	Rationalize the system of transfers to local governments; improve efficiency in the provision of public health services; pension-related contingent liabilities; reorganization of public agencies and their current expenditures; manage public debt. Structural improvements achieved across a number of areas, but failure to reduce actual fiscal deficit in 2002 and unsatisfactory Social Service Institute reform detracted from the benefits achieved in other areas.
Fiscal and Institutional Adjustment Loans: FIAL I [FY03]-P080831 FIAL II [FY04]-P083905 FIAL III [FY05]-P084762	 300 150 100	 Moderately Satisfactory Moderately Satisfactory Moderately Unsatisfactory	The project's objective was to support fiscal sustainability in the long term through a series of reforms to the tax system, expenditure, procurement, and the rationalization of public administration. The results were mixed: fiscal adjustment was achieved, but envisaged improvements in the legal and institutional frameworks in many areas were not achieved.
Financial Sector Adjustment Loans: FSAL I [FY03]-P078869 FSAL II [FY05]-P082597	 150 100	 Satisfactory Moderately Satisfactory	Strengthen capacity to manage and mitigate weaknesses in the financial system; reduce outstanding fiscal contingent liabilities; also focus on housing mortgage market, and securities regulatory framework. The overall objective was judged highly relevant and most immediate objectives were achieved, but design of the FSAL II was judged deficient in some respects because of: i) lack of a clear link between project components and outcomes; ii) limited interval for implementation between FSAL I and II; and iii) failure to address the financial transactions tax.
Analytical Work			
CPAR [FY01]-P076038			Analysis of public procurement and contract management.
Corporate Governance ROSC [FY03]-P082535			Corporate governance ROSC assessment in Colombia.
Auditing and Accounting - ROSC [FY04]-P085186			Within the ROSC Initiative, review and identify the strengths and weaknesses of accounting and auditing standards in Colombia.
CFFA [FY04]-P078889			Analyzes Colombia's current system of public sector financial management.

Bank Program	Amount (US$ millions)	IEG Outcome Rating	Comment (Including conclusions of IEG reviews)
Improved Public Expenditure Efficiency [FY04]-P066038			Reviews Colombia's fiscal performance, including fiscal sustainability, tax policy, allocation of expenditures, and financial management.
CEM [FY05]-P089795			Country economic memorandum that investigates competitiveness, fiscal efficiency, and the impact of the US FTA on agriculture and SMEs.
CPAR [FY05]-P090009			Updates progress on the Country Procurement Assessment Report since 2001. Concludes that the process of modernization and procurement reform is evolving slowly in spite of government commitment.
FSAP Update [FY05]-P090046			Assists authorities in assessing the development needs of the financial sector, and identifying potential vulnerabilities of financial institutions and markets to macroeconomic shocks.
Policy Notes [FY06]-P094861			Notes for incoming government. Discusses macroeconomic stability and fiscal performance.
Investment Climate			
Lending			
1st Business Product and Efficiency [FY06]-P094301	250		Enhances business environment by reducing transaction costs for entrepreneurial activities, facilitates foreign trade, legal framework for secure foreign direct investment.
2nd Business Product and Efficiency [FY07]-P095213	300		Enhances foreign trade competitiveness, improves quality standards and technological innovation framework.
3rd Business Product and Efficiency [FY08]-P105029	550		Improves the quality standards and technological innovation framework; and strengthens infrastructure and logistics.
Analytical Work			
Recent Economic Development in Infrastructure [FY04]-F086806			Provides an integral evaluation of recent economic developments in Colombia's infrastructure sectors: electricity, natural gas, telecommunications, water, and transport sectors.
CEM [FY05]-P089795			Country economic memorandum that will investigate, competitiveness, fiscal efficiency, and the impact of the US FTA on agriculture and SMEs. Discusses private sector participation.
Competitiveness Study [FY06]-P090870			Reviews the logistics chain and quality assurance for Colombian foreign trade products.
Regional Competitiveness & Infrastructure [FY07]-P101348			Explores overall investment climate, infrastructure and logistics, and human capital and innovation at the regional level to increase competitiveness.
Labor Market Policies			
Lending			
Community Works [FY00]-P068762	100	Moderately Unsatisfactory	Financed small, labor-intensive public workers to provide temporary employment to poor workers. Also known as *Empleo en Accion*. Project design inefficiencies led to substantial delays in implementation. The cost per job generated was significantly higher than that of similar programs and the share of income transferred to program participants was low.

Bank Program	Amount (US$ millions)	IEG Outcome Rating	Comment (Including conclusions of IEG reviews)
Social Sector SAL [FY03]-P069861	155	Satisfactory	In terms of labor market policy supports Jovenes en Accion (cash grants to choose on the job training), implement legislation to encourage incentive on-the-job training. Impact evaluation of Empleos en Accion.
Labor Reform and Social Development Policy Loans: PLaRSSAL I [FY04]-P079060 PLaRSSAL II [FY05]-P082865 PLaRSSAL III [FY07]-P094097	 200 200 200	 Satisfactory Satisfactory Highly Satisfactory	Supported the following objectives: (a) increase employment; (b) raise human capital formation; and (c) strengthen social protection. In terms of LMP, support reform of labor regulations to reduce non-wage costs and wages, reducing structural inefficiencies, employer incentives, and training infrastructure. The program as a whole and 3rd loan in particular achieved most of the planned outcomes, in several cases surpassing targets. The Bank was also judged to have provided high-quality technical assistance.
TAL to support the PLaRSSAL [FY05]-P094097	2		Assists the Department of National Planning (DNP) and the Ministries of Social Protection (MSP) and Education (MEN) to improve their knowledge, develop effective instruments, and strengthen their ability to carry out reforms supported by the PLaRSSALs.
<u>Analytical Work</u>			
Colombia Poverty Report [FY02]-P066036			Analyzes impact of economic development, or lack thereof, on the welfare of the Colombian population. Analyzes labor market outcomes and proposes more flexibility in the labor market.
Public Training Reform Issues [FY04]-P074786			Analyzes the effectiveness, efficiency and equity of SENA's programs and lays out reform options to optimize its contribution to skill upgrading.
Labor Reform Agenda [FY05]-P074781			Analyzed the labor market and gauges the impact of the 2002 reform.
Informality /Soc Protection Study [FY07]-P095603			Background papers analyzing informality in Colombia's labor market.
Informality /Soc Protection Study II [FY08]-P100322			Phase II uses the surveys from Phase I and collects qualitative data from firms and workers to better understand the dynamics of the informal sector.
Poverty & Jobs [FY08]-P110542			Expands on poverty work done in 2006. Provides advice on income generation, including active labor market policies (ALMP)
Education Policies			
<u>Lending</u>			
Antioquia Education [FY98]-P006891	40	Moderately Satisfactory	Objective was to improve access and retention rates and improve effectiveness of delivery of educational services. Objectives only partly achieved (more in urban than in rural areas, possibly because of armed conflict). Targets for dropout, repetition and student math achievements were not met. Communities were not able to assume management responsibilities as expected. Many of the activities under the project were plans, and their sustainability was not known.

Bank Program	Amount (US$ millions)	IEG Outcome Rating	Comment (Including conclusions of IEG reviews)
Pasto Education [FY98]-P046112	7.2	Satisfactory	The objective was to improve access, retention, and learning in Pasto. Objectives partly achieved. Vouchers to low-income students greatly exceeded targets and the poorest students were effectively reached. The quality enhancement objective was not met.
Cundinamarca Education Quality Improvement [FY04]-P077757	15	Highly Unsatisfactory	Most activities under the project were not implemented because of changes in municipal political leadership
Antioquia Basic Education [FY08]-P082908	40		Increases equitable access and retention in primary education.
Antioquia Secondary Education [FY08]-P052608	20		Increases equitable access and retention in upper-secondary education. Increases the proportion of public school secondary-education graduates who continue on to tertiary education.
Rural Education APL I [FY00]-P050578	20	Satisfactory	Objectives and program design judged highly relevant, including focus on "access to quality" and recognition that problem of urban-rural disparities could be solved only with long-term support. Project served many more municipalities and students than originally targeted, but gaps in the definition of outcomes indicators, including quality measures, complicated measurement. Efficacy of project rated as substantial.
Higher Education - Improving Access [FY03]-P074138	200		Improve quality and equity in tertiary education through targeted and merit–based student loans and a quality–enhancement framework.
Second Student Loan Support Project [FY08]-P105164	300		Provides student loans to talented but needy students and improves management practices to allow ICETEX to operate more efficiently and increase sustainability.
<u>Analytical Work</u>			
Higher Education Strategy [FY02]-P077435			Highlighted the priorities for the tertiary education sector. Delivered results in close collaboration with local counterparts.
Contracting Education Services [FY05]-P085591			Technical assistance on the practice of contracting education services.
Education Quality Program I [FY08]-P106710			In progress.
Social Protection			
<u>Lending</u>			
Human Capital Prot. - Cash Transfers [FY01]-P069964	150	Satisfactory	Supports Colombia's conditional cash transfer program, *Familias en Accion*. Considered a social protection intervention. Project objectives and design judged highly relevant, drawing on similar programs tested elsewhere in Latin America. Objectives of better schooling, nutrition, and health outcomes for poor children substantially achieved
Social Safety Net Project [FY06]-P089443	86	Satisfactory	Consolidates and expands the successful *Familias en Accion* Conditional Cash Transfer program. Considered a social protection intervention.

Bank Program	Amount (US$ millions)	IEG Outcome Rating	Comment (Including conclusions of IEG reviews)
Social Safety Additional Financing [FY07]-P104507	105		Consolidates and expands the successful *Familias en Accion* Conditional Cash Transfer program. Considered a social protection intervention.
<u>Analytical Work</u>			
Colombia Poverty Report [FY02]-P066036			Analyzes the impact of economic development, or lack thereof, on the welfare of the Colombian population. Discusses access of social protection for poverty alleviation.
Social Sector Review [FY02]-P064857			Analysis of Colombia's social safety net system.
Informality /Soc Protection Study [FY07]-P095603			Discusses expansion of pension coverage.
Informality program II [FY08]-P100322			Discusses social protection mechanisms for informal sector workers.

Source: Project Documents, AAA Reports, and IEG Evaluation.

Note: ALMP= Active Labor Market Policies; APL= Adaptable Program Loan; CEM= Country Economic Memorandum; CFAA= Country Financial Accountability Assessment; CPAR= Country Procurement Assessment Review; DIAN= National Tax Office (Colombia); DNP= Department of National Planning (Colombia); FIAL=Fiscal and Institutional Adjustment Loan; FSAL= Financial Sector Adjustment Loan; FSAP= Financial Sector Assessment Program; FTA= free trade agreement; FY= fiscal year; ICETEX= Colombian Public Student Loan Bank; IEG= Independent Evaluation Group; LMP= labor market participation; MEN= Ministry of Education; MSP= Ministry of Social Protection; PLaSSAL= Programmatic Loans Supporting Labor Reform and Social Development Policy; ROSC=Report on the Observance of Standards and Codes; SAL= Structural Adjustment Loan; SENA= National Education Service; SME= small and medium enterprises; TAL=technical assistance loan.

Appendix D. Colombia: Annex Tables

Table D.1 Colombia: Growth, Poverty, and Income Distribution Indicators

(percent, except first row)

COLOMBIA	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Per Capita GDP (Constant 2000 International Dollars) a/	5571	5590	5763	5791	6018	6218	6234	6336	6263	5900	5974	5965	5987	6124	6329	6536	6886	7314
GDP (LCU) growth a/	6.0	2.3	5.0	2.4	5.8	5.2	2.1	3.4	0.6	-4.2	2.9	1.5	1.9	3.9	4.9	4.7	6.8	7.5
Per Capita GDP Growth a/	4.0	0.3	3.1	0.5	3.9	3.3	0.3	1.6	-1.1	-5.8	1.2	-0.1	0.4	2.3	3.3	3.3	5.4	6.2
Poverty headcount ratio b/						11.2	13.5		16.1	16.5	16.8			15.4			16.0	
Poverty headcount ratio c/						31.0	33.0			37.6	36.9			33.1			34.8	
Poverty headcount ratio d/		18.7	20.9	17.7	17.6	15.5	17.2	18.5	20.8	25.4	19	18.7	20.7	15.8	17.4	14.7	11.3	
Poverty headcount ratio e/	48.6	49.2	49.6	46.7	46.6	46.2	47.6	49.4	52.0	54.2	51.7	51.9	53.7	51.2	51.0	50.3	50.0	47.9
Poverty headcount ratio f/																	45.0	
Gini Coefficient g/						57.2	56.1			57.9	57.5			58.8			58.5	
Gini Coefficient h/	49.1	54.6	55.5	55.4	55.9	55.9	56.7	57.4	57.9	60.1	56.3	55.8	59.0	57.0	58.0	58.0	58.3	58.6

Sources:

a/ The World Bank (World Development Indicators).

b/ $1.25-a–day poverty line (World Bank updated (2008) poverty estimates (<www..worldbank.org>).

c/ $2.50-a-day poverty line (World Bank updated (2008) poverty estimates (<www..worldbank.org>).

d/ Poverty line: cost of food basket meeting minimum nutritional needs (1991-05): Official DNP estimate: See Nina Baltazar et. al. (2007). 2006: staff estimate based on DNP data);

e/ Poverty line: 2.1 times (4/), based on ratio of total to food expenditure for the poorest 25 percent of the population: (1991-05: Official NPD estimate; See Baltazar et. al. (2007). 2006-07: staff estimates based on DANE/DNP (2009).

f/The World Bank (World Development Indicators)

g/ World Bank updated (2008) poverty estimates (<www.worldbank.org>); 8/ Staff estimates from data in Acevedo et. al. (2007), Figure 4, p. 57; Montenegro (2006); and DANE/DNP (2009).

Note: GDP= gross domestic product; LCU= local currency unit.

Table D.2 Colombia: Population and Labor Force Participation (LFP) Rates

(percentages except first row)

COLOMBIA	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Population, total (millions) [a/]	34.9	35.5	36.2	36.9	37.6	38.3	38.9	39.6	40.3	41.0	41.7	42.4	43.0	43.7	44.3	44.9	45.6	46.1
Population growth (annual %) [a/]	2.0	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.7	1.7	1.7	1.6	1.6	1.5	1.5	1.4	1.4	1.2
Urban population (% of total) [a/]	68.3	68.7	69.2	69.6	70.1	70.5	70.8	71.1	71.5	71.8	72.1	72.4	72.7	73.0	73.3	73.6	73.9	74.2
Total LFP Rate (DANE) [b/]	57.1	57.6	56.8	56.2	56.4	56.9	56.4	56.6	58.5	59.4	61.8	62.3	60.2	63.0	60.0	60.0	56.3	57.6
Total LFP Rate by Gender (DANE) – Total [c/]												63.3	62.2	63.0	60.7	60.8	56.8	59.0
Male [c/]												76.3	75.2	75.2	74.1	73.9	71.3	72.2
Female [c/]												51.2	50.4	52.1	48.6	49.0	43.9	47.2
Total LFP Rate by Gender (ILO) – Total [d/]	60.1	62.4	63.2	64.0	62.8	63.1	63.3	64.1	64.8	67.7	68.1	68.5	68.9	69.3	69.7	70.1	70.5	70.9
Male [d/]	76.7	77.8	78.1	78.9	77.9	78.0	78.0	77.5	77.2	78.9	78.9	78.9	78.9	78.8	78.6	78.4	78.1	78.7
Female [d/]	44.2	47.8	49.0	49.8	48.5	49.0	49.5	51.5	53.1	57.0	57.9	58.7	59.6	60.4	61.3	62.2	63.2	63.6
Total LFP Rate by Gender (WDI) – Total [e/]	62.9	64	64.3	64.9	65.2	65.5	66	66.5	67.2	68.2	68.6	69.1	69.7	70	70.5	70.9	71.2	
Male [e/]	81.2	81.4	81.3	81.4	81.3	81.2	81.2	81.1	81.2	81.4	81.3	81.3	81.3	81.1	81.1	81	80.9	
Female [e/]	45.5	47.3	48	49.1	49.9	50.7	51.7	52.7	54	55.7	56.5	57.7	58.7	59.6	60.4	61.3	62.1	
Total LFP Rate by Gender - Total (WDI) [f/]	66.4	67.6	67.9	68.6	68.9	69.3	69.8	70.4	71.1	72.3	72.7	73.3	73.9	74.3	74.8	75.3	75.7	
Male [f/]	84.9	85.2	85.2	85.3	85.1	85	85	84.9	85.1	85.4	85.3	85.3	85.3	85.2	85.2	85.1	85.1	
Female [f/]	48.5	50.5	51.3	52.5	53.4	54.2	55.3	56.4	57.8	59.7	60.6	61.9	63	63.9	64.9	65.8	66.7	
Total LFP Rate by Sector - Total (WDI) [g/]							56.4	56.6	58.5	59.4	61.8	61.9	61.5	62.1	60.8	59.9	58.4	
Urban [g/]							57.1	57.5	59.1	60.4	63.1	62.8	62.5	63.0	61.7	61.0	59.8	
Rural [g/]							54.7	54.4	57.2	56.7	58.3	59.5	58.8	59.6	58.2	56.8	54.4	
Urban LFP Rate (7 Cities) [h/]	59.8	59.6	59.9	62.2	63.1	64.3	64.6	65.0	65.3	64.0	63.7	62.2	62.0	54.6	54.3	55.0	54.4	55.1
Urban LFP Rate (13 cities) [h/]											63.5	64.4	64.8	65	63.6	63.3	62	61.8
Urban LFP Rate by Gender (13 Cities) [c/]												65.1	65.0	65.4	63.1	63.5	59.6	61.5
Male [c/]												75.1	74.5	74.4	72.8	73.1	70.1	70.8
Female [c/]												56.6	57.2	57.9	55.1	55.4	50.9	53.8

Sources:

a/ The World Bank (WDI).

b/ 1990-96: Lopez, Castaño (2001). 1996-00: DANE (National Statistical Office),< www.dane.gov.co>, "Mercado Laboral, Encuesta Nacional de Hogares. 2001-07": DANE (National Statistical Office), <www.dane.gov.co>, (new methodology), "Mercado Laboral, Gran Encuesta Integrada de Hogares (Serie Mensual 01-08).". Data are for September and cover ages 10 and older (12 and older for urban population until 2000).

c/ DANE (National Statistical Office),< www.dane.gov.co>, "Mercado Laboral, Boletín de Sexo." Data are for the 4th quarter and for ages 10 and older.

d/ ILO 1990-2007. Data are for ages 15 and older.

e/ The World Bank (WDI). Data are for ages 15 and more.

f/ The World Bank, World Development Indicators. Data are for ages 15-64.

g/ 1996-00: DANE (National Statistical Office),< www.dane.gov.co>, "Mercado Laboral, Encuesta Nacional de Hogares". Data are for September and cover ages 10 and older (12 and older for urban population). 2001-07: DANE (National Statistical Office), (new methodology), <www.dane.gov.co>, "Mercado Laboral, Gran Encuesta Integrada de Hogares (Serie Mensual 01-08)." Data are yearly averages and cover ages 10 and older (12 and older for urban population until 2000).

h/ Banco de la República,< www.banrep.gov.co>. Data are yearly averages.

Note: DANE= National Department of Statistics (Colombia); ILO= International Labour Organization; LFP= labor participation rate; WDI= World Development Indicators.

Table D.3 Colombia: Employment-to-Population Ratio (percent) and Number of Hours Worked per Week

COLOMBIA	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total Ratio (DANE) (September) [a/]	52.8	53.4	52.7	53.1	52.3	52.3	51.0	51.0	51.3	49.8	51.5	53.4	51.5	54.3	52.5	53.3	49.0	51.4
Total Ratio by Sector (DANE) [b/]							51.0	51.0	51.3	49.8	51.5	53.1	51.9	54.2	52.9	53.6	49.8	52.1
Urban							50.7	51.0	50.5	49.1	50.9	52.7	52.0	54.3	52.9	53.7	50.8	53.1
Rural							51.6	51.2	53.6	51.3	52.9	54.2	51.8	54.0	52.7	53.6	47.2	49.3
Total Ratio by Gender (DANE) [c/]												54.5	52.8	54.8	53.4	54.6	50.3	53.2
Male [c/]												67.9	65.9	67.6	67.3	68.2	64.9	66.9
Female [c/]												42.1	41.0	43.4	40.7	42.4	37.4	41.1
Urban Ratio (7 Cities) [d/]	53.5	53.7	55.6	55.3	55.8	55.6	53.0	54.1	52.9	52.3	51.9	54.6	55.4	56.8	55.6	56.9	53.7	56.6
Urban Ratio (7 Cities) e/	52.2	53.5	54.7	55.0	54.7	54.6	52.9	52.5	52.7	50.9	51.3	52.8	53.5	54.6	54.3	55.0	54.4	55.1
Urban Ratio (13 Metro Areas) [f/]											52.6	52.7	53.4	54.2	53.8	54.5	54.0	54.8
Urban Ratio by Gender (13 Metro Areas) [c/]												54.3	54.8	55.8	54.5	55.8	52.3	55.4
Male [c/]												64.6	64.4	65.3	64.5	65.5	62.6	65
Female [c/]												45.5	46.8	47.8	46.2	47.6	43.8	47.5
Hours Worked (7 Major Cities) [g/]		48.2	47.8	48.2	48.3	47.9	48.0	47.5	47.0	46.7	45.3							
Hours Worked per Week (Total) [g/]												42.4	42.3	43.6	44.2	46.8	46.0	
Male [g/]												45.9	46.0	45.8	46.3	48.6	48.5	
Female [g/]												37.3	37.1	38.9	39.4	42.3	45.7	
Hours Worked per Week (Manufacturing) [g/]												41.6	41.6	42.7	43.6	46.6	45.1	
Male [g/]												46.5	46.4	46.3	47.1	49.5	49.2	
Female [g/]												36.8	36.2	38.2	39.6	42.8	40.0	

Sources:

a/ September of each year, age 10 and older (12 and older for urban population until 2000. Sources: 1990-95: Lopez Castaño (2001).1996-00: DANE (National Statistical Office), www.dane.gov.co, Mercado Laboral, Encuesta Nacional de Hogares; 2001-07 (new methodology): DANE (National Statistical Office), www.dane.gov.co, Mercado Laboral, Gran Encuesta Integrada de Hogares (Serie Mensual 2001-2008).

b/ Same source as (1/), but: data for 2001-07 are August-October averages.

c/ DANE, www.dane.gov.co, Mercado Laboral, Boletin de Sexo. Data are for 4th quarter and for ages 10 and older.

d/ Banco de la Republica. <www.banrep.gov.co>. 4th quarter.

e/ Banco de la Republica. <www.banrep.gov.co>. Yearly average.

f/ Banco de la Republica. <www.banrep.gov.co>. Yearly Average.

g/ ILO, LABORSTAT, http://laborsta.ilo.org

Note: DANE=National Department of Statistics (Colombia); ILO= International Labour Organization; LABORSTAT=labor statistics database of ILO.

Table D.4 Colombia: Per Capita Gross National Income (GNI), Earnings by Education, Gender, and Sector, and Manufacturing Wage Index.

(US Dollar equivalent at year 2000 domestic prices except last two rows)

COLOMBIA	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Real GNI per worker a/	2240	2239	2325	2325	2482	2552	2591	2615	2525	2445	2381	2235	2312	2230	2398	2448	2848	2947
Earnings by Years of Education: - None b/	1687	1613	1515	1685	1853	1858	1697	1562	1655	1554	1359	1411	1362	1341	1459	1407		
Earnings by Years of Education: 1-5 b/	1922	1862	1851	2046	2102	2080	1984	1958	1914	1891	1696	1630	1614	1598	1642	1710		
Earnings by Years of Education: 6-10 b/	2373	2306	2261	2486	2492	2468	2350	2339	2271	2172	1996	1786	1734	1713	1735	1786		
Earnings by Years of Education: 11 b/	3087	3007	2995	3234	3229	3163	3067	3122	3033	2998	2637	2314	2272	2206	2245	2265		
Earnings by Years of Education: 12-15 b/	3855	3765	3843	4174	4409	4154	4095	4048	4166	4179	3867	3188	3292	3155	3086	3202		
Earnings by Years of Education: 16+ b/	6565	6417	6745	7587	7717	8139	7923	8000	8422	8528	7437	6700	6740	6333	6636	6953		
Earnings by Gender – Males b/	3482	3444	3518	3881	3904	4006	3849	4009	4268	4140	3612	3242	3251	3224	3392	3369		
Earnings by Gender – Females b/	2428	2425	2428	2698	2879	2816	2838	2978	3090	3101	2771	2653	2733	2598	2745	2835		
Earnings by Sector – Industry b/	2911	2902	2883	3118	3148	3153	3044	3160	3423	3424	3011	2715	2645	2711	2800	2804		
Earnings by Sector – Utilities b/	3576	3472	3571	3827	3969	3710	4525	4616	4716	4554	4397	5103	5050	4772	4935	5356		
Earnings by Sector – Construction b/	2445	2524	2560	2740	2803	3001	2854	2834	2881	2686	2446	1710	1463	1490	1617	1498		
Earnings by Sector – Trade b/	1433	1410	1434	1601	1605	1612	1485	1509	1523	1446	1238	1091	1049	1049	1090	1082		
Earnings by Sector – Transport b/	3139	3105	3207	3387	3588	3422	3459	3568	3421	3270	3210	2541	2629	2511	2807	2448		
Earnings by Sector – Finance b/	6294	6016	6200	6753	7164	7462	6858	7490	8312	7773	7195	6241	6833	6202	6622	7274		
Earnings by Sector – Government b/	2240	2172	2220	2539	2770	2776	2836	3097	3412	3270	3412	3402	3582	3439	3356	3471		
Earnings by Sector – Social Services b/	739	739	749	865	876	871	897	920	987	991	841	866	896	871	929	948		
Earnings by Sector – Other b/	1571	1460	1511	1937	1701	1789	1723	1774	1799	2053	1678	1899	2474	2067	2211	2447		
Net Minimum Wage c/	58.9	58.7	58.7	57.1	45.8	44.9	45.8	46.7	48.8	53.3	51.7	53.5	54.4	52.9	51.3	50.1	48.4	46.6
Formal Sector Wage Index d/	89.8	91.2	96.0	101.1	107.4	109.6	109.1	115.7	115.5	124.7	130.1	126.1	127.8	128.0	130.2	133.7	138.1	136.5

Sources:

a/ The World Bank (WDI) for GNI; DANE for Employment. Nominal local currency GNI data was deflated with CPI (WDI, Index 2000=100) and converted to US dollars using the average exchange rate for the year 2000 (BR).

b/ Staff estimates with DNP/DANE Household Survey data. Real annual earnings in US dollars at the 13 major metropolitan areas projected backwards from 2000 to 1990 with data for the 7 major cities. The nominal incomes data was deflated using CPI index (Year 2000=100).

c/ BR and DANE, Percent of per capita GDP. Average daily net minimum wage for each year was multiplied by 250 days and divided by nominal per capita GDP.

d/ Index (1990=100) Banco de la Republica. Real wages in manufacturing. Excludes coffee threshing (*trilla*).

Note: BR= Banco de la Republica; CPI= Consumer Price Index; DANE= National Administrative Department of Statistics (Colombia); GDP= gross domestic product; GNI- gross national income; WDI= World Development Indicators.

Table D.5 Colombia: Unemployment Rate and Duration

(percentages, except last row)

COLOMBIA	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total unemployment rate (DANE) [a/]	7.6	7.3	7.2	7.1	7.3	8.1	9.6	9.8	12.3	16.3	16.7	14.3	14.3	13.9	12.5	11.2	12.9	10.7
Total unemployment rate by Gender (DANE) [b/]												13.8	15.1	13.1	12.1	10.2	11.4	9.8
Male [b/]												10.9	12.4	10.2	9.1	7.8	8.9	7.4
Female [b/]												17.8	18.7	16.8	16.2	13.5	14.9	13.0
Total unemployment rate by Gender (ILO) [c/]												14.7	15.7	14.2	13.6	11.8	12.7	10.9
Male [c/]												11.6	12.7	11	10.6	9.0	9.7	8.7
Female [c/]												19.1	19.7	18.5	17.7	15.6	16.8	13.8
Total unemployment rate by Sector [d/]							9.6	9.8	12.3	16.3	16.7	15.0	15.7	14.1	13.6	11.7	12.0	
Urban [d/]							11.2	11.3	14.6	18.7	19.2	17.4	17.2	15.8	15.1	13.3	13.2	
Rural [d/]							5.6	6.0	6.2	9.5	9.3	8.1	11.2	9.3	9.1	7.2	8.3	
Urban unemployment rate (BR) [e/]	10.5	10.2	10.2	8.6	8.9	8.8	11.2	12.4	15.2	19.4	20.2	18.2	17.7	16.4	15.1	13.6	12.6	11.1
Urban unemployment rate by Gender (ILO) [f/]	10.2	9.8	9.2	7.8	7.6	8.7	12.0	12.1	15.0	20.1	20.5							
Male [f/]	8.1	7.4	6.5	5.3	4.9	6.8	9.6	9.8	12.5	17.2	16.9							
Female [f/]	13.2	13.1	12.6	11.0	11.2	11.3	15.1	15.1	18.0	23.3	24.5							
Urban unemployment rate by Gender (DANE) [b/]												16.7	15.8	14.8	13.7	12.1	12.3	9.9
Male [b/]												14.0	13.6	12.3	11.4	10.3	10.7	8.2
Female [b/]												19.7	18.1	17.4	16.1	14.2	14.0	11.7
Urban unemployment rate (BR) [g/]											17.3	18.2	17.6	16.6	15.3	13.9	12.9	11.4
Unemployed: No. of Weeks of Job Search [h/]												44.8	43.0	44.6	43.2	39.6	32.2	25.0
Male [h/]												42.1	40.6	41.3	40.7	37.6	31.4	23.5
Female [h/]												47.3	45.4	47.2	45.2	41.3	32.9	26.2
Unemployed: No. of Weeks of Job Search [h/]												48.0	48.7	49.1	48.3	42.6	34.6	
Male [h/]												46.8	47.5	48.1	46.7	41.1	36.2	
Female [h/]												49.1	49.7	49.8	49.6	43.7	36.7	

Sources:

a/ September. 1990-96: Lopez Castaño, Hugo (2001). 1996-00: DANE (National Statistical Office), www.dane.gov.co, Mercado Laboral, Encuesta Nacional de Hogares; 2001-07 (new methodology): DANE (National Statistical Office), www.dane.gov.co, Mercado Laboral, Gran Encuesta Integrada de Hogares (Serie Mensual 01-08).). National, age 10 and older (12 and older for urban population until 2000)

b/ DANE (National Statistical Office), www.dane.gov.co, Mercado Laboral, Boletin de Sexo. Data are for the 4th quarter and for ages 10 and older .

c/ ILO (DANE). Data are for the 3rd quarter and for ages15 and older.

d/ 1996-00: DANE (National Statistical Office), www.dane.gov.co, Mercado Laboral, Encuesta Nacional de Hogares. Data are for September and cover ages 10 and older (12 and older for urban population). 2001-07 (new methodology): DANE (National Statistical Office), www.dane.gov.co, Mercado Laboral, Gran Encuesta Integrada de Hogares (Serie Mensual 01-08).). Data are yearly averages and cover ages 10 and older (12 and older for urban population until 2000).

e/ Banco de la Republica (BR). Data are yearly averages for the 7 major cities.

f/ ILO. Data are for 7 cities in each September.

g/ Banco de la Republica. Data are yearly averages for 13 metropolitan areas

h/ DANE, (National Statistical Office). Gran Encuesta Integrada de Hogares, Anexos Boletin, www.dane.gov.co

Note: BR= Banco de la Republica; DANE=National Department of Statistics (Colombia); ILO= International Labour Organization.

Table D.6 Colombia: MILES Indicators

COLOMBIA	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Macroeconomic Conditions																			
Inflation, consumer prices (annual %) a/	29.1	30.4	27.0	22.6	23.8	21.0	20.2	18.5	18.7	10.9	9.2	8.0	6.3	7.1	5.9	5.0	4.3	5.4	
Non-financial public sector deficit (% of GDP) b/							-3.0	-3.9	-4.6	-6.4	-3.5	-3.5	-4.2	-3.2	-1.3	0	-1	-0.8	
Central Government Balance (% of GDP) b/								-5.4	-7.4	-5.8	-5.8		-4.5	-5.4	-4.7	-4.1	-3.4	-2.7	
Public debt (% of GDP) b/									34.1	42.2	47.7	51.8	60.2	53.3	42.4	38.8	35.9	32.8	
Investment Climate																			
Ranking of WEF Global Competitiveness Index c/									47.0	54.0		65.0	56.0	63.0	64.0	57.0	65.0	69.0	74.0
WEF Global Competitiveness Index (% of countries ranked lower) c/									11.3	8.5	*10.9*	13.3	30.0	38.2	38.5	51.3	48.0	47.3	44.8
WEF Total Number of Countries c/									53	59		75	80	102	104	117	125	131	134
Time required to start a business, Doing Business Survey (days) d/														60.0	43.0	43.0	44.0	42.0	36.0
GFCF, private sector (% of GDP) b/								11.5	11.7	6.7	5.8	6.2	7.7	9.0	12.7	14.1	18.7	17.6	
FDI (US$ billions)b/	0.5	0.4	0.7	0.7	1.3	0.7	2.8	4.8	2.0	1.4	2.1	2.5	1.3	0.8	2.9	5.6	5.4	8.7	
Labor Regulations and Institutions																			
Employment Law Index, Doing Business (smaller numbers are better) d/														27.0	27.0	27.0	27.0	27.0	24.0
Labor Freedom factor, Index of Economic Freedom (larger numbers are better) e/																60.3	61.4	61.2	61.4
Non-Labor Costs (percent of wage) f/	38.2	38.2	38.2	38.2	52.2	52.2	52.2	52.2	52.2	52.2	52.2	52.2	53.2	55.2	55.2	55.2	55.2	55.2	55.2
Education																			
Average Years of Schooling (Urban Workers)	7.9	8.1	8.2	8.2	8.4	8.5	8.6	9.0	9.1	9.0	9.0	9.1	9.3	9.4	9.6	9.6			
Primary enrollment rate a/																			
Gross		102.6							114.6	114.1	114.5	112.0	113.1	113.4	114.7	115.7	116.0		
Net		68.3							87.3	89.4	90.2	88.7	89.7		85.7	89.7	88.5		
Secondary enrollment rate a/																			
Gross		50.4							70.1	70.3	69.3	64.9	70.7	71.1	75.3	79.2	82.2		
Net		34.5							53.6	53.8	56.1	53.2	55.2	..	55.5	60.9	64.9		
Tertiary enrollment a/		14.0							22.3	22.0	23.1	23.9	24.0	23.8	26.6	29.0	30.8		
Social Protection																			
Health expenditure, private (% of total health expenditure) a/												20.0	18.0	16.0	16.0	15.0			
Health expenditure, public (% of total health expenditure) a/												80.0	82.0	84.0	84.0	85.0			

Sources:
a/ The World Bank (World Development Indicators)
b/ IMF Article IV consultations
c/ The Global Competitiveness Report, World Economic Forum, 2002-2007. The index is not comparable from year to year because the average sample of countries increases.
d/ The World Bank. Doing Business (DB) Indicators. / Doing Business (DB) Indicators Range from 0 to 100. The higher the number, the more difficult it is to hire. Years correspond to the years DB's data is collectied, i.e., one year before DB report.
e/ The Heritage Foundation. Ranges from 0 to 100. The higher the number the greater freedom to hire labor.
f/ Staff estimates with data in World Bank (2005a), Vol.2, p.35. Includes paid vacation; mandatory bonuses; unemployment benefits (cesantía); welfare, training, and family service taxes (*parafiscales*); unemployment and health insurance, and professional risks insurance.

Note: FDI= foreign direct investment; GDP= gross domestic product; GFCF=gross fixed capital formation; MILES= Macroeconomic conditions, investment climate and infrastructure, Labor market regulations and institutions, Education and skill Development; and Social safety net; WEF= World Economic Forum.

Appendix E. Colombia: List of People Met

Central Bank	
Miguel Urrutia	Former Governor of the Central Bank, currently, researcher at Economics Department Universidad de los Andes
José Dario Uribe	Governor of Central Bank
Carlos Esteban Posada	Senior researcher in Labor markets
National Planning Department	
Andrés Escobar	Deputy Director
José Fernando Arias	Director of Social Development Unit
Natalia Ariza	Deputy Director of Employment and Social Security
Omar Rodríguez	Director of Private Sector Development
Bertha Briceño	Director Public Policy Evaluation
Natalia Bargans	Director of Credit
Carolina Gonzales	Advisor to Director of Credit
Ingrid Abaunza	Advisor to Director of Credit
Juan Carlos Echeverri	Former Deputy Director National Planning Department (DNP), currently professor at Universidad de los Andes and independent consultant
Ministry of Education	
María Victoria Angulo	Directora de Fomento Educación Superior
Jose Ricardo Puyana	Advisor for International Cooperation
Ministry of Finance	
Alejandro Gamboa	Former Coordinator of Multilateral Institutions, currently advisor to Colombian representative World Bank
Dora Lucia Solana	Advisor to Coordinator of Multilateral Institutions

Ministry of Social Protection

Jairo Nuñez	Former Technical Vice Minister

SENA

Juan Bayona	Director of Employment

OTHER INSTITUTIONS

NGOs/ Think tanks

Sergio Clavijo	Director of National Association of Financial Institutions, National Association of Financial Institutions (ANIF)
Imelda Restrepo	Director of Center of Economic Studies, National Association of Industrialists (ANDI)
Ximena Fajardo	Specialist in Sector Studies, ANDI
Mauricio Santamaría	Adjunt Director, Fedesarrollo

Multilaterals/ Bilaterals

Robert Rennhack	Advisor, Western Hemisphere Department
Ivan Duque	Advisor to Colombian representative Inter-American Development Bank (IADB)
Marcelo Castro S.	Representative in Colombia, International Labour Organization (ILO)
Margaret Enis	Director of Economic Unit, United States Agency for International Developpment (USAID) Colombia
Francisco Gonzalez	Economic Specialist, USAID Colombia

Universidad de los Andes, Economics Department

Ana María Ibañez	Director Centro de Estudios sobre Desarrollo Económico-CEDE
Ximena Peña	Assistant Professor

WORLD BANK

Diana Cardenas	Member of Colombia social and labor team
Wendy Cunningham	Task Team Leader, Labor & Social Reform Programmatic Structural Adjustment Loans

David Gould	Former Country Economist
Martha Laverde	Task Team Leader, several education projects
Gladys Lopez-Acevedo	Task Team Leader Labor, Market Policy Analytic and Advisory Activities and the Poverty and Jobs Technical Assistance
Jose Guillerme Reis	Task Team Leader, AAA on Regional Competitiveness and logistics
Andrew Mason	Task Team Leader, Informality AAA
Juan Carlos Mendoza	Former Task Team Leader, Financial Sector Adjustment Loan projects
Harry Patrinos	Task Team Leader, Concessions Schools AAA
Alberto Rodriguez	Task Team Leader, Higher Education Loans
David Rosenblatt	Current Country Economist
Eduardo Somesatto	Country Manager

Appendix F. Tunisia: Baseline and Latest Outcome Indicators by MILES Components

Tunisia: Indicators of Outcomes Organized Along the MILES Framework

Indicator	Baseline 1999	Latest 2007/8	Comments
Macroeconomic			
Inflation (12-month, %)	2.7	5.1	Higher inflation reflects rising food and fuel prices.
External debt service ratio (%)	18.5	9.9	
Central govt. deficit (% of GDP)	3.5	2.6	
Non-financial public sector Deficit (% of GDP)	3.7	3.0	
Tax revenue (% of GDP)	21.1	21.2	
Public capital expenditure (% of GDP)	6.9	6.2	
Public debt (% of GDP)	62.7	55.0	
Capital adequacy of banks: capital to risk-weighted assets (%)	10.6(2001)	11.0	
Non-performing loans (% of total)	19.2 (2001)	17.0	NPLs worsened to 24% in 2003 before improving again.
Provisions to non-performing loans	49.2	53.8	
Investment Climate			
Ranking in WEF Global Competitiveness survey (% of countries ranked lower)		36	
Transparency International CPI score for corruption [a]	5.3	4.4	
Time required to start a business (days) [b]	n.a.	93	
Average time to enforce a contract (days) [c]			
Average time to file all business tax returns (hrs) [d]	n.a.	250	
Time required to complete foreign trade procedures (days) [e]			
Export	19	7	
Import	15	5	
Domestic credit to private sector (% of GDP)	42.7	63.2	
Foreign direct investment, net ($ million)	420 (2001)	1,100 (2007)	
Private investment (% of GDP)	14.6	14.2	
Labor Market			
Non-wage payroll costs (% of wage)	n.a.	28	
Numbers of VET graduates finding jobs	n.a.	43,000	
Average dismissal costs (months of wages)			

Tunisia: Indicators of Outcomes Organized Along the MILES Framework

Indicator	Baseline 1999	Latest 2007/8	Comments
Rigidity of employment index			
Hiring		29	
Rigidity of hours		40	
Dismissal		80	
Number of graduates from VET training courses (annually)	n.a.	110,000 (2007)	
Education			
School enrollment (% net)			Significant increases in primary and secondary enrollment
Primary	91.1	98.8	
Secondary	68.4	75.2	
Tertiary (% gross)	12.0	33.0	
Primary completion rate (% of relevant age group)	91.1	98.0	Increased primary completion rates.
Male	87.9	97.4	
Female	92.3	99.6	
Social Protection			
Number of beneficiaries of unemployment subsidies	0	39,800 (2007)	
Share of informal sector workers (%)	28	41	
Number of beneficiaries of conditional cash transfer schemes (million)	1.2	1.5	
Number of beneficiaries of subsidized health insurance (million)			

Note:

[a] 0=worst; 6=best.

[b] From World Bank "Doing Business" reports.

[c] Ibid.

[d] Ibid.

Sources: Central Bank of Tunisia, Tunisian Institute of Statistics, Ministry of Finance, World Development Indicators (World Bank), World Economic Forum: Global Competitiveness Survey Indicators, Doing Business Indicators (The World Bank)

Note: CPI= Corruption Perceptions Index; GDP= gross domestic product; MILES= Macroeconomic Conditions, Investment Climate and Infrastructure, Labor market regulations and institutions, Education and skill development; and Social safety net; NPL= non-performing loans; VET= vocational education and training; WEF= World Economic Forum.

Appendix G. Tunisia: World Bank Program by MILES Component

Bank Program	Amount (US$ millions)	IEG Outcome Rating	Comment
Macroeconomic Policy			
Lending			
ECAL II [FY99]-P053255	159	Satisfactory	The project aimed to support macroeconomic stability (debt, balance of payments) and reforms in the banking sector (prudential requirements, privatization). The project performance was satisfactory in helping to: (i) accelerate implementation of the Free Trade Agreement with the EU, (ii) increase the private sector role in economic activity, and (iii) improve the regulatory framework for private business, and (iv) increase labor flexibility.
ECAL III [FY02]-P055815	253	Satisfactory	The project aimed to support reinforcement of the regulatory and supervisory framework in the financial sector, in particular in insurance, stable macroeconomic framework, and strengthen debt management and fiscal sustainability. The project contributed in sustaining a stable macroeconomic environment, in substantially improving the investment climate, and in facilitating government divestiture from the banking, insurance and telecommunications sectors.
ECAL IV [FY05]-P075893	150	Moderately Satisfactory	Intended to support reforms in the business climate and financial sector, including improving bank vulnerability indicators. The main development objective – a stronger national private investment performance – has not yet materialized. Macroeconomic performance during project implementation was good overall. The contribution to the private investment climate was positive and tangible, and led to an increase in investment opportunities. Support to the financial sector helped to reduce the levels of non-performing loans and to strengthen the regulatory framework of the financial sector
Analytical Work			
Social and Structural Review (CEM) [FY00]-P057056			The report reviews the growth performance, macroeconomic management including debt, and public sector contributions to growth.
External Sustainability [FY01]-P067220			Assessment of Tunisia's external sustainability in terms of integration and vulnerability of the economy towards external shocks.

Bank Program	Amount (US$ millions)	IEG Outcome Rating	Comment
Municipal Management and Finance Strategy Note [FY02]-P071950			Discusses the institutional structure of communes, revenue structure and transfers from the state, management capacity, and financing of local investment. It recommends changes to legislation and regulation.
FSAP [FY02]-P073876			Identifying the strengths, vulnerabilities, and risks of the financial system. No information available in iris
Debt Management Study [FY03]-P075087			Assessment and design of an action plan for the implementation of the public debt management strategy.
Accounting and Auditing Assessment (ROSC) [FY04]-P082200			Strengths and weaknesses of the accounting and auditing environment that influence the quality of corporate financial reporting.
CFAA [FY04]-P083644			Analyzes Tunisia's current system of public sector financial management and finds it requires strengthening and improvement.
Development Policy Review [FY04]-P083860			Addresses sources of growth and future challenges including: internal and external imbalances, promoting an efficient financial sector, strengthening management of the public financial sector.
CPAR [FY04]-P084318			Encouraged the creation of a new procurement system in the country.
FSPA Update [FY06]-P099317			Discusses the banking sector, financial conditions and stress testing, non-bank financial institutions, pension funds, capital markets and the financial infrastructure of Tunisia.
Performance-Based Budgeting Reform [FY06]-P094359			Analyses the deficiencies of the present budget system, and describes a clear path of budget reform, based the progressive introduction of program/performance budgeting.
Investment Climate			
<u>Lending</u>			
Transport Sector Investment I [FY98]-P043700 Transport Sector Investment II [FY01]-P064082	50 38	Moderately Satisfactory	The project aimed to finance ports and railway infrastructure improvements and supported regulatory reform to promote private sector investment in this field. Project implementation permitted significant implication of the private sector (local and foreign) in transport investments; however, privatizations of ports services, promoting private investments in ports, and commercializing the railway parastatal were partly achieved.
Export Development [FY99]-P055814 Export Development II [FY04]-P071115 Export Development II (additional Finance) [FY08]-P106274	35 36 6	Satisfactory	The project aimed to support export promotion activities including provision of grants, collateral finance and trade facilitation, notably a review of procedures. Important achievements were reached in simplification of trade documentation, customs procedures and adoption of international standards. Survey of exporting firms confirmed good prospects for sustained export

Bank Program	Amount (US$ millions)	IEG Outcome Rating	Comment
			development.
Second Agricultural Sector Investment Loan (ASIL 2) [FY98]-P050418	42	Moderately Satisfactory	The project intended to improve agricultural infrastructure (irrigation and drainage systems) as well as research and training in agricultural issues. The project had positive impact on policy and institutions related to small-scale irrigation; net income for all farm models increased ten times; targeted irrigated perimeters were achieved, cropping intensities increased, and research outcomes were satisfactory. Project shortcomings were (i) irrigation infrastructure was not fully used, because of inadequate quantity and quality of water, and (ii) average cropping intensity was lower than estimated.
Agricultural Support Services [FY01]-P050418	21		Supports creation of networks and institutions to improve market access of rural products.
ECAL II [FY99]-P053255 ECAL III [FY02]-P055815 ECAL IV [FY05]-P075893	159 253 150	Satisfactory Satisfactory Moderately Satisfactory	The project helped (i) to accelerate implementation of the Free Trade Agreement with the EU, (ii) to increase the private sector role in economic activity, and (iii) to improve the regulatory framework for private business, and (iv) to increase labor flexibility. The project contributed in sustaining a stable macroeconomic environment, in substantially improving the investment climate, and in facilitating Government divestiture from the banking, insurance and telecommunications sectors. Contribution in private investment climate was positive and noticeable, and led to increase in investments opportunities. Support to the financial sector helped to reduce the levels of non-performing loans and to strengthen the regulatory framework of the financial sector. However the project ICR was poor, as it didn't indicate whether the intended actions to strengthen the institutional capacity or the expected economic impacts were achieved
Municipal Development III [FY03]-P074398	78		Strengthens the institutional environment for the delivery of municipal basic services and infrastructure.
ICT Sector Development Project [FY05]-P088929	13		Support ICT sector through institutional and sector reforms, improving ICT infrastructure and promote participation in the private sector.
Urban Water Supply [FY06]-P064836	38		Improves water supply in Tunis.
Sustainable Municipal Solid Waste Mgt [FY07]-P095012	22		Strengthens key elements of sustainability of municipal solid waste management.
Tunis West Sewerage [FY07]-P099811	67		Improve the quality of sanitation services in Greater Tunis.
<u>Analytical Work</u>			
Export Promotion [FY98]-P054615			No information available.
Trade Sector Note [FY99]-P058506			No information available.

Bank Program	Amount (US$ millions)	IEG Outcome Rating	Comment
Social and Structural Review (CEM) [FY00]_P057056			The report reviews the growth performance, and macroeconomic management in Tunisia. In Investment Policy proposes improving infrastructure for private sector development.
Private Sector Assessment Update [FY00]-P057771			Highlights the need of improved competitiveness for external markets. Includes suggested reforms to improve infrastructure and better financial resources for exporting companies.
Trade Strategy Note [FY02]-P071926			Analyzes Tunisia's trade sector. Identifies challenges and suggests strategies.
IT Strategy Note [FY02]-P072034			Sector strategy note to the Government of Tunisia to assist them in formulating a plan for the development of the country's ICT sector.
Agric. Competitiveness Policy Note [FY02]-P073169			Assessment of agricultural sector with the objective of increasing competitiveness in lieu of upcoming trade negotiations.
Tourism Strategy Note [FY03]-P075227			Report on the perspectives of a tourism strategy study for Tunisia.
Private Participation in Infrastructure [FY03]-P075551			Approach to stimulate the development of capital markets and private industries within the infrastructure sector nationwide.
Employment Strategy [FY03]-P075087			General employment assessments. In terms of Investment Climate discusses constraints to SME development to create jobs.
WTO Commitments on Telecommunications [FY03]-P078944			Compliance with Tunisia's WTO commitments of proposed telecommunications liberalization.
Development Policy Review [FY04]_083860			Suggests strategies to foster private investment like lowering transaction costs for business entry and operations, improving regulations and conditions for competition.
Agriculture Policy Review [FY06]-P089047			Addresses status and challenges of the agricultural sector, including increasing competitiveness to support trade openess.
SME Study [FY07]-P076448			Study focused on Technical centers of Ministry of Industry and Access to and management of industrial zones for SME development.
Cost Assessment of Water Degradation [FY07]-P099094			Assesses water degradation and its implications over agriculture.
Water & Wastewater Strategy [FY08]-P089416			Assessment of the water sector and proposed regulatory framework.
Global Integration Study [FY08]-P089681			Take's stock of Tunisia's recent integration policies and discuss opportunities and challenges associated with greater international integration. In Investment Climate discusses strategies to improve competitiveness of export sector.

Bank Program	Amount (US$ millions)	IEG Outcome Rating	Comment
Labor Market Policies			
Analytical Work			
Social and Structural Review (CEM) [FY00]-P057056			The report reviews the growth performance, and macroeconomic management in Tunisia. In Labor Markets proposed labor reform to improve employability.
Social Conditions Update [FY00]-P065187			Assesses poverty issues including labor markets and job creation. (Unpublished).
Employment Strategy [FY03]-P075993			General employment assessments. In terms of Labor Markets provides a general overview, discusses labor market regulations and ALMPs.
Poverty Note [FY04]-P079469			General poverty profile of the country including labor as the main source of income.
Development Policy Review [FY04]-P083860			Analyzes alternatives for job creations, analyzes of existing ALMPs
Higher Education Strategy [FY05]-P080203			Concept note indicates study of higher education system and relationship with labor market. (no documents available)
Employment Strategy Technical Assistance [FY05]-P086046			Programmatic ESW. TA to relevant government agencies to develop a quantitative framework of the Tunisian labor market, calibrate a Computer Generalized Equilibrium model, and build technical capacities
Employment Strategy [FY06]-P095723			*Programmatic Economic Sector Work* (PESW) is to help the Government of Tunisia address the labor market challenges and priorities; and to strengthen the design and implementation of reform options that will improve employment policies over the medium term. Integrated to "Skills Development, Social Insurance and Employment".
Agriculture Policy Review [FY06]-P089047			Provides analysis of rural sector employment and labor.
Skills Development, Social Insurance and Employment [FY07]-P103309			TA for the analysis of macroeconomic policies and employment creation, skills development, social insurance, and active labor market programs.
Global Integration Study [FY08]-P089681			Take's stock of Tunisia's recent integration policies and discuss opportunities and challenges associated with greater international integration. Regarding labor market policies discusses impact of integration on employment creation.
Skills Development, Social Insurance and Employment II [FY08]-P107684			Phase II of Skills Development, Social Insurance and Employment, seeking to provide more concrete policy options on the issue of employment. In terms of labor markets suggests more specific ALMPs.

Bank Program	Amount (US$ millions)	IEG Outcome Rating	Comment
Education Policies			
Lending			
Higher Education Reform Support I [FY98]-P005741 Higher Education Reform Support II [FY06]-P075809	80 76	Satisfactory	The projects aimed to promote access to higher education, improve internal and external efficiency of the public higher education sector, and enhance the financial sustainability of public institutions of higher education. The two first objectives were fully achieved, while the third one was partially achieved. Noteworthy was the improvement in enrolment rates of women that jumped from 13.5 percent to 32.4 percent in four years. Project's weak spots were the handling of cost-recovery and the restructuring of scholarship and loan schemes.
Education Quality Improvement Program (PAQSET I) [FY00]-P050945 Education Quality Improvement Program (PAQSET II) [FY04]-P082999	99 130.3	Moderately Satisfactory	The projects aimed to promote excellence in teaching and learning and achieve near universal primary and expanded secondary coverage. The project performance for the first activity was rated substantial, while the second activity achieved modest results. But the project ICR didn't use appropriate indicators to ascertain whether the project outcomes were fully reached.
Analytical Work			
Education Sector Strategy [FY99]-P052766			
Education [FY99]-P059268			
Social Conditions Update [FY00] P065187			Assesses poverty issues including education levels of the population. (unpublished).
Employment Strategy [FY03]-P075993			General Employment Assessments. In terms of Education provides assessment of skills mismatch.
Poverty Note [FY04]-P079469			General poverty profile of the country including education levels analysis.
Development Policy Review [FY04]-P083860			Analyzes challenges of the education system for knowledge economy.
Higher Education Strategy [FY05]-P080203			Concept note indicates study of higher education system. (no documents available)
Skills Development, Social Insurance and Employment [FY07]-P103309			TA for the analysis of macroeconomic policies and employment creation, skills development, social insurance, and active labor market programs.
Skills Development, Social Insurance and Employment II [FY08] P107684			Phase II of Skills Development, Social Insurance and Employment, seeking to provide more concrete policy options on the issue of employment. In education suggests more specific reforms to match education with demand for skills
Global Integration Study [FY08]-P089681			Take's stock of Tunisia's recent integration policies and discuss opportunities and challenges associated with greater international integration. In education discusses human resource base to address integration challenges.

Bank Program	Amount (US$ millions)	IEG Outcome Rating	Comment
Social Protection			
Analytical Work			
Employment Strategy [FY03]-P075993			General Employment Assessments. In terms of Social Protection: Discusses unemployment insurance.
Skills Development, Social Insurance and Employment [FY07]-P103309			TA for the analysis of macroeconomic policies and employment creation, skills development, social insurance and active labor market programs.
Skills Development, Social Insurance and Employment II [FY08]-P107684			Phase II of Skills Development, Social Insurance and Employment, seeking to provide more concrete policy options on the issue of employment. In Social Protection it will discuss Pension reform.

Source: Project Documents, AAA Reports, and IEG Evaluations.

Note: ALMP= Active Labor Market Policies; ASIL= Agriculture Sector Investment Loan; CEM= Country Economic Memorandum; CFAA= Country Financial Accountability Assessment; CPAR= EU= European Union; FSAP= Financial Sector Assessment Program; FY= fiscal year; ICR= Implementation Completion Report; ICT= information and communications technology; IT= information technology; IEG= Independent Evaluation Group; ECAL= Economic Competitiveness Adjustment Loans; ESW= economic and sector work; MILES= Macroeconomic conditions, investment climate and infrastructure, Labor market regulations and institutions, Education and skill development; and Social safety nets; ROSC= Report on the Observance of Standards and Codes; SME= small and medium enterprise; TA= technical assistance; WTO= World Trade Organization.

Appendix H. Tunisia: Annex Tables

Table H.1 Tunisia: Growth, Poverty, and Income Distribution Indicators

(percent except first row)

TUNISIA	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Per Capita GDP (Constant 2000 International Dollars) a/	4635	4721	4986	4997	5063	5100	5385	5601	5795	6066	6279	6513	6548	6871	7218	7451	7758	8171
GDP (LCU) growth a/	7.9	3.9	7.8	2.2	3.2	2.4	7.1	5.4	4.8	6.1	4.7	4.9	1.7	5.6	6.0	4.0	5.7	6.3
Per Capita GDP (LCU) Growth a/	5.3	1.9	5.6	0.2	1.3	0.8	5.5	4.0	3.4	4.7	3.5	3.7	0.5	4.9	5.1	3.0	4.7	5.1
Poverty (Headcount Ratio) b/	28.4					29.7					21.0							
Poverty (Headcount Ratio) c/	5.9					6.5					2.6							
Poverty (Headcount Ratio) d/	6.7					8.1					4.1							
Poverty (Headcount Ratio) e/	6.7					6.2					4.2					3.8		
Gini Coefficient b/	40.2					41.7					39.8					40.0		

a/ The World Bank (World Development Indicators).

b/ $1.25-a–day poverty line (World Bank updated (2008) poverty estimates (<www.worldbank.org>). The Source for the 2005 estimate of the GINI coefficient is the CIA World Factbook.

c/ $2.50-a-day poverty line (World Bank updated (2008) poverty estimates (<www.worldbank.org>).

d/ The World Bank (2003d), as reported in Ayadi et. Al. (2005).

e/ Tunisia National Institute of Statistics.

Note: GDP= gross national product; LCU= local currency unit.

Table H.2 Tunisia: Population and Labor Participation (LFP) Rate

(percent except first row)

TUNISIA	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	
Population, total (millions) a/	8.2	8.3	8.5	8.7	8.8	9.0	9.1	9.2	9.3	9.5	9.6	9.7	9.8	9.8	9.9	10.0	10.1	10.2
Population growth (annual percent) a/	2.4	2.0	2.0	2.0	1.8	1.6	1.5	1.4	1.3	1.3	1.1	1.1	1.1	0.6	0.9	1.0	1.0	1.2
Urban population (percent of total) a/	57.9	58.6	59.3	60.1	60.8	61.5	61.9	62.3	62.6	63.0	63.4	63.8	64.2	64.5	64.9	65.3	65.7	66.1
Total LFP Rate by Gender b/	46.1 f/				45.3					45.3					45.8	46.3	46.6	46.8
Male b/	71.6 f/				69.1					67.9					67.8	68.6	68.5	68.8
Female b/	20.0 f/				21.4					22.8					24.2	24.4	25.0	25.3
Total LFP Rate by Gender c/	48.2	48.2	48.3	48.4	48.4	48.5	48.6	48.7	48.5	48.4	48.3	48.2	48.2	48.1	48.1	48.0	48.2	48.3
Male c/	75.5	75.3	75.0	74.8	74.5	74.2	74.0	73.7	73.3	72.9	72.5	72.1	71.8	71.4	70.9	70.6	70.5	70.9
Female c/	20.8	21.2	21.6	21.9	22.3	22.8	23.2	23.6	23.8	24.0	24.2	24.4	24.7	24.9	25.2	25.6	26.0	25.7
Total LFP Rate by Gender c/	48.2	48.2	48.3	48.3	48.4	48.5	48.6	48.7	49.0	49.4	49.7	50.1	50.5	50.9	51.3	51.7	52.1	
Male d/	75.6	75.3	75	74.8	74.5	74.2	74.0	73.7	73.9	74	74.2	74.3	74.5	74.8	74.7	74.8	75.0	
Female d/	20.8	21.2	21.6	21.9	22.3	22.7	23.2	23.6	24.2	24.8	25.3	25.9	26.5	27.1	27.9	28.5	29.2	
Total LFP Rate by Gender e/	50.5	50.6	50.7	50.9	51.0	51.1	51.2	51.4	51.8	52.2	52.6	53	53.5	53.9	54.3	54.8	55.2	
Male e/	79.1	78.9	78.7	78.4	78.1	77.9	77.6	77.3	77.4	77.5	77.7	77.8	78.0	78.2	78.1	78.2	78.3	
Female e/ (15-64)	22.1	22.5	23.0	23.5	24.0	24.4	24.9	25.5	26.2	26.8	27.4	28.1	28.8	29.5	30.4	31.1	31.9	

a/ The World Bank (World Development Indicators).

b/ Ministry of Employment and Professional Integration of Youth, http://www.info-emploi.tn/observatoire/up_pdf/151226.PDF. Data are for ages 15 and older.

c/ ILO, <http://laborsta.ilo.org/STP/do>. Data are for ages 15 and older.

d/ The World Bank (WDI). Data are for ages 15 and older.

e/ The World Bank (WDI). Data are for ages 15 to 64.

f/ 1989.

Table H.3 Tunisia: Employment-to-Population Ratio (ETP)

(percent)

TUNISIA	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total a/	40.5	40.5	40.6	40.7	40.8	40.7	40.8	41.0	40.8	40.7	40.7	40.9	40.8	41.1	41.4	41.2	41.3	41.5
By Gender: Total b/	38.8 c/				38.1					38.1					39.3	39.7	39.9	40.2
Males b/	61.4 c/				58.5					57.3					58.8	59.6	59.5	60.0
Females b/	15.6 c/				17.7					18.9					20.1	20.2	20.7	20.8

a/ Bank estimates with data from the International Labour Organization, Institute National de Statistiques, and Ministry of Employment and Professional Integration of Youth (http://www.info-emploi.tn/observatoire/up_pdf/151226.PDF)

b/ Ministry of Employment and Professional Integration of Youth, http://www.info-emploi.tn/observatoire/up_pdf/151226.PDF.

c/ 1989.

Table H.4 Tunisia: Earnings and Private Sector Wage Index

(percent except last row)

TUNISIA	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Real GNI per Worker [a/]	6130	6060	6299	6166	6197	6325	6593	6797	6934	7151	7257	7458	7381	7506	7677	7757	8034	8215
Formal Sector Real Wage Index [b/]		103.1	103.7	97.7	97.5	103.7	99.6	101.2	100.4	100.1	100.0	102.4	104.4	107.5	108.9	110.9	112.8	114.2
Minimum Wage [b/]									74.1	70.6	69.2	66.9	67.5	65.4	62.8	60.5	57.5	55.2

[a/] The World Bank (World Development Indicators): US Dollar equivalent at year 2000 domestic prices.

[b/] Ministry of Employment and Professional Integration of Youth (http://www.info-emploi.tn/observatoire/up_pdf/151226.PDF) for employment. Nominal local currency GNI data was deflated with CPI (WDI, Index 2000=100) and converted to US dollars using the average exchange rate for the year 2000 (IMF).

[b/] Staff estimates from data in World Bank (1995), Vol. II, Table 42, p. 38 and at the Tunisia National Statistics Institute. (www.ins.net.tn).

Note: GNI= gross national income.

Table H.5 Tunisia: Unemployment Rate (percent)

TUNISIA	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total a/	15.9	15.9	15.9	15.9	15.8	16.0	16.0	15.9	15.9	16.0	15.7	15.1	15.3	14.5	14.2	14.2	14.3	14.1
By Gender: Total b/					15.8			15.9		16.0	15.7	15.1	15.3	14.5	14.2	14.2	14.3	14.1
Male b/					15.3			15.5		15.6	15.3	14.8	14.9	13.9	13.2	13.1	13.2	12.8
Female b/					17.5			17.4		17.2	16.9	16.2	16.3	16.2	17.1	17.3	17.3	17.8
By Level of Education: Total b/					15.8					16.0	15.7	15.1	15.3	14.5	14.2	14.2	14.3	14.1
Illiterate b/					16.8					11.9		10.1	12.8	11.3	12.7	7.8	8.0	5.9
Primary b/					19.2					18.9		17.1	16.6	15.8	15.7	15.7	15.2	13.5
Secondary b/					13					16.4		16.4	15.9	15.3	14.7	14.9	14.3	15.4
Higher b/					3.8					8.6		10.4	11.6	11.7	10.2	14.8	17.5	19.0

a/ 1990-93: interpolation; 1994 and 1999: Ministry of Employment and Professional Integration of Youth, <http://www.info-emploi.tn/observatoire/up_pdf/151226.PDF>; 1995-96 and 1998: Interpolation; 1997 and 2000-03: ILO, < http://laborsta.ilo.org/STP/do>. 2004-07: National Institute of Statistics, http://www.ins.nat.tn/indexfr.php.

b/ Institute Nationale de Statistiques and Ministry of Employment and Professional Integration of Youth (http://www.info-emploi.tn/observatoire/up_pdf/151226.PDF). "Evolution du marché de l'emploi en Tunisie» Data for 1997 taken form ILO, Labostat.

Table H.6 Tunisia: MILES Indicators

TUNISIA	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Macroeconomic Conditions														
Inflation, consumer prices (annual %) a/	6.5	8.2	5.8	4.0	4.7	6.2	3.7	3.7	3.1	2.7	2.9	2.0	2.7	2.7
Central Gov't Balance, excl. grants and privatization (% of GDP) b/						-4.5	-5.1	-4.6	-3.6	-3.9	-3.9	-3.8	-3.5	-3.5
Government Debt (% of GDP) b/						58.4	60.6	62.2	58.2	60	60.8	62.8	61.6	60.9
Investment Climate														
Ranking in WEF Global Competitiveness Index c/													32.0	38.0
WEF Global Competitiveness Index (% of countries ranked lower) c/													60.0	62.7
Time required to start a business, Doing Business survey (days) c/														10.0
GFCF, private sector (% of GDP) a/												4.6	7.5	7.2
FDI (US$ billions) a/	0.1	0.1	0.5	0.6	0.4	0.3	0.2	0.3	0.7	0.3	0.8	0.5	0.8	0.5
Labor Regulations and Institutions														
Employment Law Index, Doing Business (smaller numbers are better) d/														49.0
Labor Freedom factor, Index of Economic Freedom (larger numbers are better) e/														
Education														
Primary enrollment rate a/														
Gross		113.2								113.5	112.9	112.0	111.0	110.4
Net		93.5								92.9	93.8	94.7	96.3	97.0
Secondary enrollment rate a/														
Gross		44.6								72.4	74.6	76.6	77.9	76.4
Net		..									67.8	68.8	66.8	64.5
Tertiary enrollment a/		8.5								17.0	19.0	21.3	22.8	26.1
Social Protection														
Health expenditure, private (% of total health expenditure) a												50.0	53.0	54.0
Health expenditure, public (% of total health expenditure) a/												50.0	47.0	46.0
Population														
Population, total (millions) a/	8.2	8.3	8.5	8.7	8.8	9.0	9.1	9.2	9.3	9.5	9.6	9.7	9.8	9.8
Population growth (annual %) a/	2.4	2.0	2.0	2.0	1.8	1.6	1.5	1.4	1.3	1.3	1.1	1.1	1.1	0.6
Urban population (% of total) a/	57.9	58.6	59.3	60.1	60.8	61.5	61.9	62.3	62.6	63.0	63.4	63.8	64.2	64.5

Sources: WDI on December 5, IMF Article IV consultations, Doing Business, Heritage Foundation

[a/] The World Bank (WDI); [b/] IMF Article IV consultations [c/] The Global Competitiveness Report, World Economic Forum, 2002-2007. The index is not comparable from year to year l increases. [d/] The World Bank, Doing Business Reports, Years correspond to DB's data collection dates, which are one year before DB report date. [e] The World Bank, Doing Business F the number, the more difficult it is to hire. [f/] Ranges from 0 to 100. The higher the number the greater the freedom to hire labor.

Note: FDI= foreign direct investment; GDP= gross domestic product; GFCF= gross fixed capital formation; MILES= Macroeconomic conditions, Investment climate and infrastructure, Labo and skill development; and Social safety net; WEF= World Economic Forum.

Appendix I. Tunisia: List of People Met

Government

Abelhamid Triki	Vice Minister (Secrétaire d'État), Ministry of Development and International Cooperation.
Kamel Ben Rejeb	Director General of International Cooperation Ministry of Development and International Cooperation.
Brahim Toumi	Ministry of Education and Vocational Training
Mohamed Tonn	Ministry of Education and Vocational Training
Mohsen Ketari	Ministry of Education and Vocational Training
Slim Chaker	Executive Director, Export Access Market Fund (FAMEX)
Moncef Youzbachi	Director, Ministry of Development and International Cooperation
Ali Sana	Director, General Ministry of Employment
Meftah Amara	Director, "Mise à Niveau" Program Ministry of Industry and Energy
Saloua Ben Zaghou	Director, Institute of Quantitative Economics Ministry of Development and International Cooperation.
Abdelmalek Saadoui	Director, General of Resources Ministry of Finance
Said Faouzia	Budget Director, Ministry of Finance
Habib Lahouij	Budget Administration, Ministry of Finance
Raouf Sfar	Director General, Fiscal Incentives Ministry of Finance
Mohamed Ali Ben Malik	Ministry of Finance
Jamel Bel Haj	Ministry of Finance
Borchol Moudhu	Ministry of Finance
Ben Abrahim Mondprer	Ministry of Finance
Abdalla Riahi	Ministry of Higher Education and Scientific Research
Habib Fourati	National Statistical Institute
Noureddine Zekri	Director General, Foreign Investment Ministry of Development and International Cooperation

Private Sector and Other Non-Government

Chekib Nouira	Managing Director, CNI Group (textile manufacturer)
Maher Kallel	Managing Director, Group Poulino
Hassen Zargouni	Managing Director, Sigma Consulting
Riadh Bey	Marketing Consultant, Sigma Consulting
Essma Ben Hamida	Director, Enda Inter-Arabe
Michael Philip Cracknell	Co-Director, Enda Inter-Arabe

Zoubeïr Daly	Public Services Consultant
Berhouma	UTICA (Employers' Organization)
Sami Sallini	UTICA
Professor Zouari Abrazak	Academic
Professor Azzam Mahjoub.	Academic
Odoardo Como	First Secretary, Delegation of the European Commission
Nabil Ben Nacef	Vocational Training and Employment Officer Delegation of the European Commission
Abdourahomene Charaf-Eddine	Principal Program Officer, African Development Bank
Natsuko Obayashi	Country Economist, African Development Bank

Bank Staff

Linda English	Task Team Leader, Higher education projects
August Kouame	Lead Economist
Fareed Hassan	Task Team Leader, Country Assistance Evaluation
Hamid Alavi	Task Team Leader, Private Sector Development projects and activities
Ndiame Diop	Country Economist (based in Tunis)
Rebekka Grun	Task Team Leader, Employment Strategy
Setareh Razmara	Former Task Team Leader, Employment Strategy
David Robalino	Former Task Team Leader, Employment Strategy
Cecile Fruman	Task Team Leader, Country Assistance Strategy
Mats Karlsson	Country Director
Theodore Ahlers	Former Country Director
Mourad Ezzine	Sector Manager, Human Development
Carmen Niethammer	Gender and Employment Issues
Nadereh Chamlou	Gender and Employment Issues
Adriana Jaramillo	Task Team Leader, Skills Development and Vocational Training
Gordon Betcherman	Labor Economist

Appendix J. Turkey: Baseline and Latest Outcome Indicators by MILES Component

Indicator	*Baseline 1998*	*Latest 2007/8*	*Comment*
Macroeconomic Policies			
GDP growth rate (%)	3.1	4.5	Average growth for 2002-07 was 6.8% annually.
Inflation (12-month, %)	84.6	8.4	
Unemployment rate (%)	6.9	10.1	
Current account balance (% of GDP)	1.0	- 5.7	
Gross external debt (% of GDP)	57.7 (2001)	33.7	National income accounts were revised in 2008, but only back to 2001.
Public sector primary balance (% of GDP)	4.6	3.5	
Net public sector debt (% of GDP)	66.4 (2001)	38.8	National income accounts were revised in 2008, but only back to 2001.
Exports (% of GDP)	21.3	24.9	
Investment Climate			
WEF Global Competitiveness Index ranking	54 (2001)	53	Index nonexistent before 2001. Increase in country sample over time.
Gross investment (% of GDP)	22.1	22.2	
Foreign direct investment (% of GDP)	0.4	3.0	
Labor Market and its Regulations			
Employment Rate (% for 15-64 year olds)	49.2	45.8	
Labor force participation rates (% total)	52.8	51.0	
Male participation rate (%)	76.7	75.5	
Female participation rate (%)	29.3	26.6	See discussion in text.
OECD Employment Protection Legislation Index Ranking (for OECD)	26 (1999)	26 (2003)	For the 26 OECD countries examined Turkey rated as the most restrictive.
Education			
School enrollment (% gross)			Significant increases at all levels.
Primary	88.5	94.2 (2006)	
Male	97.0	96.4 (2006)	
Female	79.5	92.0 (2006)	
Secondary	77.6 (2001)	78.6 (2006)	
Tertiary	20.9	34.6 (2006)	
Ratio of girls to boys in primary and secondary schools (expressed as a %)	78.9	90.1 (2006)	
Ratio of females to males in tertiary education (expressed as a %)	68.3	75.4 (2006)	
Social Protection			
Coverage of unemployment insurance	0	4 % (2004)	Coverage of unemployed still limited.
Number of beneficiaries of conditional cash transfer schemes (million)	0	2.8	

Sources: World Bank reports, *Central Bank of Turkey, Turkish Statistical Office, Turkish Ministry of Finance, World Development Indicators (World Bank), World Economic Forum: Global Competitiveness Survey Indicators, Doing Business Indicators (The World Bank),* , IMF Article IV Reports, OECD Statistics.

Appendix K. Turkey: World Bank Program by MILES Component

Bank Program	Amount (US$ million)	IEG Outcome Rating*	Comment
Macroeconomic Policy			
Lending			
ERL [FY00]-P068792	760	Satisfactory	In order to underpin country economic stabilization effort, the project supported reforms in key structural areas including fiscal and real sector reforms and provided back up to IMF programs. Most macroeconomic indicators improved as GDP grew by 7.9 in 2002 and 5.9 in 2003. Inflation dropped and fiscal performance improved as significant reform achievements were completed in the fiscal area.
FSAL [FY01]-P066511	778	Moderately Satisfactory	The project aimed to strengthen regulation and supervision of the banking sector. A banking regulatory and supervisory framework was created and strengthened and an action plan to deal with failing banks and the privatization of state-owned banks was adopted. Major shortcomings included: (i) a weak macroeconomic environment that provoked a major banking crisis, and (ii) lack of time-bound privatization plan for state banks,
PFPSAL [FY02]-P070560 PFPSAL II [FY02]-P070561 PFPSAL III [FY04]-P082996	1,100 1,350 1,000	Satisfactory Moderately Satisfactory Satisfactory	The programmatic projects aimed to support key public and financial sector reforms in the aftermath of the 2000 crisis. Achievements were as follows: (i) Regulatory and supervisory framework for the banking activity was further strengthened and upgraded; some progress in public finance management and governance reforms; (ii) Legal and regulatory framework for banking activity was strengthened; importance of state-owned banks diminished; public sector financial structure, management, and accountability strengthened and improved; public procurement enhanced, (iii) Financial sector stabilized and strengthened; substantial progress towards sustained fiscal adjustment and effective and transparent government, and noticeable improvements in financial transparency; fiscal and debt outcomes improved. On the flip side, social expenditures fell short of targets, privatization of one bank was not completed, and Savings Deposits Insurance Funds were not totally resolved.
PPDPL [FY06]-P071052	500		Structural reform program to maintain an macroeconomic framework, financial controls and expenditure management of public resources, and improving the administration and governance of the public sector.

Bank Program	Amount (US$ million)	IEG Outcome Rating*	Comment
CEDPL [FY07]-P071052	500		Includes maintaining currently enabling macroeconomic framework and privatization of state owned enterprises (SOEs).
<u>Analytical Work</u>			
Living Standards [FY99]-P074181			*Economic reforms, living standards and social welfare study*- Stressed links between growth, employment and poverty reduction. Suggested policies to make agricultural sector more productive to absorb jobs.
CEM [FY00]-P057226			*CEM: Structural Reform for Sustainable Growth*. Included analysis of Turkey's macroeconomic framework. Recommends structural policies to generate fiscal surpluses, financial reform, banking sector, agriculture and social security.
CEM [FY03]-P59617			*CEM: Towards Macroeconomic Stability and Sustainable Growth*. Analyzed the context after de 2001 crisis, including issues of macroeconomic stability.
CEM [FY06]-P077776			*CEM: Promoting Sustained Growth and Convergence with the European Union*. Analysis determinants of growth and public financial management.
PER [FY01]-P088836			*Public Expenditure Review*. Analyses the budget, institutions of public expenditure management, and accountability.
PER [FY07]-P093169			*Public Expenditure Review*. Includes discussion on the effects of Social security reform over expenditure.
Investment Climate			
<u>Lending</u>			
EFIL [FY00]-P065188 EFIL II [FY04]-P082801 EFIL 3 [FY05]-P093568	253 303 305	Satisfactory Highly Satisfactory	The first project intended to provide a credit line to banks supplying medium term credit to exporting firms and to SMEs at a time of tight credit and crisis in 2001. Private Banks were evaluated against prudential ratios and most of their ratios improved; strategic dialogue between the Bank and Turkish banking sector was established, and set the stage for Bank programmatic support to the financial sector. The second project aimed to provide adequate finance to facilitate export growth, and improve financial intermediation. There was a rise in export growth resulting from increased financial intermediation targeting the export sector; Credit line to export sector facilitated export growth (number of exporters, volume and value of exports); Increased competition in the financial sector.
ERL [FY00]-P065188	760	Satisfactory	The project aimed to reform key structural areas and contained elements related to privatization, reduction of agricultural subsidies and deregulation of the energy sector. Significant reform achievements in the fiscal and social security systems; reform progress in the agricultural,

Bank Program	Amount (US$ million)	IEG Outcome Rating*	Comment
			energy and telecommunication sectors and in the privatization of SOEs.
ARIP [FY02]-P070286	600		Provided resources for severance payments for agricultural parastatals and helped government reduce their role in provision of inputs and marketing.
CEDPL [FY07]-P0741181	500		Structural reform program. In terms of Investment Climate includes improving investment climate generally, access to investment capital, and promoting knowledge and innovation, and adopting new technologies.
Analytical Work			
Caspian Oil & Gas 1 [FY00]-P066699 Caspian Oil & Gas 2 [FY01]-P071503 Caspian Oil & Gas 3 [FY02]-P075254 Caspian Oil & Gas 4 [FY03]-P080288			Explored options for moving away from the Turkish National Gas Company (BOTAS) as a sole-source gas buyer.
Water Sector Review [FY03]-P079023			Review of the present situation of water sector in Turkey and private sector participation.
Energy Strategy [FY03]-P081072			Energy strategy note reviewing main issues and policy options in power and gas sectors.
Gas Sector Note [FY04]-P083619			Assists the Government of Turkey in developing a strategy to expand gas distribution and utilization in Turkey.
Infrastructure Note [FY06]-P089034			Infrastructure financing study. The results were incorporated into the full PER.
CEM [FY06]-P088836			*CEM: Promoting Sustained Growth and Convergence with the European Union*. Includes analysis of issues regarding deregulation and investment climate.
Investment Climate Assessment [FY07]-P084255			Analyzes Investment Climate based on a survey to 1,300 Turkish firms on issues such as industrial restructuring, administrative barriers for business operation, entry and exit dynamics.
Labor Market Policies			
Lending			
PSSP 1 [FY01]-P069894 PSSP 2 [FY05]-P094167	250 465	Satisfactory	The project intended to support the Government's program to privatize state-owned enterprises (SOE), and to serve as a cushion to social impact of the economic reform program, including compensation for deployed workers. The privatization of state enterprises was successful; job compensation was provided to 18,261 laid off workers, and surveys to monitor the social impact of the reform program were conducted, albeit with some delay.

Bank Program	Amount (US$ million)	IEG Outcome Rating*	Comment
CEDPL [FY07]-P094167	500		Structural reform program. In terms of *Labor Market* policies includes setting the foundations for overhauling labor market regulations.
<u>Analytical Work</u>			
CEM [FY06]-P088836			*CEM: Promoting Sustained Growth and Convergence with the European Union*. Includes issues regarding labor market reform agenda.
Poverty Assessment [FY05]-P084809			Joint with the Turkish Statistical Agency: General poverty profile of the country including labor market analysis.
Labor Market Study [FY05]-P079189			*Labor Market Study*. Comprehensive study of labor market including suggested reforms to Labor codes, severance payments, labor dispute resolution mechanisms and active labor market programs.
Education Sector Assessment [FY05]-P084761			*Sustainable Pathways to an Effective, Equitable, and Efficient Education System for Preschool through Secondary School Education*. Includes background papers of the relationship between education policies and labor market.
Investment Climate Assessment [FY07]-P084255			Analyzes Investment Climate based on a survey to 1,300 Turkish firms on issues such as industrial restructuring, administrative barriers for business operation, entry and exit dynamics.
Estimating the Impact of Labor Taxes [FY08]-P111557			*Estimating the Impact of Labor Taxes on Employment and the Balances of the Social Insurance Funds in Turkey*. Studies more detailed effects of the proposed reforms to labor taxes and regulations.
Youth Labor Markets [FY08]-102193			*Investing in Turkey's Next Generation Study*. Analyzes youth labor market issues including education systems, government programs for worker placement, and regulations.
Education Policies			
<u>Lending</u>			
Basic Education (APL) [FY98]-P009089	300	Unsatisfactory	The education project focused on capacity expansion and teaching materials in low-income rural and slum areas, and on introducing IT equipment and programs in selected schools. Activities concentrated on increasing coverage and improving quality among the children of low-income families and children with special needs. Weak project performance was due to (i) lack of articulation between the project objectives and related components, (ii) absence of outputs indicators in some instances, (iii) move to second phase despite some failures in the first phase of the project, (iv) lack of data related to outcomes achievement, (iv) the PIU disconnected from the Ministry, this leading to poor institutional capacity building, and (vi) poor supervision in a difficult administrative setting

Bank Program	Amount (US$ million)	IEG Outcome Rating*	Comment
Basic Education (APL2) [FY03]-P059872	300	Moderately Unsatisfactory	The project aimed to expand basic education coverage in low income families and children with special needs. School infrastructure was expanded and renovated, and package of learning material reached an additional 3 million schoolchildren. However, project design was inappropriate, leading to inability to provide evidence on how funded outputs link to the stated project objective, and making project evaluation difficult.
Secondary Education [FY05]-P066149	104		Supported reform of general secondary and vocational education by improving conditions for student learning, establishing a career guidance system and enhancing foreign language teaching.
<u>Analytical Work</u>			
Education Sector Assessment [FY05]-P084761			*Sustainable Pathways to an Effective, Equitable, and Efficient Education System for Preschool through Secondary School Education*. Comprehensive analysis regarding reform of the education sector.
Higher Education Assessment [FY07]-P098400			Study on Turkey's higher education system to make it more attuned with EU standards and to prepare Turkish workers with the adequate set of analytical skills.
Social Protection			
<u>Lending</u>			
ERL [FY00]-P068792	760	Satisfactory	Reform of key structural areas. In Social Protection they include: initial reforms of pensions and start of unemployment insurance.
Social Risk Mitigation Project (SRMP) [FY02]-P074408	500		Funded conditional cash transfers to poorest 6%. Grants for employability (skills) training, social service sub-projects, rehabilitation of schools, and temporary employment.
PPDPL [FY06]-P071052	500		Structural reform program. In terms of Social Protection includes reforming substantially the country's social protection system, which covers social security, universal health insurance, and social assistance.
<u>Analytical Work</u>			
Poverty Assessment [FY05]-P084809			Joint with the Turkish Statistical Agency: General poverty profile of the country includes analysis of access to social security.

Source: Project Documents, AAA Reports, and IEG Evaluations.

Note: APL= Adaptable Program Loan; ARIP= Agricultural Reform Investment Project; CEDPL= Competitiveness and Employment Development Policy Loan; CEM= Country Economic Memorandum; EFIL= Export Finance Intermediation Project; ERL=Economic Reform Loan; EU= European Union; FSAL= Financial Sector Adjustment Loan; FY= fiscal year; IEG= Independent Evaluation Group; IT= information technology; MILES=Macroeconomic conditions, investment climate and infrastructure, Labor market regulations and institutions, Education and skill development; and Social safety net; PER= Public Expenditure Review; PFPSAL= Programmatic Financial and Public Sector Adjustment Loan; PIU= Project Implementation Unit; PPDPL=Programmatic Public Sector Development Policy Loan; PSSP= Privatization of Social Support Project; SME= small and medium enterprise; SOE= state-owned enterprise.

Appendix L. Turkey: Annex Tables

Table L.1   Turkey: Growth, Poverty, and Income Distribution Indicators

(percent)

TURKEY	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Per Capita GDP (International Prices)	7458	7367	7590	8018	7502	7945	8378	8852	8897	8451	8872	8231	8601	8915	9690	10370	10947	11293
GDP (LCU) growth a/	9.3	0.7	5	7.7	-4.7	7.9	7.4	7.6	2.3	-3.4	6.8	-5.7	6.2	5.3	9.4	8.4	6.9	4.5
Per Capita GDP (LCU) Growth a/	6.9	-1.2	3.0	5.7	-6.5	5.9	5.5	5.6	0.5	-5.0	5.0	-7.2	4.5	3.6	8.6	7.1	5.6	3.2
Poverty (Head Count Ratio) b/					2.1								2.0				2.7	
Poverty (Head Count Ratio) c/					16.9								16..5			14.7		
Poverty (Head Count Ratio) d/													1.3	1.3	1.3	0.9	0.7	0.5
Poverty (Head Count Ratio) e/													27.0	28.1	25.6	20.5	17.8	18.6
Poverty (Head Count Ratio) f/													30.3	23.7	20.8	16.3	13.3	9.5
Poverty (Headcount Ratio) g/					28.3								27.0					
Gini Coefficient h/					41.5								42.7			43.2		
Gini Coefficient					49.0								44.0	42.0	40.0	38.0	38.0	

a/ The World Bank (WDI). Constant 2000 International Dollars.

b/ $1.25-a–day poverty line, (World Bank updated (2008) poverty estimates (www..worldbank.org). c/ $2.50-a-day poverty line: (World Bank updated (2008) poverty estimates (www..worldbank.org).

d/ Food Poverty; e/ Food + Non-Food Poverty; f/ $4.3-a-day per capita poverty line. Turkish Statistical Institute: Official estimates.

g/ The World Bank (2005c), p. 8, Table 1.8,

h/ (World Bank updated (2008) poverty estimates (www..worldbank.org).

Note: GDP= gross domestic product; LCU= local currency unit.

Table L.2 Turkey: Population and Labor Force Participation (LFP) Rates

(percent except first row)

TURKEY	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Population, total (millions) a/	56.2	57.3	58.4	59.5	60.6	61.7	62.9	64.0	65.2	66.3	67.4	68.5	69.6	70.7	71.1	72.1	73.0	73.9
Population growth (annual %) a/	2.3	2.0	1.9	1.9	1.9	1.9	1.8	1.8	1.8	1.7	1.7	1.6	1.6	1.6	0.6	1.3	1.3	1.3
Urban population (% of total) a/	59.2	59.8	60.4	60.9	61.5	62.1	62.6	63.1	63.7	64.2	64.7	65.2	65.7	66.3	66.8	67.3	67.8	68.2
LFP rate by Gender (Official): Total b/	56.6	57.0	56.0	52.1	54.6	54.1	53.7	52.6	52.8	52.7	49.9	49.8	49.6	48.3	48.7	48.3	48.0	48.2
Male b/	79.7	80.2	79.6	78.0	78.5	77.8	77.3	76.7	76.7	75.8	73.7	72.9	71.6	70.4	72.3	72.2	71.5	69.3
Female b/	34.1	34.1	32.7	26.8	31.3	30.9	30.6	28.8	29.3	30	26.6	27.1	27.9	26.6	25.4	24.8	24.9	23.6
LFP by Gender (WDI): Total c/	58.1	57.8	56.8	53.1	55.6	55	54.6	53.3	53.4	53.3	50.5	50.3	50	48.7	52.3	52.2	52.0	
Male c/	81.5	80.9	80.4	78.8	79.3	78.5	78.0	77.4	77.2	76.3	74	73.1	71.8	70.6	76.7	76.5	76.2	
Female c/	34.4	34.3	32.9	26.9	31.4	31.1	30.7	28.9	29.3	30.1	26.6	27.1	27.9	26.6	27.8	27.7	27.7	
LFP by Gender (WDI): Total d/	60.7	60.4	59.3	55.7	58.1	57.4	57.0	55.8	55.8	55.7	52.8	52.7	52.6	51.3	55	54.8	54.6	
Male	84.5	83.9	83.4	82	82.4	81.4	81.0	80.5	80.3	79.4	77.1	76.3	75.2	74	80.3	80.1	79.8	
Female	36.2	36.2	34.6	28.5	33.1	32.7	32.3	30.4	30.7	31.4	27.9	28.5	29.4	28.1	29	28.9	28.8	

a/ The World Bank (WDI)

b/ Turkish Statistical Office. Data is for ages 15 and older. Data for 2007 are from the OECD, adjusted to cover the same age range.

c/ The World Bank (WDI), Ages 15 and above.

d/ The World Bank (WDI), ages 15-64.

Note: WDI= World Development Indicators.

Table L.3 Turkey: Employment-to-Population (ETP) Ratio (percent) and Number of Hours Worked per Week

TURKEY	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
ETP ratio by Gender: Total a/	52.1	52.3	51.2	47.5	49.9	50.0	50.2	49.0	49.2	48.6	46.7	45.6	44.5	43.2	43.7	43.3	43.2	43.5
Male	73.5	73.2	72.6	71.1	71.6	71.7	72.0	71.7	71.4	70.0	68.8	66.6	63.9	62.9	64.7	64.8	64.6	67.9
Female	31.2	31.7	30.2	24.3	28.8	28.6	28.8	26.6	27.3	27.8	24.9	25.1	25.3	23.9	22.9	22.2	22.3	23.8
ETP ratio - Vulnerable Employment b/									48.8	50.6	46.3	47.5	44.7	44.4	44.5	40.7	48.8	
Male									41.3	42.7	39.8	40.4	37.7	37.9	38.9	35.6	41.3	
Female									68.4	70.1	64.0	66.1	62.0	61.2	59.9	55.3	68.4	
ETP ratio - Child Labor c/					8.8					5.1							2.6	
Male c/					10.2					5.6							3.3	
Female c/					7.3					4.6							1.8	
ETP ratio - Child Labor Employment Rates c/					3.2					1.6							1.5	
Male c/					4.8					2.4							2.2	
Female c/					1.5					0.8							0.8	
ETP ratio - Rural Child Labor c/					14.9					9.6							4.1	
Male c/					16.0					9.7							5.0	
Female c/					13.7					9.5							3.3	
Hours Worked per Week (Total) d/									47.2	45.2	46.5	48.6	48.7	48.7	49.3	51.4	51.3	49.0
Male d/									49.8	49.2	49.6	51.1	51.3	51.3	52.0	54.1	54.2	51.9
Female d/									36.8	38.7	38.2	42.4	42.3	42.0	42.1	43.8	43.2	41.1
Hours Worked per Week (Manufacturing) d/											51.3	51.4	51.9	52.2	52.1	53.7	54	51.8
Male d/											52.6	52.6	53.1	53.3	53.3	55.1	55.3	53.1
Female d/											46.0	46.5	47.4	47.8	47.4	47.9	48.7	46.7

Sources and Note:

a/ Staff estimates from official data on labor participation and unemployment rates.

b/. Includes self-employed and informal sector jobs;

c/ Age 6-14), by Gender, Rural and Urban, Selected Years, 1994-2006 (in % of Age Category); Source: ILO, Working Child 2006, based on TURKSTAT, Working Child Statistics, 2006.

d/ ILO. www.laborstat.ilo.org.

Table L.4 Turkey: Gross National Income per Worker, Earnings per year by Quintile, and Manufacturing, Agriculture, and Minimum Wage Indices.

(US Dollar equivalent at year 2000 prices except last three rows

TURKEY	1990	1991	.1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Real Gross National Income per worker a/	6042	5899	6207	7102	6270	6646	6991	7547	7559	7226	7886	7388	7964	8480	9115	9844	10430	10735
Public Sector b/	5747	8251	8746	9450	9446	8056	6044	7205	7107	10102	10803	9555	8682	8795	8341	8567	8341	8605
Private Sector b/	5052	6932	7351	7475	6117	5772	5880	5705	6671	7444	7522	6000	5940	5744	5940	5977	5934	6081
Civil Servant Salary b/	3844	4124	4690	4790	3740	3666	3945	4594	4534	4740	4194	4037	4269	4232	4215	4327	4596	4776
Minimum Wage b/	1076	1213	1323	1400	1177	1130	1339	1468	1396	1877	1607	1380	1491	1547	1894	1968	2049	1960
Average Household Income c/					4905								3906	3840	4126	4265		
Household Income - 1st Quintile c/					1191								1033	1151	1246	1290		
Household Income - 2nd Quintile c/					2116								1916	1974	2205	2362		
Household Income - 3rd Quintile d/					3093								2738	2778	3139	3377		
Household Income - 4th Quintile c/					4667								4069	4019	4514	4820		
Household Income - 5th Quintile c/					13460								9773	9276	9525	9475		
Per Capita Household Income c/					1104								939	929	1004	1045		
Per capita Household Income - 1st Quintile c/					314								279	287	301	311		
Per capita Household Income - 2nd Quintile c/					489								466	493	552	619		
Per capita Household Income - 3rd Quintile c/					675								636	670	772	834		
Per capita Household Income - 4th Quintile c/					999								927	947	1083	1150		
Per capita Household Income - 5th Quintile c/					2776								2281	2179	2276	2259		
Minimum Wage d/	23.7	27.8	30.5	30.0	27.4	24.7	29.6	30.7	31.7	48.0	40.7	38.0	41.5	42.2	53.5	53.7	48.4	43.4
Formal Wage Index e/ b/	102.7	127.3	117.4	120.8	92.4	93.7	94.0	96.0	95.9	102.0	100.0	87.4	80.2	74.9	75.1	75.7	72.1	69.3
Agricultural Wage f/b/									104.3	118.4	100.0	93.1	78.8	77.4	82.9	88.4	98.4	

Sources and Note:

a/ The World Bank (WDI)

b/ Ministry of Planning. <http://www.dpt.gov.tr>,

c/ US dollars per year. Staff estimates using annual nominal household income survey data available at www.turkstat.gov.tr. These are estimates converted to US dollars at the average 2000 exchange rate.

d/ 1990-2005: Secretary of Planning; 2006-2007: www.turkisheconomy.org.uk. Data is percent of Per Capita GDP.

e/ Index of real wages in private manufacturing (Index, 2000=100).

f/ Index of Wage of Permanent Agricultural Workers (Males), (Index, 2000=100). Nominal values deflated by the CPI. (Turkish Statistical Institute)

Table L.5 Turkey: Unemployment Rates (percent)

TURKEY	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Unemployment a/	8.0	8.2	8.5	8.9	8.6	7.6	6.6	6.8	6.9	7.7	6.5	8.4	10.3	10.5	10.3	10.3	9.9	9.7
Male a/	7.8	8.7	8.8	8.8	8.8	7.8	6.9	6.5	6.9	7.7	6.6	8.7	10.7	10.7	10.5	10.3	9.7	10.0
Female a/	8.5	7.1	7.7	9.3	8.0	7.3	5.9	7.7	6.8	7.3	6.3	7.5	9.4	10.1	9.7	10.3	10.3	10.5
Unemployed: No. of Weeks of Job Search b/											34.2	33.8	42.9	38.6	57.2	58.5	53.3	46.4
Male b/											31.2	31.2	40.7	36.0	55.0	55.9	50.3	43.3
Female b/											42.5	42.9	49.8	45.5	63.7	66.3	61.1	55.0

Sources and Note.

a/ Turkish Statistical Institute. Statistical Indicators1923-2007. <www.turkstat.gov.tr>. Series published by ILO and OECD are very similar.

b/ Turkish Statistical Institute. <www.turkstat.gov.tr>. Labor Force Statistics.

Table L.6 Turkey: MILES Indicators Table

TURKEY	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Macroeconomic Stability																			
Inflation, consumer prices (annual %)	60.3	66.0	70.1	66.1	106.3	88.1	80.3	85.7	84.6	64.9	54.9	54.4	45.0	25.3	10.6	10.1	10.5	8.8	
Central Government primary balance (% of GNP)a/										1.5	4.6	4.8	3.5	4.9	5.3	5.5	5.8	5.2	
Central Government overall balance (% of GNP)a/										-11.6	-11.2	-17.4	-13.8	-11.2	-7.1	-2.2	0.1	-0.7	
Overall Balance of Public Sector a/												-17.1	-12.5	-9.1	-4.6	-0.3	-0.4		
									4.6	2.1	2.3	3.8	3.3	5.0	5.4	5.1	5.1	3.5	
Public debt (% of GDP)												66.4	61.5	55.2	49.1	41.6	34.2	38.8	
Gross External Debt												57.7	56.3	47.3	41.2	35.1	39.5	33.7	
Gross Investment									22.1	19.1	20.8	15.1	17.6	17.6	19.4	20	22.1	22.2	
Exports									21.3	19.7	21.4	23.6	23.8	24.1	24.5	24.4	24.4	24.9	
Current Account Balance (% of GDP)									1.0	-0.7	-4.9	1.7	-0.7	-2.6	-4.0	-4.6	-6.0	-5.7	
REER Index 2000=100, Year End[b]											100	78.9	85.1	95.3	97.1	116.2	108.5	129.0	
Investment Climate																			
Ranking of WEF Global Competitiveness Index b/									40.0	44.0		54.0	69.0	65.0	66.0	66.0	59.0	53.0	63.0
WEF Global Competitiveness Index (%of countries ranked lower)									24.5	25.4		28.0	13.8	36.3	36.5	43.6	52.8	59.5	53.0
WEF Total Number of Countries									53	59	-	75	80	102	104	117	125	131	134
Time required to start a business, Doing Business survey (days) b/														13.0	9.0	9.0	6.0	6.0	6.0
GFCF, private sector (% of GDP) a/								7.7	7.6	7.5									
FDI (US$ billions)	0.7	0.8	0.8	0.6	0.6	0.8	0.6	0.6	0.6	0.1	0.1	2.9	1.0	1.3	2.0	8.7	19.1		
FDI (% of GDP)									0.4	0.3	0.4	1.7	0.5	0.6	0.7	2.1	3.8	3.0	
Labor Regulations and Institutions																			
Employment Law Index, Doing Business (smaller numbers are better) c/														38	38	42	42	42	38
Labor Freedom factor, Index of Economic Freedom (larger numbers are better) d/																47.4	47.4	50.1	48.0
Total Tax Wedge Including Payroll Taxes																			
Education																			
Primary enrollment rate																			
Gross		98.9							88.5	94.3	95.4	96.9	98.8	94.5	93.6	94.1	94.2		
Male									97.0	99.9	99.9	101.0	102.5	97.6	96.4	96.7	96.4		
Female									79.5	88.5	90.7	92.7	94.9	91.3	90.7	91.5	92.0		
Net		89.2											91.9	89.3	89.6	90.2	91.4		
Secondary enrollment rate																			
Gross		48.0										77.6	81.1	84.6	78.4	74.4	78.6		
Male												88.7	92.0	96.7	89.6	81.8	85.9		
Female												66.2	69.9	72.2	66.9	66.8	71.1		
Net		42.0														66.0	68.7		
Ratio of Girls to Boys in Primary and Secondary Schools (%)									78.9	81.0	83.9	84.5	85.5	85.1	85.8	89.4	90.1		
Tertiary enrollment		12.7							20.9	21.5	23.2	23.4	24.4	28.0	28.9	31.0	34.6		
Male									24.8	25.5	27.5	27.2	28.1	31.8	33.4	35.6	39.4		
Female									16.9	17.4	18.7	19.4	20.5	24.0	24.3	26.3	29.7		
Ratio of Females to Males in Tertiary Education (%)									68.3	68.4	68.2	71.3	72.9	75.3	72.6	73.9	75.4		
Social																			
Health expenditure, private (% of total health expenditure)												32	30	28	28	29			
Health expenditure, public (% of total health expenditure)												68	70	72	72	71			
Population																			
Population, total (millions)	56.2	57.3	58.4	59.5	60.6	61.7	62.9	64.0	65.2	66.3	67.4	68.5	69.6	70.7	71.1	72.1	73.0	73.9	
Population growth (annual %)	2.3	2.0	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.7	1.7	1.6	1.6	1.5	0.6	1.3	1.3	1.2	
Urban population (% of total)	59.2	59.8	60.4	60.9	61.5	62.1	62.6	63.1	63.7	64.2	64.7	65.2	65.7	66.3	66.8	67.3	67.8	68.2	

Sources: All data from World Bank WDI consulted on December 5 2008, unless otherwise noted.

a/ IMF Article IV consultations; b/ World Economic Forum (WEF). The index is not comparable from year to year because the average sample of countries increases. c/ Doing Business (DB) Indicators. Years correspond to DB's data collection timeline, one year before DB report

d/ Doing Business (DB) Indicators. Ranges from 0 to 100. The higher the number, the more difficult it is to higher.

Note: GFCF= gross fixed capital formation; FDI= foreign direct investment; GDP= gross domestic product; GNP= gross national product; MILES= Macroeconomic conditions, Investment climate and infrastructure, Labor market regulations and institutions, Education and skill development; and Social safety net; REER= real effective exchange rate; WEF= World Economic Forum.

Table L.7 World Economic Forum Global Competitiveness Index Rankings, Selected Countries, 2007

Country	*Overall*	*Infrastructure*	*Public Institutions*	*Macro Economy*	*Health & Primary Education*	*Higher Education & Training*	*Goods Market Efficiency*	*Labor Market Efficiency*	*Financial Market Sophistication*
Turkey	*53*	*59*	*55*	*83*	*77*	*60*	*43*	*126*	*61*
Colombia	69	86	79	63	64	69	85	74	72
Tunisia	32	32	21	72	24	30	31	79	66
Azerbaijan	66	60	83	23	103	89	95	46	91
Poland	51	80	82	56	36	35	69	49	64
Croatia	57	53	65	73	44	46	71	56	68
Ukraine	73	77	115	82	74	53	101	65	85
Portugal	40	25	27	81	32	34	41	83	35
Cyprus	55	26	36	55	18	38	37	80	39
Bolivia	105	118	124	49	91	91	125	121	106
Spain	29	19	43	32	37	31	40	95	34
Armenia	93	87	96	57	99	95	104	40	110

Source: World Economic Forum, Global Competitiveness Report, 2007-08 (Geneva: WEF, 2007).

Appendix M. Turkey: List of People Met

WORLD BANK

Aristomene Varoudakis	Country Manager for Armenia
Ina Ruthenberg	Country Program Coordinator
Jeanine Braithwaite	Senior Social Protection Economist
Basil Kavalsky	Consultant, IEGCR
Arup Banerji	Senior Adviser, IEGWB
James Parks	Adviser, MDW
Fernando Montes	Sector Director, ECSPF
Paulo Guilerme Correa	Senior Economist, ECSPF
Jesko Hentchel	Country Sector Coordinator, ECSHD
Raif Can	Consultant
Carlos Pinerua	Country Sector Coordinator, ECSPF
Mark Thomas	Lead Economist, ESCPE
Mediha Agar	Economist, ECSPE
Maureen Anne McLaughlin	Lead Education Specialist, ECSHD
Kamer Karakurum-Ozdemir	Economist, ECSPE
Keiko Sato	Lead Operations Officer, ECCU6
Ulrich Zachau	Country Director, ECCU6
Ismail Arslan	Sr Evaluation Officer, IEGCR
James Hanson	Consultant, MNSED
Gordon Betcherman	Sector Manager, ECSHD

International Monetary Fund

Hossein Samiei
Davide Lombardo

Turkish Government Officials, Private Sector Representatives and Other Turkey-based Individuals

Ferudun Giresun	Department Head, ISKUR Turkish Employment Organization
Asim Keskin	Advisor to Minister of Labor, Ministry of Labor
Mehmet Akkul	Department Head, State Owned Enterprises, Treasury
Ozgur Pehlivan	Deputy General Director, Foreign Economic Relations, Treasury
Elvan Ongun	Department Head, Foreign Economic Relations, Treasury
Murat Alici	Deputy General Director, Foreign Investment, Treasury

Fatma Uluc	Education Project Officer, UNICEF
Mustafa Balci	Education Sector Manager, Economic Commission, European Union
Halil Ibrahim Alca	SPO State Planning Organization
Kemal Madenoglu	SPO
Guven Sak	Executive Director, TEPAV Economic Policy Research Foundation of Turkey
Emim Dedeoglu	Director, Governance Studies, TEPAV
Ozan Acar	Research Associate, TEPAV
Enver Tasti	Director of Social Statistics, TURKSTAT State Institute of Statistics
Didem Sozer	TURKSTAT
Gulay Aslantepe	Director, ILO
Ertan Tanriyakul	Deputy General Manager, TURK EXIM BANK
Neslihan Topbas	Funding Manger, TURK EXIM BANK
Ahmet Aksu	Vice President, Privatization Administration
Gunden Peker Cinar	Head of Project Group, Privatization Organization
Ozge Alpay	Coordinator, Project Coordination Unit, Privatization Organization
Irem Guner	Project Consultant, Privatization Organization
Zafer Ali Yavan	TUSIAD Turkish Industrialists' and Businessmen's Association
Orhan Beskok	Executive Vice President, Industrial Development Bank of Turkey TSKB
Gunduz Findikcioglu	Chief Economist, TSKB
Refik Akinci	Department Head, Economics and Engineering, TSKB
Hakan Altinay	Executive Director, Open Society Institute Assistance Foundation
Neyyir Berktay	Coordinator, Education Reform Initiative ERG
Batuhan Aydagul	Deputy Coordinator, ERG
Ayla Goksel Gocer	Vice President and CEO, Mother Child Education Foundation ACEV
Necdel Kenar	Director General, MESS Training Foundation

Appendix N. Cross-Country Comparisons

The cases reviewed in chapters 2, 3, and 4 of this report depict a range of experiences relating to Bank support for addressing employment challenges. This appendix provides more detail of the issues discussed in Chapter 5, namely on the set of findings that can be drawn from Bank experiences assisting Colombia, Tunisia and Colombia. The discussion focuses on findings related to the country's achievement of outcomes (GDP, poverty, employment, and earnings growth), and the contribution of Bank inputs, first from a cross-cutting perspective and then with reference to each of the five MILES areas of support. The appendix concludes with implications for Bank support during the current jobs crisis.

Comparison of Outcomes across the Three Countries

Two findings in connection with outcomes across the three countries are highlighted. First, progress in economic growth and earnings was better than progress in employment and unemployment. Second, although the availability of statistics on employment and earnings outcomes has improved, there are still significant deficiencies.

Outcomes, Exogenous Forces and Policies. When comparing the decade under review (1997-07) with the previous decade**,** *the broad outcomes* ***(***Table N.1 ***are as follows.***

Tunisia did best. With stable employment growth, Tunisia increased its employment-to-population ratio and reduced the unemployment rate. Per capita GDP, GNI and earnings growth rates also increased, and poverty declined at an increased rate.

Colombia also registered stable employment growth and an increase in the employment-to-population ratio, but the unemployment rate increased. The per-capita GNI and GDP growth rates declined but earnings growth may have increased towards the end of the review period due to a decline in inequality. Poverty fell after having increased during the previous decade.

Turkey experienced declines in employment growth and in the employment-to-population ratio, and an attendant increase in the unemployment rate. The per-capita GNI and GDP growth rates increased and earnings growth possibly remained stable. Poverty declined at an increasing rate, particularly after 2002. The last column of Table N.1 shows per worker output growth and TFP. Although Turkey, like Tunisia, increased TFP growth markedly, Turkey's growth— unlike Tunisia's— was "jobless".

Table N.1 Colombia, Tunisia, and Turkey: Outcome Indicators

	Employment				Unemploy-ment		Income		Poverty			Income distribution			Output/TFP	
	Average annual change (%)		Employment-to-population ratio (%)		Unemploy-ment Rate		Real per capita GNI growth		Headcount ratio (not comparable across countries) Data at or closest to (as indicated):			Gini coefficient (not comparable across countries) Data closest to (as indicated)			Per-worker GDP growth/of which: TFP	
Year/ Period	1987-97	1997-07	1997	2007	1997	2007	1987-97	1997-07	1987	1997	2007	1987	1997	2007	1989-95	1995-05
Colombia	2.3	2.3	51.0	51.4	9.8	10.7	2.2	1.9	51.2	49.4	47.9	52.5	57.4	58.6	1.58/ -0.01	1.16/ -0.18
Tunisia	2.7	2.7	38.1[a/]	40.2	16.0[b/]	14.1	2.1	4.0	7.7[c/]	6.2[d/]	3.8[e/]	43.4[c/]	41.7[d/]	40.0[e/]	2.37/ 0.75	3.04/ 1.42
Turkey	1.9	0.8	49.0	43.5	6.8	9.7	2.3	2.5	38.5	28.3[f/] 30.3[g/]	27.0[g/] 9.5	43.0[h/] 41.5[f/]	42.0[i/] 42.7[g/]	38.0[j/] 43.2[e/]	2.83/ -0.05	3.61/ 1.50
World average	1.7	1.6	63.0	61.8	6.1	6.0	1.4	1.9	71.8	67.2	56.6	61.9[k/]	64.2[l/] 65.1[m/]	63.4[n/]	0.83/ -0.44	2.99/ 1.32

Sources and Note: GNI, population and working age population: The World Bank(WDI). Employment and Unemployment: DANE (Colombia), Tunisia Institute of Statistics (Tunisia), OECD (Turkey), The World Bank (WDI) and ILO, "Global Employment Trends", 2009 (World). Poverty Headcount Ratio: DNP (Colombia); Tunisia Institute of Statistics (Tunisia); The World Bank (2005c) and Turkish Statistical Institute (Turkey); The World Bank (WDI) (World). Gini Coefficient: DNP (Colombia); World Bank updated (2008) poverty estimates (<www..worldbank.org>) *(Tunisia); Turkish Statistical Institute and* World Bank updated (2008) poverty estimates (<www..worldbank.org>) *(Turkey).* Output/TFP: staff estimates from *Dale W. Jorgenson; Khuong Vu, "Information Technology and the World Growth Resurgence", hdl:1902.1/10702 UNF:3:vE7B5m3aMRtK6ZZi4lP4DA==; Average of 122 Economies. Indicated years:*
a/1999
b/ 1999
c/1985
d/ 1995
e/ 2005
f/ 1994
g/ 2002
h/ 1986
i/ 1996
j/ 2002
k/ 2006
l/ 1988
m/ 1998: Milanovic (2005), p. 108; 13/ 2000 and 14/ 2005: Hillebrand (2008), Table 2.
Note: GDP= gross domestic product; GNI= gross national income; TFP= total factor productivity; WDI= World Development Indicators.

Although employment growth has been positively correlated with GDP growth, as indicated by ILO (2005) estimates of the GDP elasticity of employment, *changes* in average GDP growth rates between 1987-97 and 1997-07 were reflected primarily in changes in earnings growth, but not in employment growth. A positive relationship between GDP and employment growth is to be expected because growth triggers demand for labor and because employment is one of the sources of growth.

However, the simple correlation between employment and GDP growth is weakened by the relationship that has also been found between changes in GDP growth and changes in TFP growth (another source of GDP growth), particularly when fundamental changes in relevant policies have taken place. In fact, worldwide acceleration of GDP growth during the review period was linked to worldwide acceleration of TFP growth and the three countries were no exception. Increases in total factor productivity growth allowed earnings growth to increase in Tunisia and Turkey, but possibly not in Colombia, where average TFP growth declined considerably during the recession years (compare the first two periods in Table N.2

Table N.2 Colombia, Tunisia, and Turkey: Sources of Growth

	GDP Growth		Capital	Labor		TFP
	Per worker	Total		Hours	Quality	
Period 1989–1995						
Colombia	1.58	4.35	1.18	2.77	0.42	-0.01
Tunisia	2.37	4.44	1.16	2.07	0.46	0.75
Turkey	2.83	4.11	2.46	1.28	0.41	-0.05
World a/	0.83	1.66	0.83	0.87	0.41	-0.44
Period 1995–2000						
Colombia	-0.25	0.91	1.38	1.16	0.38	-2.01
Tunisia	3.45	5.47	1.26	2.02	0.42	1.77
Turkey	3.06	3.87	2.39	0.81	0.34	0.34
World a/	2.63	3.75	1.33	1.11	0.36	0.95
Period 2000–2006						
Colombia	2.57	3.85	0.80	1.28	0.13	1.64
Tunisia	2.63	4.49	1.29	1.86	0.26	1.08
Turkey	4.17	4.51	1.39	0.34	0.11	2.67
World a/	3.35	4.51	1.42	1.15	0.24	1.70

Source: Dale W. Jorgenson; Khuong Vu, "Information Technology and the World Growth Resurgence", hdl:1902.1/10702 UNF:3:vE7B5m3aMRtK6ZZi4lP4DA==
a/ Average of 122 Economies
Note: GDP= gross domestic product; TFP= total factor productivity.

Differences in outcomes across the three countries were linked primarily to differences in local exogenous forces and policies. External forces were favorable. Improvements in the world and regional economic environments increased local demand for labor in the three countries. Per capita world GDP growth increased from 1.4 percent during 1987-97 to 1.8 percent during 1997-07, with even larger increases in Latin America, Europe and Central Asia, and the Middle East and North Africa. Access to international finance improved notably and the cost declined.

Improvements in **macroeconomic policies and other investment climate policies** were also a factor in helping to increase investment and the demand for labor in the three countries. Good macroeconomic policies were already in place at the outset of the review period in Tunisia, while these policies initially deteriorated in Colombia and Turkey and improved later during the review period.

Labor market rigidity, non-wage costs, and minimum wages increased throughout the period in Turkey and remained unchanged in Tunisia. Rigidity was somewhat relaxed in Colombia, but non-wage costs and the minimum wage also increased.

Regarding **education**, the three countries achieved increases in enrollment, particularly in secondary and tertiary, that is, toward the working-age range. These increases as well as the demographic transition that reduced working-age population growth contributed to taming aggregate labor supply growth. Past education efforts also generated the supply of skills that allowed earnings to increase. Rural-urban migration spurred by economic sector adjustment in Turkey and rural violence in Colombia led to urban labor supply shocks. Furthermore, in Colombia, deteriorating security during the first half of the review period discouraged economic activity. In sum, the environment of local exogenous forces and policies was most favorable in Tunisia, less so in Turkey, and least so in Colombia.

In Tunisia and Turkey, poverty declined at an accelerating pace during the review period (Table N.3 This acceleration in poverty reduction does not come as a surprise, as economic growth increased in these two countries. Likewise, with slower growth, poverty reduction also slowed down in Colombia. However, the experiences of the three countries suggest that periods of economic distress, with low productivity growth, hit the poor harder. In Tunisia, growth incidence curves, which depict the incidence of growth by percentile of the income distribution, show that growth has been pro-poor for several years, with the exception of the drought years during the early part of the century.[1] There were significant reductions in poverty toward the end of the review period in both Colombia and Turkey. Research by Cardozo and Grosse (2007) uses growth incidence curves to show that growth in Colombia was pro-poor for the overall 1996-05 period, particularly in the rural sector. Growth (or rather recession), however, was pro-rich (that is, with the poor hit hardest) during 1996-99 and pro-poor (i.e., with the poor benefitting the most) during the rest of the period, when the economy recovered. There are no available incidence curves for Turkey, but available Gini estimates suggest that during the crisis of the early 2000s, poverty increased and growth may have been pro-rich. Comparison of wage growth across the three countries shows the contrast between Colombia, where minimum wage regulations pushed formal sector wages up (and informal wages down), and Turkey, where inflation was allowed to bring real formal sector wages down during the period of structural adjustment.

Table N.3 Colombia, Tunisia, and Turkey: Poverty and Wages

Year/Period	Total Change in Poverty Headcount Ratio Change (Percentage Points)	Average Change of Real Wages in Manufacturing (Percent per Annum)	Change in the Unemployment Rate (Percentage Points)
Colombia [a]			
1987-97	-1.8	3.7[a]	-1.2
1997-07	-1.5	1.7	0.9
Tunisia [b]			
1985-95	-1.5	3.0	-0.6[d]
1995-05	-2.4	1.2	-1.9[e]
Turkey [c]			
1987-97	-4.3	-0.9[a]	-1.5
1997-07	-7.1	-3.2	+2.9

Source:

a/ *Change in Poverty: Staff estimates from DNP data (See* Appendix D, Table D.1) *Average Change in Real Wages: Central Bank (See* Appendix D, Table D.4 . *Change in Unemployment: DANE (See* Appendix D, Table D.5

b/ *Change in Poverty: Data from Tunisia's Statistical Institute (See* Appendix H, Table H.1 *); Average Change in Real Wages: 1995-05: Data from Tunisia's Statistical Institute; 1985-95: Data from Tunisia's Statistical Institute and from World Bank (1995) (See* Appendix H, Table H.4) *Change in Unemployment: (See* Appendix H, Table H.5

c/ *Change in Poverty: 1984-94:* Förster, M. F. (2000), Table 5.2, p. 97; *Average Change in Real Wages: Data from Turkish Statistical Institute (See* Appendix L, Table L.4 *Change in Unemployment (Turkish Statistical Institute) . d/ 1984-94; e/1994-04.*

The dynamics of participation rates varied significantly across the three countries. Turkey's long term decline in participation continued. It is primarily correlated with the decline in the share of the agricultural sector[2], a decline that was given additional impetus by the removal of agricultural subsidies as part of the structural adjustment measures underpinning stabilization. Colombia's long term increase in participation, primarily explained by increased education levels that raised female participation rates, ceased during the period under review. This reflected the diminished capacity of the economy to generate employment due to lower growth and possibly minimum wages. Participation rates in Tunisia increased, reflecting higher economic growth.

Similarly, ***the experience of unemployment in the three countries also varied considerably***. It suggests that changes in unemployment in Colombia (Appendix D, Table D.5) during the decade were primarily cyclical. In Turkey, changes unemployment (Appendix L, Table L.5 reflected changes in the cyclical component prior to 2002, when there were wide swings in economic activity, with a rise in structural or frictional unemployment during stabilization, possibly as structural policies accelerated the rural-urban human resource reallocation. In Tunisia, changes in unemployment (Appendix H, Table H.5 were minor, reflecting the absence of cycles or major structural changes.

In the three countries, unemployment rates remained very high. In 2007, these rates were 10.7 percent in Colombia, 14.1 percent in Tunisia, and 9.7 percent in Turkey— high even by regional standards in Colombia and Tunisia. These rates are not likely to reflect significant cyclical unemployment because in 2007 output was close to potential in the three economies. The rates are more likely to reflect classical unemployment due to high minimum wages or to structural unemployment stemming, for example, from skill mismatches. Both issues are of considerable importance in the three countries. Some frictional unemployment due to imperfect information may also be at work.

All of this suggests that the Bank may usefully help elucidate the hysteresis and structural roots of unemployment, including its cyclical, classical, frictional and structural components, as there has been little success in reducing the long-term level of unemployment. During the 10-years reviewed in this report, the three countries made little or no progress in reducing unemployment on a sustained basis. Understanding better the classical and structural unemployment implications of minimum wages and of the other sources of long-term unemployment may help sharpen engagement and dialogue on this critical issue.[3]

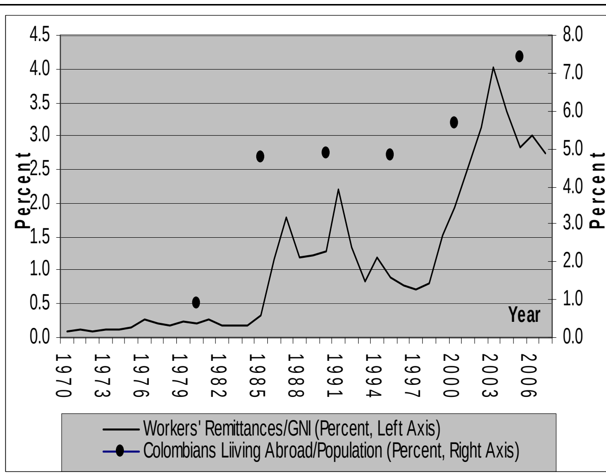
There are also considerable differences in performance in employment indicators by gender. In both Tunisia and Turkey, female participation rates are much lower than male participation rates for a variety of reasons discussed in the country chapters, including structural (for example, rural-urban migration in Turkey) and cultural factors (strong views of female roles at home). In Colombia, female participation rates, the highest of the three countries, declined after 2000, after several years of increasing, and male participation declined after many years of constancy. As with employment trends, the decline is linked primarily to slower economic growth, with some attribution due to minimum wage and labor taxes. In Turkey, female participation continued declining slowly, with no net changes in male participation. In Tunisia, female participation continued increasing and male participation continued declining.

In all three countries, the authorities have been proactive in supporting women's rights to work. Nevertheless, female unemployment rates are higher than male unemployment rates in Tunisia and more so in Colombia, with the gap between the two increasing in Tunisia largely as a result of skill mismatches. Turkey's unemployment rates do not vary by gender. A distinguishing feature in Tunisia is that unemployment is higher among the educated, again due to a skill (quality) mismatch.

The experience with respect to employment outcomes suggests that Bank programs with employment objectives would benefit by considering the full set of employment-related outcomes when designing country programs. This set would cover employment growth, the employment-to-population-ratio, the unemployment rate and earnings growth, and the impact of these on poverty— as well as the uncertainties of that impact. This is not to say that programs necessarily need to have quantitative targets for these variables, but that policies and programs need to be understood in terms of their possible effects on those variables.

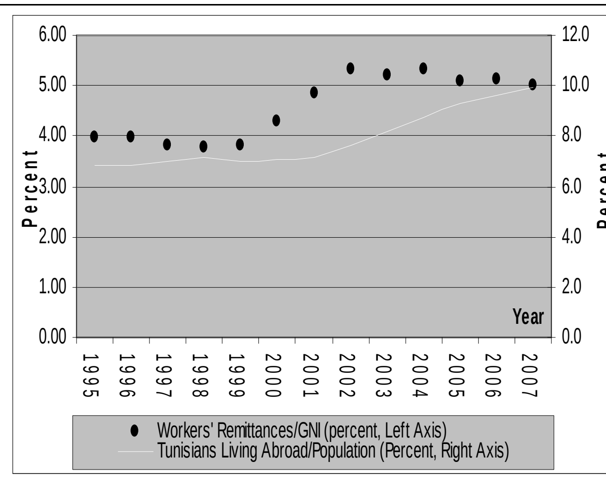
Employment abroad has been an important source of income/transfers for nationals of the three countries, both for those living and employed abroad as for those living in their country and receiving remittances. In Colombia, the economic and security crisis at the turn of the century triggered a substantial rise in the stock of emigrants (up to 4 percent of population) and in remittances (up to 7 percent of GNI), the latter declining as the economy improved (See Figure N.1). In Tunisia, there was a gradual rise in the stock of emigrants after the year 2000 (up to 10 percent of population in 2007), and a rise in the level of remittances (up to a little over 10 percent of GNI; (See Figure N.2). Turkey shows a sharp decline in remittances as the economy improved as well as a decline in the stock of emigrants (See Figure N.3).

Figure N.1 Colombia—Number of Colombian Nationals Living Outside Colombia (Percent of Colombia's Population) and Workers' Remittances to Colombia (Percent of GNI)



Sources: The World Bank (WDI): Population and Remittances. Organizacion Internacional para las Migraciones: Stock of Colombian Nationals Abroad.
Note: GNI= gross national income; WDI= World Development Indicators.

Figure N.2 Tunisia—Number of Tunisian Nationals Living Outside Tunisia (Percent of Tunisia's Population) and Workers' Remittances to Tunisia (Percent of GNI)

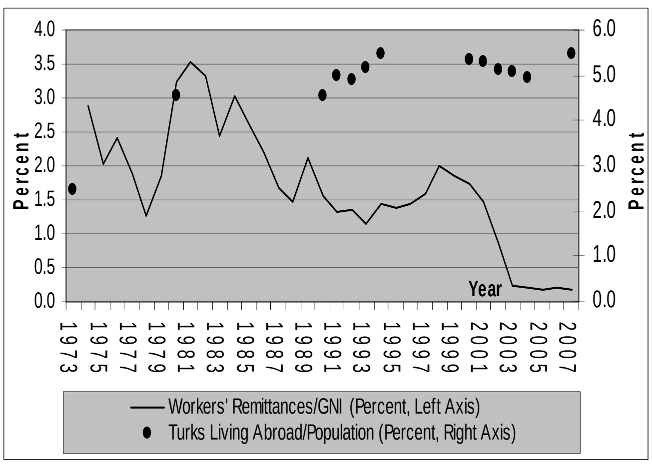


Sources: The World Bank (WDI): Population and Remittances. Ministry of Foreign Affairs: Stock of Tunisians Living Abroad.
Note: GNI= gross national income; WDI= World Development Indicators.

Adequacy of Employment Data. ***A review of the data that was available for this report concludes that although much progress has been achieved in collecting information, there are still important pitfalls.*** For example, in Colombia, data is now being produced on a monthly basis and at the national level since 2001. However, limited comparability with previous years limits the usefulness of analyses. Delays in production of the data, particularly with respect to earnings, prevents timely monitoring. Furthermore, sources (official, ILO, Bank) sometimes conflict with one another. Although Colombian national data indicate that the participation rate ceased growing during the review period, both the ILO and the World Bank (WDI) estimates indicate that the participation rate continued growing.

The Bank could step up its support, in coordination with other institutions, for better information gathering and availability on employment and earnings. The Bank has already been active in assisting countries in strengthening their household survey data. But more could be done. A good area to target is the timeliness of dissemination. For example, the last available household survey data regarding earnings in Colombia at the time of writing of this report (2009), which allows analysis of formal/informal sector differences, was for 2006. The implied delays are too long for the needs of analysts, observers, and policy makers. In Tunisia and Turkey, the situation is similar.

Figure N.3 Turkey—Number of Turkish Nationals Living Outside Turkey ((Percent of Turkey's Population) and Workers' Remittances to Turkey (Percent of GNI)



Sources: The World Bank (WDI) Population and Remittances. The World Bank; Icduygu, Ahmet, "Turkey and International Migration, 2004 - Sopemi Report For Turkey. Department of International Relations, Koç University, Gökdere, Ahmet, "An Evaluation Of Turkish Migration Towards End-1995."
Note: GNI= gross national income; WDI= World Development Indicators.

Comparisons of Overall Bank Support across the Three Countries

Three findings are highlighted in connection with country program strategies. First, Bank objectives targeted primarily areas with a bearing on employment (for example, MILES areas) rather than explicitly targeting employment outcomes. Second, although its impact is uncertain, the Bank's AAA was generally of good quality in terms of addressing the right employment issues competently, and was well appreciated by the three clients. Third, the Bank's proactivity and engagement on employment issues may not always have been well matched to country circumstances.

Bank Objectives. ***Although employment objectives have not been very explicit in Bank programs, most policies supported by the Bank in the three countries had some bearing on em-***

ployment. Bank strategies by and large focus on growth and poverty reduction as "grand objectives." References to employment or unemployment objectives are common, albeit often included only in passing. However, in these three countries, references to employment in Bank programs increased during the review period, reflecting the rising importance assigned to employment growth by authorities. Furthermore, the more concrete objectives generally included the policy areas with a bearing on employment, that is, the MILES areas.

This experience suggests that where employment issues are important, Bank strategies could better articulate how support in different areas will affect the full set of employment outcomes and poverty. Where employment issues are pivotal, country programs could articulate their impact on employment outcomes by indicating the links between their concrete intermediate outcome indicators and employment outcomes (that is, participation, employment, unemployment and earnings, as well as growth and poverty reduction). This will make employment objectives more tractable and credible, and employment impact more explicit or transparent. The rationale for this suggestion is that employment outcomes are the key channel through which country programs affect poverty, and poverty reduction is the Bank's overriding objective.

Country programs should be more concerned with the consistency of the policies supported that include shared employment objectives, than with any precise targets regarding these objectives. Bank strategy regarding employment and earnings growth is constrained by uncertainties in outcomes, country priorities, and political economy considerations. Bank programs typically aim at broad and general growth objectives and even broader employment objectives, primarily reflecting the similar generality observed in government programs. This is probably inevitable given the considerable uncertainties in outcomes. Moreover, the timing of support to policies to address the different MILES issues in a country's strategy is unlikely to be driven solely by employment/unemployment/earnings considerations, but will consider political economy constraints the country faces in all areas, *particularly* with regard to labor regulations and institutions.

The Bank's strategy and interventions were highly relevant in addressing key employment and earnings-related policy issues in the three countries. Bank support— through its AAA, TA, and lending operations— adapted to governments' changing priorities and generally addressed (or attempted to address) the most critical policy constraints. The Bank's ideas and its international perspective and experience mattered considerably. High quality AAA played a key role in establishing and maintaining the extent and depth of the Bank's access to senior policy makers.

In terms of the effectiveness of Bank inputs, the picture is mixed. Much has been achieved. In Colombia and Turkey, the Bank correctly identified macroeconomic instability and financial sector weaknesses as the key constraints to growth at the beginning of the review period. Both macroeconomic stability and financial sector soundness were restored partly as a result of Bank–supported policies. During the latter part of the period, the Bank's focus rightly shifted to improving the investment climate and was successful in supporting achievements in this area. Furthermore, the Bank provided AAA on labor market issues that proved useful in informing the debate on labor market policies in these two countries. The Bank's contribution to education was probably stronger in Colombia than in Turkey, both in terms of engagement and innovation. In both countries, the Bank was helpful in helping develop social protection (CCT and/or unemployment insurance) arrangements.

In Tunisia, macroeconomic and financial sector stability, which was already in place prior to the period under review, was sustained during this period, despite a challenging combination of shocks in the early 2000s. Sustained macroeconomic stability clearly contributed to growth and better outcomes. Partly as a result of Bank support, the government made further progress in the macroeconomic areas relating to export development and financial sector reform. The Bank was more focused on investment climate issues than in the other two countries and successfully supported the achievement of a more balanced playing field between the offshore and on-shore economies and the transformation of the ICT sector. The Bank also engaged with effectiveness in improving coverage of education. However, its engagement in improving social protection arrangements was limited.

Other goals remain elusive. The three countries did not resolve a number of constraints relating to MILES policies. For example, considerable remaining rigidities in the tax and expenditure systems exist in Colombia; governance problems in Tunisia, which constrained private investment, did not receive enough attention. Little or no improvement in labor flexibility or in reducing the taxation of labor while financing social insurance was achieved in Tunisia or Turkey, and progress in Colombia was modest. Minimum wages remained binding and possibly explain part of the informality and high unemployment rates in the three countries. There was not much progress in education quality in any of the three countries, with a particular concern regarding the quality of higher education in Tunisia. A broad-based financing of social insurance that eases payroll taxes and contributions while remaining fiscally prudent was not put in place. In Colombia, social safety nets were widened, albeit generating discernible fiscal pressures which cannot be resolved without addressing the considerable remaining rigidities in the tax and expenditure systems.

In summary, although rigorous "attribution" of results to Bank support is virtually impossible, the evidence in the country chapters suggests that most Bank activities made important contributions. Bank AAA is generally appreciated for its quality in the three countries. It appeared most critical in Tunisia, where the Bank is possibly the foremost provider of development knowledge products. The Bank's AAA covered all of the MILES areas. with regard to lending, Bank-supported fiscal adjustment operations contributed importantly to the restoration of fiscal stability in Colombia and Turkey.

However, some of the Bank's lending operations supported messy, "second-best" reforms. It was right to do so, but overpromised what could be achieved. In Colombia, fiscal adjustment operations promised more than could be delivered to eliminate structural rigidities given political economy constraints. Other specific examples include support for the reform of the public training system, for the Investment Stability Law in Colombia, for secondary education in Turkey, and for infrastructure in Tunisia. The Bank's involvement contributed to better outcomes in these areas even though the results were less than expected.

To improve effectiveness, the Bank could usefully strengthen its role as knowledge provider and engage more strongly with its clients on employment policy. For example, use of AAA in an anticipatory fashion can position the Bank to be ready with support, including policy-based lending, when circumstances change. This may be particularly relevant for work on labor regulations and institutions, as in Turkey. The Bank is in a strong position to strengthen its leadership regarding understanding of employment issues for a number of reasons. First, it has developed an integrative framework to identify constraints to employment. This framework allows the Bank to develop balanced views on policies affecting employment outcomes. Second, it has demonstrated a capacity, as in other areas, to bring research into operationally relevant policy implications. AAA is the key instrument to deal with some of the more sensitive policy issues with a bearing on employment outcomes. Third, its mandate of poverty reduction again claims strong attention to employment outcomes. Thus, the Bank contributed to a better understanding of employment issues in the three countries reviewed. It can do so in many other countries that would benefit from this knowledge, even if the benefit takes time to materialize.

Using AAA in an anticipatory fashion can position the Bank to be ready with support, including policy-based lending, when circumstances change. In the case of Turkey, Bank staff and management had a clear understanding in the late 1990s that the major constraint to the country's economic growth (and indirectly employment generation) was the existing macroeconomic instability. Despite some reluctance on the part of the government, the Bank continued to pursue macroeconomic and related structural reform issues as an important part of its AAA. When circumstances finally changed with the emergence of the political will to pursue stabilization and related objectives, the Bank was ready. After having invested patiently, and rather expensively, in AAA, the Bank was in an excellent position to respond quickly to government requests to support such economic reform, including assistance in the design of the government's macroeconomic and related structural reform program. In another case, dialogue at the technical level has been facilitated by staff working on labor markets. These staff also liaised effectively with former staff working in the country.

The conduct of AAA with substantive local involvement in the form of consultants and counterparts, although more time-consuming and administratively difficult, can be more effective in the longer term. In those efforts in Turkey where such involvement has been intensive, institution-building has occurred. Individuals involved go on and assume important policy-making roles. Promoting reform has yielded positive, and sometimes unforeseen, externalities.

Dissemination and engagement after an AAA report preparation needs to be adequately budgeted and anticipated. The inability of the Bank to effectively follow through can result in missed opportunities for supporting reform. A case in point for Turkey may have been with the Bank's excellent Investment Climate Assessment. A similar example may also be the recently completed Financial Sector Assessment. Along similar lines, facilitating the "Revolving Door Effect" for Bank staff and government officials (for example, facilitating secondments in the form of unpaid external leave for Bank staff to accept temporary, time-bound assignments in their national governments) can yield important dividends for economic reform and policy change. In the case of Turkey, the appointment of a Bank staff member as Minister of the Treasury in March 2001, just as the 2001 crisis was unfolding, had a major impact. The Bank-government relationship, already quite solid and productive since 1999, was further strengthened. The new Minister, who in the end exercised a major influence over the country's economic reforms, had from his own professional experience considerable confidence in the Bank's work. As a result, an ease in professional communication was quickly established. He relied upon Bank advice and technical assistance in the design of the ongoing reforms. This arrangement proved beneficial to the Bank, the government, and ultimately the country.

Technical excellence needs to be accompanied by a fuller appreciation of political economy considerations if consensus building for reform is to be attained. Regarding labor market regulations and institutions, there may be a need to broaden dialogue well beyond the circle of the Bank's normal interlocutors in the government. Sometimes agreement with these interlocutors is achieved, but policies are still not implemented because of impediments from interest groups elsewhere. Experience with the series of development policy loans supporting business climate improvements in Tunisia suggests that the reason reform measures were taken was not that they were DPL conditions; rather, prior agreement through dialogue was a necessary requirement for including the measures as loan conditions.

Proactivity and Engagement. ***The patient, resource-consuming, consensus-building efforts on policy issues requires strong engagement. This implies a permanent Bank presence in the country, which the three countries have.*** Relying on periodic missions often is not adequate, as demonstrated, for example by dialogue on education issues in Tunisia. In a number of policy areas and in economic dialogue generally, the beneficial presence of the Senior Country Economist resident in Tunis has already been felt. The Turkey and Tunisia cases show how a local Bank presence helped develop the relationships with these countries. It also shows instances where support that was occasional and scattered in time did not help develop the relationship.

Cooperation between the Bank and other international organizations can provide greater benefits to the recipient country than the sum of their individual contributions. In the case of Turkey, the World Bank Group, the IMF, the European Union, the OECD, the ILO, the United Nations Children's Fund (UNICEF) and other UN agencies have all contributed positively to Turkey's modernization, economic growth, and employment generation through different, but frequently related, dimensions of the MILES framework. In most instances cooperation has been fruitful, and the messages provided have been similar and consistent. The combined effect has been to reinforce the resolve of the Turkish Government to proceed with a reform agenda.

Similarities and Differences Across the Three Countries in Bank Support on the Specific MILES areas.

Key findings are summarized as follows:

- Bank support for *macroeconomic policies* contributed effectively to country efforts regarding stabilization and financial crisis resolution in Colombia and Turkey, and regarding trade and financial development in Tunisia. These efforts were the main force that helped restore GDP growth in the first two countries, and also contributed to sustaining higher growth in the third. Restored GDP growth increased the demand for labor resulting primarily in the documented higher earnings growth.

- Bank support for *investment climate* policies covered the three countries and contributed to improvements in specific policy areas that helped raise investment or total factor productivity in varying degrees.

- Support for *labor market regulations and institutions* has occurred primarily through AAA of good quality in terms of relevance and competence, but with somewhat uncertain and perhaps limited impact.

- Support for *education* contributed primarily to coverage, and supported the increased supply of skills needed to raise output and earnings growth.

- Support for social protection arrangements contributed successfully to CCT programs in Colombia, and less so to unemployment insurance programs.

Macroeconomic Policies. ***The three country cases attest to the close connection between macroeconomic policy and cyclical unemployment, with Colombia and Turkey experiencing simultaneous cyclical movements in both GDP growth and unemployment, and Tunisia experiencing stability in both.*** Growth in Colombia and Turkey during the review period would have been less were it not for the stabilization that brought both countries out of recession during the first half of the review period. Bank support for macroeconomic policies was most important for employment growth in Turkey and Colombia. In Turkey, macroeconomic policies that, on balance, enhanced growth included reduction of fiscal deficits through both tax and expenditure measures that involved important structural reforms in the financial system, pensions, privatization and agriculture. Although initial stabilization efforts failed, the IMF and Bank provided considerable support to the macroeconomic stabilization efforts that were ultimately successful with the exception of pension reforms. Similarly, the Bank assisted Colombia in its macroeconomic stabilization efforts with success in helping tax administration, but failing in its support to lessen fiscal rigidities. However, structural reform challenges to achieve stabilization were far more challenging in Turkey than in Colombia and, accordingly, the Bank's engagement in this area was correspondingly stronger in Turkey. In Tunisia, the Bank successfully helped in the area of trade facilitation and this may have contributed to better economic and employment outcomes.

An important finding in Turkey is that the impact of policies on economic growth was probably larger than the impact on employment growth. In Turkey, where the partial elasticity of employment with respect to growth has been estimated at around 0.5,[4] macroeconomic policies that on balance enhanced growth included reduction of fiscal deficits through both tax and expenditure measures that involved important structural reforms in the financial system, pensions, privatization and agriculture. A most visible manifestation of these policies was the reduction in inflation, which had been shown to have a positive impact on economic growth through the "Phillips Curve" mechanism, lower uncertainty, or the real exchange rate.[5] Moreover, the structural reforms that were required for stabilization may also have encouraged growth: privatization, through improved investment and TFP; reduced agricultural subsidies through improvements in resource allocation; strengthening of the financial system through improved access to finance; and monetary independence through reduced macroeconomic uncertainty.

However, although these policies may well have raised the rate of economic growth, not all need have increased employment growth. Specifically, the reduction in agricultural subsidies probably accelerated the rural-urban migration that has reduced labor participation and employment, particularly of women. In Colombia, the impact of policies on economic growth was also probably larger than the impact on employment growth. Indeed, employment growth has been contained by the adverse effect of higher minimum wages and labor taxes.

The experiences in Colombia and Turkey suggest that the Bank can usefully work with the IMF in advising countries on how to ensure fiscal prudence while using available policies and resources judiciously in terms of addressing varying employment challenges. This is likely to mean, on the one hand, relying largely on automatic stabilizers (allowing moderate deficits as revenue growth falters in recession and building treasury reserves during booms) rather than on discretionary changes in aggregate expenditure that have often been biased toward increased public expenditure and that risk remission into fiscal distress. On the other hand, discretion is likely to make more sense in expenditure allocation, with epochs of employment distress deserving more resources into unemployment insurance and CCT programs, and periods of employment booms allowing for more resources to be spent on public investment. The Bank can help in this area through its PERs, which are typically multi-sector tasks. The rationale for the suggestion to avoid expenditure expansions to any significant degree is illustrated by the experience of Colombia and Turkey, where the first half of the review period was one of recession and deteriorating employment outcomes originating in declining confidence from an unsustainable fiscal stance (further undermined by deteriorating security in Colombia).

In Turkey, the IMF and Bank provided considerable and mostly successful support to the macroeconomic stabilization efforts. One reason for the success of the Bank's assistance in supporting Turkey's macroeconomic stabilization efforts was its readiness to help, including its preparedness to tackle the different issues and its building of confidence, dialogue, and partnership with the authorities. The Bank has a long-standing history of monitoring and analyzing macroeconomic conditions in Turkey in considerable depth. The substance of the Bank's AAA work that was particularly relevant for its support during the review period is reflected in several Bank reports (particularly 1993, 1996, 2000a, and 2003a),. These reports cover fiscal and debt sustainability, privatization, financial sector strengthening, pensions, and agricultural subsidies, and the major issues surrounding macroeconomic stability. They monitored evolving policy, analyzed the key fiscal balance and related structural reform issues, and provided policy recommendations.

With this knowledge, the policy dialogue and the partnership that had continued during the 1990s particularly in the education sector, the Bank was ready to help when the time was right for macroeconomic adjustment. It is only natural that as growth collapsed in the late 1990s and early 2000s, the Turkish government had a strong incentive to reform and to seek the support of the Bank and the IMF in identifying, designing and implementing the required reforms.

Regarding lending support, the Economic Reform Loan (ERL, FY00) contained, apart from its strictly macroeconomic (and financial sector) areas, elements related to privatization, the reduction of agricultural subsidies and deregulation of the energy sector. Subsequent lending for agriculture (the Agricultural Reform Investment Project [ARIP]) provided resources for severance payments in agricultural state–owned enterprises as part of their privatization or closure and the further reduction of agricultural subsidies. An early credit line project (EFIL, FY2000) concentrated on the provision of medium–term credit to exporting firms at a time of tight credit and crisis in 2001. Successor credit line lending operations, also evaluated positively in ICRs, extended this framework in an attempt to reach SMEs. At the same time, several projects were pursued in the electrical energy sector. In 2007, the first Competitiveness and Employment Development Policy Loan (CEDPL) was approved. In addition to maintaining the macroeconomic policy framework, it supported various measures to improve the investment climate.

In justifying its rating of outcomes from country assistance to Turkey in the area of Macroeconomic Stability ("moderately satisfactory"), IEG 's 1993-04 Country Assistance Evaluation (CAE) assessed the outcomes as follows:

> Substantial growth with declining inflation and rising primary surplus after 2001, following years of volatility and three financial crises. Most extra budgetary funds eliminated and fiscal controls streamlined.,,,,, Large SOE losses converted to modest surpluses; agricultural subsidies substantially reduced and made less distorting; and scope for financing of off-budget subsidies by state-owned banks sharply curtailed, all contributing to sustainable fiscal ***improvement***." but,…pension system deficits have risen rapidly, offsetting much of this gain….[6]

But even in the case of pensions, the Turkey CAE attributed to the Bank a positive contribution, indicating its support for measures that "if not enacted would have meant a still larger deficit today"[7].

Similarly, the Bank assisted Colombia in its macroeconomic stabilization efforts with success in improving tax administration. However, the structural reform challenges to stabilize the economy were far more challenging in Turkey than in Colombia. Accordingly, the Bank's engagement in this area was correspondingly stronger.

The Bank was involved in trade primarily through AAA in the three countries. The Bank has, of course, recommended trade opening normally on a neutral basis, but a trade opening in the three countries as in most of the world has been on a preferential basis. Increased trade is important for employment as it may have raised the relative demand for skilled labor as occurred during the 1980s.[8] It may also have accounted for some of the unemployment that occurred as economies restructured.

As the experience with Colombia shows, outcomes will depend on how supportive the political economy and institutional conditions are. These need to be factored in when assessing the macroeconomic reforms to be supported. In Colombia, the considerable amount of expenditure mandates and earmarking of public revenues were institutional conditions that impeded the stronger fiscal adjustment that the Bank was expecting.

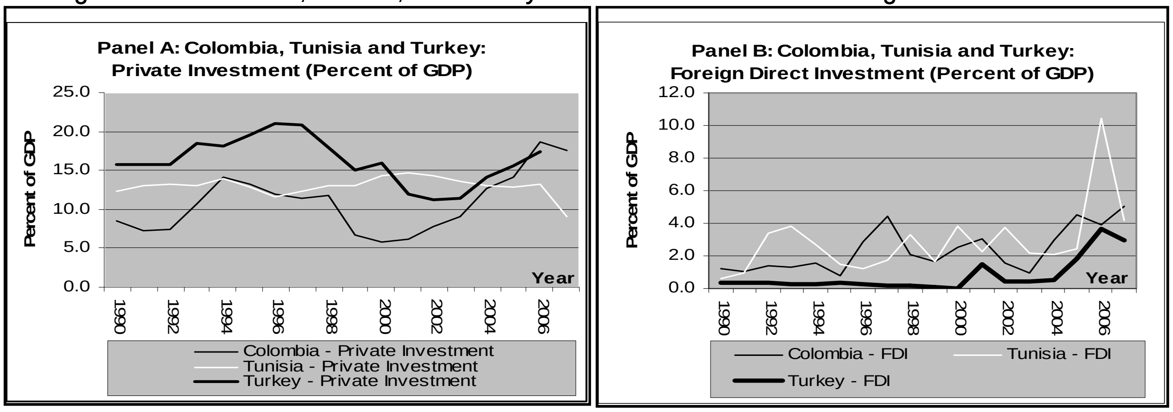
In the spirit of the MILES framework, the experience of the three countries suggests that Bank work on employment issues needs be more closely integrated with macroeconomic work and social safety net policies. An important area covers the implications of trade for employment. During the recessions of the turn of the century, the demand for imports declined in Colombia but continued increasing in Turkey, as trade liberalization proceeded there. Sluggish world demand for exports was one source of declining growth. Some attribute at least part of the unemployment increases that these economies suffered to trade. Indeed, some of those increases may have responded to lower exports or higher imports.

These economies remained open, letting resource reallocation across sectors work itself out instead of reacting with higher protection. This may indeed be a reasonable approach in that it avoids higher import tariffs and controls that may be difficult to reverse and that hurt consumers. What was (and is) missing at the time was a social safety system that could provide relief to the unemployed. In this regard, the three countries do not yet have satisfactory unemployment insurance systems in place. Indeed, they demonstrated that setting up these systems face considerable financial and design challenges. The current crisis may provide an opportunity for reform in this area aimed at a sharper targeting of social assistance that takes into account the more limited resources that will become available.

Investment Climate. The Bank's support for macroeconomic and financial sector stabilization was perhaps its most important contribution in improving the investment climate, as it was macroeconomic stabilization that really made the difference for investment and growth. The second area where the World Bank Group has had the greatest impact in improving the investment climate has been with various features of the business legal and regulatory environment. In Turkey, the FIAS reports and engagement in the early part of the review period were of high quality and had a major impact. The successful engagement on the part of FIAS with the government resulted in a close working collaboration in the drafting and passage of the Foreign Investment Law of 2003. This law eliminated the legal discrimination against foreign-owned firms operating in Turkey. It reduced the top corporate income tax rate from 30 percent to 20 percent, and helped with the establishment of governmental institutions to more effectively pursue private sector investment promotion and to improve the business enabling environment. These regulatory and policy changes, attributed in large part to FIAS initiatives and subsequent engagement, have been partly responsible for the expansion of private sector investment in general and foreign direct investment in particular. The FIAS engagement also resulted in a number of institutional changes including the establishment of a Coordination Council for the Improvement of the Investment Environment (YOIKK), which involves active private and government collaboration on investment climate issues.

In Tunisia, private investment was relatively stable when compared with Colombia and Turkey, where the crises of the turn of the century led to a major decline in the ratio of investment to GDP (Figure N.4 This ratio declined until after the time when the recessions bottomed out in Colombia and Turkey, and then recovered significantly, even surpassing the prior maximum ratio in Colombia. The cyclical behavior of private investment in Colombia and Turkey and the relative macroeconomic stability in Tunisia reflect the major role of macroeconomic conditions in determining private decisions to invest, although a deterioration of security may also have played an important role in diminishing investment around the turn of the century in Colombia.[9] No progress was achieved in raising Tunisia's low private investment/GDP ratio, possibly due to concerns with public governance. Foreign direct investment behaved more erratically, but displayed a clear upward trend towards the end of the review period in the three countries, reflecting both buoyant international capital markets as well as a strong domestic recovery.

Figure N.4 Colombia, Tunisia, and Turkey: Private Investment and Foreign Direct Investment



Sources: Private Investment: Colombia: 1990-96: Rubio M.,Orlando; Ojeda J., Jair and Montes , Enrique, "Deuda Externa, Inversión Y Crecimiento En Colombia, 1970 – 2002", Banco de la Republica, 2003,. Por: U.1, 3 de Diciembre de 2003, Grafico 2, p.6, 8. 1997-07: IMF Article IV Consultation Reports; Tunisia: 1990-01: Staff estimates from Anos Casero, Paloma and Varoudakis, Aristome, "Private Investment and the Cost of Doing Business in Tunisia", The World Bank, Middle East and North Africa Working Paper No. 34 , 2004, Figure 10; 2002-2006: Country Assistance Strategy Progress Report FY05-08", The World Bank, 2005, Table 1, p. 2. ; 2007: The World Bank, "Tunisia's Global Integration: Second Generation of Reforms to Boost Growth and Employment, Social and Economic Development Sector Unit Middle East and North Africa Region, The World Bank, Draft Report No. 40129-TN, May 2008;, p. 45. Turkey: Turkish Statistical Institute, Statistical Indicators, < http://www.turkstat.gov.tr/Start.do>
FDI: The World Bank: World Development Indicators, except Tunisia and Turkey for 2007 (IMF).
Note: FDI= foreign direct investment; GDP= gross domestic product.

Stabilization in Colombia and Turkey, improved security in Colombia, and the prospect of EU accession in Turkey helped them to recover in terms of investment performance. Bank support for macroeconomic stability is a key factor of its support for the investment climate. Accordingly, the experience of the three countries suggests that macroeconomic stabilization is the "low hanging fruit" in accelerating private investment, and was probably more important than simplification of business regulations. It was critical in Colombia and Turkey in order to redress investment and growth. In addition, prospects of joining the EU may also explain the rise in private investment in Turkey after 2003. The Tunisia case exemplifies how macroeconomic stability, not surprisingly, also helps stabilize investment. The Colombia case captures the effect of both stabilization and enhanced security. It confirms that support to adjustment lending in Colombia at the time, despite its failings, had a measure of success in helping the country recover.

Policies in the areas normally covered by investment climate analyses also improved. Successful reforms supported by the Bank include legislation providing for insurance against changes in most laws and regulations in Colombia, and legislation removing discrimination against foreign investment in Turkey. These improvements may have contributed more to total factor productivity growth than to the investment-to-GDP ratios.

Given the close relationship between investment and growth, it would be worthwhile for the PREM and PSD networks to work more closely together to better integrate macroeconomic and microeconomic approaches to growth. Although macroeconomic changes probably explain increases in investment in Colombia and Turkey, improvements in the restricted business climate variables (that is, excluding macroeconomic and trade) may have been primarily reflected in increased productivity, rather than captured by aggregate private investment. Some of the increases in TFP observed in the three countries toward the second half of the review period may be due to better product market regulations. Furthermore, the Bank can strengthen its diagnostic work by following IEG recommendations on the Doing Business indicators, particularly with regard to tracing the impact of reforms and using more of the available analyses to choose indicators.

The topics covered by investment climate analyses are captured in the Bank's Doing Business surveys.[10] Some of these – for example, employing workers – overlap with other MILES categories discussed elsewhere in this report. These variables have been shown to have an impact on productivity.[11] Taking all of the conditions together, Turkey (43) ranked above Tunisia (68), and Tunisia above Colombia (91) in the 2008 survey, reflecting conditions at the end of the review period. Ranks are not available for earlier years, but a look at the bulk of the individual components of the survey suggests that this order was preserved since the first year of the survey (2003).

Comparing the 2008 with the 2009 survey, the three countries seem to be making some progress in the ease of doing business index, with most progress in Colombia, followed by Tunisia and then Turkey, suggesting a pattern of convergence. In the survey, progress appears in a few categories: (i) starting a business, paying taxes, and trade in Colombia; (ii) starting a business, registering property, getting credit, and trade in Tunisia; and (iii) starting a business, getting credit, paying taxes and closing a business in Turkey. A more detailed review identifies progress as follows:

Colombia. Progress was evidenced by the reduction in the time and cost of administrative procedures faced by businesses, enactment of legislation that provides for insurance against changes in most laws and regulations; unification of banking supervision; and improvement in the framework for private sector participation in infrastructure. Bank support included AAA on competitiveness and impediments in particular sectors, and three DPLs covering five policy areas (business environment, foreign trade competitiveness, financial system and capital markets, quality standards and technological innovation, and infrastructure and logistics). Chapter 2 concludes that this support addressed most of the critical investment climate issues identified as critical, with the exception of labor informality. Feedback from stakeholders indicated that the Bank's work was positive, albeit not proactive enough.

Tunisia. Progress was evidenced by a reduction of the gap between the treatments of the onshore and offshore economies, a reduction of unfair competition from the informal sector and discriminatory application of regulation, a strengthening of the soundness of the financial system, and development of the ICT sector. However, private investment (Figure N.4 appears to have been impervious to these changes, a result that may reflect the lack of predictability and transparency of the regulatory framework, limited market contestability, undue discretion by the government, and weak voice and participation. Bank support included AAA (a private sector assessment, an investment climate assessment, a Financial Sector Assessment Program (FSAP), a Private Sector in Infrastructure (PPI) strategy paper, and a recent report addressing the on-shore and offshore gaps), and three adjustment loans. The feedback from stakeholders indicates that the AAA, more than the loans, has been the critical Bank support that helped with reforms, except in infrastructure, where early government enthusiasm waned in the face of internal rivalries.

Turkey. Progress was evidenced by the elimination of discrimination against foreign investment, which very likely helps explain, together with macroeconomic stabilization and the prospect of accession to the EU, the amount of net foreign direct investment flowing into Turkey increasing from 0.4 percent of GDP in 2003 to 3.6 percent of GDP in 2006. The Bank's AAA on investment climate issues has involved a number of infrastructure sector analyses and studies (including for electric energy, gas and oil, and water), a series of FIAS reports (starting in FY2000) focusing on the treatment and role of foreign direct investment, the private sector regulatory environment, tax issues for private sector development and investment promotion, and the recently divulged *Investment Climate Assessment* (2007). The Bank's advice in connection with the structural reforms underpinning macroeconomic stabilization, including the strengthening of the financial sector and privatization of SOEs, had positive effects on the investment climate. Similarly, its advice on product market regulations helped Turkey relax some of those regulations.

Labor Regulations and Institutions. The Bank's analytical work on labor market issues in the three countries has been of high quality. It has provided convincing, evidence-based analysis. It conducted in close collaboration with local researchers and/or stakeholders, and focused on key elements of the domestic policy debate, and identifying reform priorities. The analysis also took account of the interaction between policies in different areas (that is, it often effectively applied, to a varying extent, a broad framework similar to MILES). It addressed the two key components of the gap between the demand price and the supply price for labor that discourage employment: the rigidity of labor contract regulations, which creates a cost expectation to businesses, and payroll taxes and contributions. For example, Box N.1 discusses non-wage costs in Colombia and highlights the Bank's contribution. The Bank's work on labor taxes and contributions has been closely linked to its work on the social services that these contributions finance. The Bank has also paid considerable attention to the impact of minimum wages. The case study of Colombia provides an important example of how a rising minimum wage encouraged informal employment as well as disparities between formal and informal sector wages.

Table N.4 Colombia, Tunisia, Turkey, France, and Singapore: Labor Market Rigidity

		Percent Change in Labor Flexibility Indicator (+ means more flexible)				
Country	*Average Labor Flexibility (percent of Singapore's)*	*World Economic Forum 1996–2007*	*Heritage Foundation 2005–08*	*Doing Business Report 2003–08*	*International Institute for Management Development 1995–2007*	*Fraser Institute 1995–2006*
Colombia	58.5	0.3	1.8	0.1	8.3	14.6
Tunisia	47.0	0.1	-1.9	0.0	n.d.	9.6
Turkey	62.2	-0.3	-4.4	0.0	-41.4	-28.8
France	25.2	-0.1	-16.4	0.0	-44.6	28.0
Singapore	100.0	0.1	-0.1	0.0	-3.2	10.3

Sources: Staff estimates with data from the World Economic Forum, the Heritage Foundation, the World Bank's Doing Business Report, International Institute for Management Development and the Fraser Institute. Note: It should be underscored that these indicators are measures of flexibility in employment regulations but do not capture other key dimensions of employment policies, such as the worker protection measures also covered by this report.
Note: n.d.= no data.

A key feature of this AAA work is that it has been delinked from lending. This is not surprising given the sensitivity of labor policy issues. For example, in the one instance of explicit lending support for labor reform (Colombia, see Box N.2), support was not based on Bank advice, even though Bank AAA had provided contributions of high quality to the understanding of labor market issues. The sensitivity of labor market issues suggests that Bank support should not necessarily be linked to lending, and that AAA may be a preferred mode of assistance.

Independent exercises, such as the study of Tunisia's integration into the global market and the first employment strategy report, were highly appreciated by the government. Likewise, the study on Turkey's Labor Market was also highly appreciated by the government. Indeed, avoiding automatic links with the lending program and its frequently demanding timetables offers greater opportunity for consensus building. The Bank's AAA work, to the extent that is expands knowledge, is likely to have an impact on policy when the time is right. Such was the case of the AAA that the Bank did on labor market issues before the 2008 labor reform initiative that Turkey implemented.

Government receptivity towards Bank work on labor issues varied across the three countries, with less receptivity in Tunisia than in Colombia or Turkey. A number of the interviewees in Colombia actually suggested that the Bank should be less timid in advancing its views on some critical, but politically sensitive, issues (especially high payroll costs). In particular, many (although not all) thought that the Bank should use its 'convening' power more proactively to influence the policy debate on these critical issues.

Box N.1 High Non-Wage Costs in Colombia: Causes and Consequences

Colombia has among the highest levels of non-wage costs in Latin America. They include payroll tax contributions used to finance health insurance (including transfers to the subsidized, non-contributory regime), pensions, and severance funds. In addition, three sets of taxes (*parafiscales*) fund the operations of special organizations at a cost of 8 percent of payrolls: training (SENA), child and family welfare services, and workers clubs (*Cajas de Compensacion Familiar*, CCF). Total non-wage costs averaged about 55 percent of the wage bill, compared with 35 percent in the mid-1980s. Most of this increase occurred as a result of higher payroll charges introduced in 1993 (Law 100) as part of a reform of the systems of social security for health and pensions. The reform introduced contributory and subsidized regimes for health insurance.

Payroll taxes should not affect employment if they are passed on completely to workers as lower wages. This is more likely to occur if the workers' valuation of the services financed by the taxes coincide with their cost (and if minimum wages are not binding). In practice, however, empirical evidence from Latin America and elsewhere indicates that high rates of payroll taxation discourage formal sector employment and contribute to higher levels of informality by influencing both labor demand and supply (see, for example, Perry et. al., 2007). Evidence for Colombia supports similar conclusions:

- Kugler and Kugler (2003) estimate that the increase in payroll charges of about 10 percentage points in the early 1990s dampened demand for formal sector workers and led to a decline in formal employment of about 4-5 percent during the period. Only about one–fifth of the higher taxes were shifted to workers as lower wages, likely reflecting the weak linkages between the taxes and benefits and the presence of downward wage rigidities (most notably the minimum wage).

- Bernal and Cardenas (2004) estimate a relatively high cost of elasticity of labor demand and conclude that non-wage costs were responsible for much of the rise in unemployment in the 1990s.

- Studies undertaken for the World Bank (2005a) and a report on labor adjustment in Colombia estimated the impact of the higher non-wage charges on labor demand and on participation rates. The analysis found that the net effect was to raise unemployment by between 1 and 1.8 percentage points, depending on the estimates of the elasticity of labor demand. The study also finds that shifts in the relative sizes of formal/informal employment are co-integrated with non-wage costs, confirming the major role that these costs have played in the segmentation of Colombia's labor markets.

Bank work on labor regulations and institutions in the three countries has addressed the two key components of the wedge between the demand price and the supply for labor, namely, the rigidity of labor contract regulations which creates a cost expectation to businesses and payroll taxes and contributions. The Bank's work on contributions has been closely linked to its work on the social services financed by these contributions. In addition, the work on payroll or income taxes that help finance the general budget has been addressed more in the context of fiscal and tax policy.

Box N.2 The 2002 Labor Reform and Evidence on its Effects

Colombia has historically had strict regulations regarding the work week, overtime wages, severance payments, and job security. Such regulations may act as a disincentive to job creation in the formal sector. The 2002 labor reform (Law 789 of 2002) introduced a series of measures designed to encourage formal sector employment by creating greater flexibility in labor contracts and bringing down firing costs. It also introduced incentives for employment of vulnerable groups and initiated an unemployment insurance scheme. Key measures included:

1. **Increased flexibility of labor contracts.** Restrictions on the length of the work day and work week were relaxed, making it easier to hire for peak periods and to use multiple shifts. Mandatory overtime charges for nighttime, Sunday, and holiday work were slightly reduced. Severance payments for unilateral dismissal were lowered. Apprenticeship contracts were made much more flexible, allowing easier dismissal and remuneration below minimum wage during the training phases.

2. **Incentives for employment of disadvantaged groups.** Firms employing groups (for example, poor heads of households, workers between the ages of 16 and 25 or over 50 years of age, and ex-guerillas) were exempt from *parafiscales* payroll charges.

3. An **unemployment insurance** scheme was introduced, financed by a redirection of 1 percentage point of the *parafiscales* charges managed by the CCFs (see Box 3.1). A small proportion of the resources were to go to the unemployed without a previous contribution record (that is, informal workers).

Research in Colombia, including background studies conducted for World Bank (2005a), mostly agree that it had a moderately positive impact on employment generation, especially for the young. It reduced underemployment informality, although it is hard to disentangle the impact from other factors such as the security situation.

- Using estimates of employment elasticity with respect to quarterly GDP growth before and after the reforms, Lopez et al (2004) conclude that employment was 3.4 percent higher in 2004 (a net increase of 260,000 jobs) because of the reforms, with a shift from informal to formal employment.

- Nunez (2004) estimates the impact of the increased flexibility of labor contracts by comparing movements between unemployment and employment in the formal sector (where flexibility was improved by the law) with similar movement in and out of the informal sector. He concludes that increased flows out of unemployment into the formal sector did reduce the duration of unemployment spells, with the biggest effect on younger and less-qualified workers.

- In a survey of firms conducted by the Ministry of Social Protection, among the 27 percent of firms that increased employment in 2003, only 4.5 percent cited the labor reform as a determinant (World Bank, 2005). More flexible regulations for work schedules and reduced overtime charges were most frequently cited as positively influencing firms' job-creation decisions.

- Gaviria (2004) compares employment trends in the commercial and service sectors with those in manufacturing (assumed to be unaffected by the labor reforms). Finding little difference in employment growth across the sectors, he concludes the reforms had little impact. However, the use of manufacturing as a control group may not be justified, since it could also have been affected by the reforms.

Less rigid regulations and lower taxes and contributions are of course expected to encourage employment, particularly in the formal sector, although the size of the effect is rather uncertain. However, lower contributions may also create further imbalances in the financing of social protection arrangements that are often too generous in terms of the resources available, and that need to be covered by the general budget. It is often thought that to the extent that they are covered by the general budget, their effect on the labor market would be less.

Recent Bank work in Turkey estimated a modest elasticity of employment to taxes, albeit high by international standards. The effect was larger for low– than for high–income levels and for conditions of relatively higher unemployment.[12] Several studies for Colombia also point to non-negligible impacts of non-wage costs on employment and the unemployment rate.

However, moving towards less rigid regulations or lower contributions is rarely an objective that countries pursue on any sustained basis. The idea of making contracts more flexible is controversial and politically sensitive. Further, reducing taxes faces either fiscal constraints or reductions in government services that are not easy to reach consensus upon. Available data (Table N.4 suggests that regulations may have become more rigid in Turkey and changed little in Colombia and Tunisia, although measuring rigidity of labor markets is not easy and available indices are sometimes contradictory.[13] Most countries have tended to increase labor taxes, and Turkey and Colombia have been no exceptions.[14] In Colombia, the Bank reported that the tax wedge Colombia increased from 47 percent of the payroll in the 1980s to 60 percent in 2004, particularly through reforms in 1993 and 2002. There was a net decline during the review period, as the 2002 reform added 1 point to cover unemployment insurance and 2 points for pensions but reduced by severance payments on unjust dismissals by about seven points.[15] For Turkey, the OECD reports an increase of about 2.6 percent of wages, from 40.4 percent to 42.8 percent, between 2000 and 2004.[16] Tunisia had no changes in labor taxation, reported at 28 percent by the Bank,[17] during the review period. The 2009 Doing Business Report estimates of labor taxation, which are comparable across countries (albeit different from those cited above) indicate that Colombia's labor taxation (33.4 percent) is considerable higher than Tunisia's (24.6 percent) or Turkey's (24.5 percent).

The Bank can help improve labor market performance by continuing and extending AAA on labor markets as the main mode of support. This will take advantage of the Bank's capacity for labor market analysis, and lower the risks of undermining reform that often come with the difficult political economy of labor reform. In particular, the Bank can help improve and extend (perhaps in partnership with the OECD and the Bank's Doing Business report) estimates and cross-country comparisons of labor rigidities and labor taxes. It can also further the understanding of low female participation and employment rate in countries such as Tunisia and Turkey. The dialogue, dissemination, and advice part of AAA, although difficult, can make this instrument more effective— although there are always risks such as the weakened dialogue on the matter in Tunisia.

Measuring rigidity of labor markets is not easy and available indices are sometimes contradictory.[18] There are today a number of indicators (Table N.4 that provide a better idea of cross-country comparisons and time dynamics, one of which is the "Rigidity of Employment Index" calculated for the Bank's Doing Business Report. When compared with other countries, labor rigidities in Colombia, Tunisia and Turkey are well within the range defined by France (most rigid) and Singapore (least rigid), with Tunisia's degree of rigidity higher than Colombia's and Turkey's, which are similar. The World Economic Forum surveys confirm this ranking to some extent, in that the share of businesses that regard labor regulations as most problematic is higher in Tunisia (13.9 percent) than in Colombia (8.4 percent). However, it is also much lower in Turkey (2.4 percent), suggesting that the rigidity "in the books" in Turkey may overstate the rigidity in practice more than in Colombia.

The increased rigidity indicated for Turkey for the review period is even more worrying given that, already in the late 1990s, Turkey had one of the most rigid labor legislations in the world. Relaxing regulatory rigidities would help reduce unemployment in Tunisia, although it would not resolve the skill mismatch that also contributes to it.[19]

Current conditions of rising unemployment provide the Bank with an opportunity to engage with governments on labor reform, as has occurred in Colombia and Turkey. Unemployment conditions provide an opportunity for reform that improve flexibility and reduce labor costs. Not only is the potential employment effect larger under these conditions than under conditions of boom, the potential would appear to be especially strong for the poor, as suggested by the more recent work on employment elasticities. Furthermore, the political economy for such reforms is also supportive, as the experience of Colombia suggests. Finally, given appropriate constraints imposed by fiscal balance, labor tax reductions would appear to be a sensible countercyclical policy. Accordingly, the current financial crisis is a good time to make labor contracts more flexible and to reduce the non-wage component of labor costs. The Bank is in a good position to provide advisory support to these efforts.

Education. Education is of course expected to have a positive impact on participation and earnings, particularly by women. In the short run, increased education coverage may reduce participation and earnings as more youth leave the labor market to get schooling. In the long run, increased coverage increases participation and earnings as the educated get access to better employment options.

Key standard aims of education policies in most if not all countries have been to increase coverage, technical quality, and adaptability to the labor market. This has been the case as well in the three countries reviewed. To achieve these aims, and in addition to higher expenditures, policies in Colombia combined decentralization of expenditures, programs to target hard-to-reach populations, changes in curricula aimed at improving below-average quality of education, and expansion of non-formal training in an effort to improve the relevance of courses. Policies in Tunisia aimed at increasing coverage and reducing gender gaps. In Turkey, the key policy was to expanded coverage by extending mandatory schooling from five to eight years. Progress is summarized as follows (Table N.5

- Based on increases in average years of schooling for the population 15 years and older, progress during the last decade has been fastest in Tunisia, followed by Turkey.

- Net enrollment in primary education did not change in Colombia during the evaluation period. It declined in Tunisia and more so in Turkey. Indeed, net enrollment had increased considerably in Colombia and Tunisia during the previous decade.
- Net enrollment in secondary education increased most in Turkey followed by Colombia.
- Gross enrollment in tertiary education increased most in Turkey, followed by Tunisia.
- Average years of education continued increasing during the decade under review, at a rate of about 0.1 percent per year in Colombia and Tunisia and 0.04 percent per year in Turkey. During the previous decade, years of education had increased faster in Turkey, at about the same rate in Tunisia, and more slowly in Colombia;
- Expected years of schooling today are somewhat higher in Tunisia, followed by Turkey.
- Improvements in test scores between the years 2003-06 suggest an increase in the quality of education during the period covered.
- However, the increase in the percentage of businesses that view the workforce as inadequately educated— particularly large in Turkey— suggests that increases in quality through education and training are not keeping pace with the changes in market requirements.

Table N.5 Colombia, Tunisia, and Turkey: Education Outcomes

Year	*Closest to 1985*	*Closest to 1997*	*Closest to 2007*
Colombia			
Net Enrollment – Primary: T,M,F (year) [a/]	65, n.d., n.d., (1985)	87, 87, 88 (1997)	87, 87, 87 (2007)
Net Enrollment -- Secondary: T,M,F (year)	34, n.d., n.d., (1991)	54, 50, 57 (1997)	67, 74 ,61 (2007)
Gross Enrollment – Tertiary : T,M,F (year)	14,14,14 (1991)	22,22,22 (1998)	31,30,32 (2006)
Average Years of Schooling T,M,F (year)	4.6 (1985)	5.0 (1995)	5.6 (2007)
Expected Schooling T,M,F (year)		11,11,11 (1998)	12,12,13 (2006)
PISA Test Score - Math: T,M,F (year)			370, 382, 370 (2006)
PISA Test Score - Reading: T,M,F (year)			385, 375, 394 (2006)
PISA Test Score - Science: T,M,F (year)			388, 393, 384 (2006)
Skills Mismatch		2.1 (2003)	2.4 (2007)
Tunisia			
Net Enrollment – Primary: T,M,F (year)	93,99,87 (1985)	98,100,97 (1997)	96,96,97 (2006)
Net Enrollment - Secondary : T,M,F (year)	23,28,17 (1980)	54,54,54 (1997)	64,61,68 (2003)
Gross Enrollment – Tertiary : T,M,F (year)	9,10,7 (1991)	17,17,17 (1999)	31,26,37 (2006)
Average Years of Schooling T,M,F (year)	3.3 (1985)	4.5 (1995)	5.0 (2000)
Expected Schooling T,M,F (year)		13,13,13 (1998)	14,13,14 (2006)
PISA Test Score – Math: T,M,F (year)		359, 365, 353 (2003)	365, 373, 358 (2006)
PISA Test Score - Reading: T,M,F (year)		375, 363, 387 (2003)	380, 361, 398 (2006)
PISA Test Score - Science: T,M,F (year)		385, 380, 390 (2003)	386, 383, 388 (2006)
Skills Mismatch		5.7 (2003)	7.5 (2006)
Turkey			
Net Enrollment – Primary: T,M,F (year)	98, n.d., n.d., (1985)	97,100, 94, (1996)	91,93,89 (2006)
Net Enrollment - Secondary : T,M,F (year)	36,n.d.,n.d., (1985)	51,59,43 (1996)	69,74,64 (2006)
Gross Enrollment – Tertiary : T,M,F (year)	13,16,9 (1991)	21,25,17 (1998)	35,39,30 (2006)
Average Years of Schooling T,M,F (year)	3.7 (1985)	5.1 (1995)	5.3 (2000)
Expected Schooling T,M,F (year)		13,13,13 (1998)	13,13,13 (2006)

PISA Test Score - Math: T,M,F (year)	423, 430, 415 (2003)	424, 427, 421 (2006)
PISA Test Score - Reading: T,M,F (year)	441, 431, 460 (2003)	447, 427, 471 (2006)
PISA Test Score - Science: T,M,F (year)	434, 438, 434 (2003)	424, 418, 430 (2006)
Skills Mismatch	1.1 (2003)	5.5 (2006)

Sources: [1/] Net Enrollment : The World Bank, Education Statistics
Average years of Schooling: Barro-Lee Data Set <http://www.cid.harvard.edu/ciddata/ciddata.html>; 2007 for Colombia: estimate based on National Planning Department Data.
Expected Schooling: The World Bank, World development Indicators.
PISA Test Scores: The World Bank, Education Statistics.
Skills Mismatch: World Economic Forum, Global Competitiveness Indicators, 2003-04 and 2007-08: Percent of business responses indicating "inadequately educated workforce" as a problematic factor for doing business.
Note :n.d.= no data ; PISA= program for International Student Assessment ; T,M,F: Total, Males, Females.

The Bank supported policies and expenditures to achieve the progress reflected in the results outlined above. Of Bank support in the three countries, support in Colombia, which included both AAA and project lending, was appreciated the most. This support helped improve quality, delivery of educational services in poor, hard-to-reach rural communities, develop a student loan scheme for formal higher education, set up information systems within the Ministry of Education, and improve the effectiveness of non-formal training. Nevertheless, from an evaluation perspective, some of these projects were not entirely satisfactory either because they did not fully meet the objectives they set out to accomplish or because the objectives were not clearly articulated.

The Bank's support in Turkey during the review period aimed at improving vocational training, helping Turkey to meet the OECD's educational standards, and expand its coverage and quality of basic education. IEG ICR reviews rated these projects less than fully satisfactory in varying degrees in that they did not entirely meet the objectives set forth, where the objectives were not clearly articulated, or where implementation, particularly of procurement, was difficult. AAA contributions have been of good quality and highlighted important policy issues directed at improving education of the poor. Among the three countries reviewed in this report, however, the education sector in Turkey has proved the most difficult sector for the Bank's work. Indeed, the Bank's impact has probably been more limited.

The Bank's support to Tunisia during the review period has focused on training to improve the fit of the labor force to labor opportunities, restructuring of higher education to improve its responsiveness to the country's needs, the need for coverage in anticipation of expected increases in enrollment, and quality issues to address the concern that large numbers of students fail to master basic skills. The projects have been rated satisfactory. However, the perceptions of stakeholders are that the Bank's support of higher education has not been sufficiently far-reaching, particularly in addressing issues of quality. As noted in Chapter 3, exceptionally high unemployment of university graduates must be at least in part be attributable to the poor quality and/or fit of university education to labor market needs. In the higher education sub-sector in Tunisia, the Bank's credibility has been damaged in the eyes of some observers because it has supported a rapid and quality–compromising expansion in physical university facilities without first insisting on critical policy changes to increase university autonomy and accountability.

IEGrecommends that the Bank continue focusing on advice and projects to improve coverage and quality. In looking at quality, perhaps more emphasis might be assigned to addressing skills mismatches, which are possibly behind much of the structural unemployment observed in these countries. Mismatches of skills between supply and demand are thought to be an important source of structural unemployment, triggered for example by sector restructuring in Turkey and poor technical quality and inadequate skills in Tunisia.

Structural unemployment is an area where little or no progress was made in any of the three countries. The data presented indicate that skill mismatches may be increasing. In this context, the Bank's education network could work more closely with the PSD network. The Bank could also usefully continue its pursuit of gender equality in education as the main lever that it has in supporting progress toward gender balance in labor participation.

Bank advice regarding education will continue to be an important priority as an instrument of policy advice and advocacy of good practice. Accordingly, it also will be a critical component of its employment support. The role of education policies on employment outcomes is widely acknowledged. At the very least, it is unlikely that the increased education coverage would have been the same without the allocation of public expenditures to education that is made possible by economic growth. However, improvements in technical quality remain an elusive objective that is difficult to evaluate due to the paucity of test scores that are comparable through time and the lack of data to assess the impact of increased coverage on average quality. Moreover, education is a challenging sector where satisfaction with outcomes for all stakeholders is difficult to achieve.

The three countries reviewed suggest better success in AAA than in project work. The Bank appears to do a good job in its AAA, despite the controversial nature of some of the issues in education management. However, governments often have difficulties or constraints in adopting some of the Bank's recommendations (for example, reallocating expenditures to teaching materials, cost recovery in tertiary education, and testing).

Closer and more integrated work between the Bank's PREM, PSD and Human Development networks would be advisable, as Bank support for growth is an ingredient in achieving good education outcomes. Progress in education outcomes in the three countries must be attributed in part to the economic growth that raised earnings, the demand for education, and the resources to finance education services. At the same time, improved education outcomes support output, if only through the role of human capital in the production function, and worker earnings. This simultaneity calls for strategies that account for the interactions between the two objectives, specifically for strategies that are cost-effective in financing education.

Social Protection. Social protection policies may have an impact on employment when they achieve worker protection that can substitute for job protection— thereby facilitating labor flexibility and mobility. Indeed, there is some evidence of this trade–off in international comparisons,[20] albeit separating countries in the Anglo-American tradition, where social protection "buys" more labor flexibility, from those in the European tradition. The key social protection instrument to substitute for job protection is unemployment insurance. However, old age and health insurance, and cash transfer systems will also be relevant. There was little movement in this direction during the review period. In Turkey, job protection was strengthened and an unemployment insurance system was introduced in August 1999 (and started paying benefits in 2002), as well as a CCT arrangement, together with pension reform. In Tunisia, there was no change in either. Colombia provides the richer experience as some relaxation of worker protection and a strengthening of a conditional cash transfer system took place.

Bank support in the three countries addressed different issues. In Turkey, which has a three tier social insurance system comprised of pension, health and unemployment insurance (including both formal unemployment insurance and mandatory severance payments), the Bank recommended measures to: (i) improve the financial viability of the pension system; (ii) develop a system that finances and purchases a basic health package from a pluralistic provider market; iii) eliminate mandatory severance in view of the presence of unemployment insurance; and iv) introduce unemployment benefit rates that decline with unemployment duration to encourage job search.[21] In Colombia, the Bank played a strong role, together with the IADB, as a catalyst of the conditional cash transfer program. In Tunisia, the Bank recommended introduction of employment insurance with a view to encouraging greater labor mobility.

Strategies for dealing with the long-term fiscal costs of expanding social protection networks need to be built into the program design from the outset. The Bank (and IADB) helped to improve the design and finance the implementation of the main conditional cash transfer program, *Familias en Accion*, which has had a positive impact on a range of social outcomes. However, the program is growing rapidly, well beyond its original role as a temporary response to alleviate the social consequences of the 1999 crisis. The Bank could perhaps have given more attention earlier to the longer-term fiscal implications of the program, including how it would be financed when external financing was no longer available.

The difficult problems of extending social protection have led to establishing partial and imperfect systems that are unlikely to fit the bill from the perspective of delinking worker protection from job protection. The Bank needs to continue working on implementing worker protection instead of job protection. This has not been easy, as the Colombian and Turkish experiences demonstrate. The key constraints— affordability and a correct incentive structure— need to compatible. Efforts in this area should also factor in the informal sector, as an affordable and efficient unemployment insurance system may help encourage formality.

Reducing the labor participation of children is an objective that needs joint Bank work by education and social protection staff. Children are often taken out of school when families are subject to economic shocks. In Colombia, there is a clear drop in enrollment rates, except for the preschool level. In the rather limited literature on the subject, recession leads to a drop in school attendance.[22] Moreover, it has been shown that conditional cash transfers can ameliorate this impact.[23] The Bank has considerable experience in cash transfer programs and, in the present financial crisis, can help governments reduce the impact of the shock on school attendance.

The Current World Employment Crisis

As world GDP growth declined sharply as a result of the solvency and credit crises in world financial markets during 2008-09, unemployment rates increased and employment and earnings growth declined. In its 2009 Global Employment Trends Report, the ILO estimated that world unemployment would increase from 5.7 percent in 2007 and 6.0 percent in 2008, and to within 6.1 percent and 7.1 percent by the end of 2009.[24] Using the ILO "Scenario 2" projection, where the "negative impact on unemployment is taken in each country at the time of the largest year-on-year drop in GDP," and the IMF November 2008 GDP growth projections (2.2 percent in 2009), the unemployment rate would have reached 6.5 percent by the end of 2009, resulting in an increase of 31 million unemployed compared to 2007. Increases in world unemployment may have been even higher (to 6.8 percent) under the most recent (October 2009) IMF growth projections for 2009 of minus 1.1 percent.[25]

The largest increases in the unemployment rate are probably occurring in developed economies, Central and South Eastern Europe (non-EU) and the Commonwealth of Independent States (CIS), and Latin America and the Caribbean. The employment-to-population ratio, which had been recovering since 2004, already declined by 0.2 percentage points in 2008 and possibly declined further in 2009. With declining output growth, earnings growth is projected to raise $2-a-day poverty rates by up to 5 percentage points between 2007 and 2009.[26] All of these projections are of course quite fluid and likely to change significantly. Although world GDP growth started to recover, with an IMF October 2009 projection of 3.1 for 2010, unemployment effects are likely to linger. The major economies responded to the crisis primarily by increasing public expenditure (bailouts, and spending on infrastructure, education, health) and lowering interest rates, with the expectation that these measures will rekindle growth in late 2009 or 2010. The United States is also raising its low unemployment benefits. Many European countries are subsidizing part-time employment, with the UK, for example, subsidizing hiring and training. Middle-income economies are reacting in various ways. Performance and policy response in the three economies covered by this report provide a sample of the challenges being faced:

- In Colombia, the Government (Central Bank/DNP) estimates that growth declined to 2.5 percent in 2008 and was 0.0 percent in 2009, down from 6.9 percent and 7.5 percent respectively in 2006 and 2007. Average annual (past 12 months) urban unemployment increased steadily from 10.4 percent in May 2008 to 11.6 percent in July 2009. Colombia's response to the crisis includes countercyclical fiscal policies with some tax reduction, and expenditures on infrastructure and business subsidies, increased access to international financing, expanded business finance, training and employment services, and conditional cash transfers. The Bank is supporting the CCT program, as well as the private sector efficiency and competitiveness programs.
- In Tunisia, the unemployment rate had remained stable at just over 14% in 2008. As in Colombia and Turkey, both fiscal and monetary policies are expansionary at this point. Macroeconomic/investment climate policies are designed in part to combat the possible adverse impact of recession in Europe and target enhancements in global integration, business climate, and financial sector. The Bank is supporting these policies.
- In Turkey, growth is estimated to decline to 0.9 percent in 2008, and a further 8.0 percent in 2009, from 6.9 percent and 4.7 percent respectively in 2006 and 2007. Unemployment increased from 9.9 percent in 2007 to 10.7 percent in 2008— and may increase further to 13.4 percent in September 2009 as a result of declining growth. The Bank is supporting programs in education, competitiveness and employment and finance.

The suggested areas of attention developed above can apply to world employment crises such as the current one by: a) addressing unemployment and earnings during a recession; b) developing and supporting countries efforts to produce updated information on employment–related variables; c) reviewing country programs along MILES or similar lines to assess how they can better target support for employment and earnings growth; d) putting employment issues on governments' radar screens, and stepping up pro-activity to engage governments on employment issues; e) working with the IMF to help countries balance macroeconomic stability with countercyclical needs; f) helping countries with further improvements to the investment climate, and avoiding short-term policies that may undermine it as economies recover; g) deepening work on labor regulations and the impact of more flexibility; h) intensifying work on improving technical quality and reducing skills mismatches; and i) doing more to improve CCTs unemployment insurance and pensions.

These findings suggest a number of implications for Bank support during the current global unemployment crisis as follows:

Deploy the Bank's integrative capability to provide support in the different areas affecting employment outcomes. As exogenous shocks to output in developing countries raise unemployment, the Bank can contribute considerably by developing policy options in relevant areas bearing on employment outcomes. In a recession, slow employment growth, cyclical unemployment and declining earnings or declining earnings growth become the major issues. The Bank has a useful integrative framework to help countries address these issues with a good balance between countercyclical policies and fiscal prudence; measures to speed up improvements in the business climate; measures to encourage employers to hire; training arrangements for those unemployed to speed rehiring; and safety nets. These are unlikely to apply uniformly. Presumably, the macroeconomic policy component will be more critical in a country like Turkey than in one such as Tunisia.

Focus on the classical, cyclical, and structural sources of unemployment. As economies restructure in the face of recession, much of the new cyclical unemployment is likely to become structural. This strengthens the case for more Bank effort into designing policies to reduce skills mismatches (including through retraining). Also, the Bank needs to engage more proactively on minimum wage issues and their interaction with non-wage costs, which in the three countries reviewed may have caused unemployment and informality. These effects are likely to deepen during recession.

Update/improve employment and earnings data. The Bank can work with other partners, including the ILO, the OECD, the IMF and the regional Multilateral Development Banks on a concerted basis to help countries speed the delivery and improve the quality of employment and employment–related data (for example, earnings, taxation of wages, minimum wages and others).

Adjust programs to emphasize support with strong employment earnings effects. It is recommended that country directors engage with authorities to discuss adjustments to Bank programs to increase their impact on employment outcomes. Presumably many governments have made adjustments to their policies in reaction to the financial crisis. The Bank can follow suit by emphasizing those areas it can support that best address constraints to employment creation and earnings growth. One obvious adjustment is to emphasize more AAA to diagnose constraints to employment in many of the countries (as the program in Turkey is doing at present).

Advise countries on affordable fiscal stimuli. It is recommended that the Bank work together with the IMF to advise countries on the appropriate amounts of fiscal stimuli that can be afforded by affected countries, as well as on policy options to reallocate expenditures to programs addressing the needs of the unemployed.

Support the development of unemployment insurance mechanisms. Bank work on unemployment insurance will be critical in addressing the current wave of unemployment. The three country experiences attest to the difficulty of creating effective social protection systems in developing countries. However, the Bank can assist in defining the focus, targeting, and incentives that make unemployment insurance affordable and effective. Unemployment insurance, the most relevant form of social insurance to help delink worker protection from jobs, is a daunting challenge in the three countries. The sheer size of the target population that would need to be insured (10 percent to 15 percent of open unemployment rates) and of the informal sector, and the limited financial capacity to cover insurance benefits explains why none of the three countries have set up effective systems. For example, coverage in Turkey is about 4 percent, far lower than the 25-75 percent found in OECD countries. Other social insurance tiers (pensions, health, cash transfers) face similar difficulties. Bank advice has focused on affordability, an incentive-compatible structure of benefits, and a low burden on the payroll tax wedge. Clearly, however, a comprehensive approach will need to also address the roots of the challenge, namely unemployment and informality.

Develop strategies to advance job flexibility and worker protection. Developing job flexibility today will help employment and earnings growth, particularly as economies recover. Strengthening worker protection will help the unemployed, particularly as unemployment rates increase.

Appendix O. Colombia, Tunisia, and Turkey: External Assistance

Total Net Receipts (ODA*, OOF**, and Private), 2001–2007

In US$ million

	2001	2002	2003	2004	2005	2006	2007
COLOMBIA							
Total Net Receipts	595.4	-2,390.0	1,961.7	1,370.3	990.4	6,345.5	7,309.0
o/w ODA	380.1	439.7	801.1	518.4	624.6	987.4	730.8
o/w OOF	627.4	-226.2	1,927.8	-37.3	-866.1	1,248.4	935.0
o/w Private	-412.1	-2,603.5	-767.2	889.2	1,231.9	4,109.7	5,643.2
ODA+OOF, total	1,007.5	213.5	2,728.9	481.1	-241.5	2,235.8	1,665.8
o/w Multilateral	792.5	-144.5	2,054.1	148.3	-694.7	1,414.2	1,085.5
o/w IBRD (Net)	136.3	248.8	775.5	199.6	486.9	621.5	132.4
TUNISIA							
Total Net Receipts	1,019.0	612.7	563.0	871.8	514.3	34.2	1,435.9
o/w ODA	376.9	264.7	297.7	327.3	364.5	431.9	310.1
o/w OOF	313.8	167.3	120.8	174.5	-73.5	-328.5	228.6
o/w Private	328.2	180.7	144.5	370.0	223.3	-69.3	897.2
ODA+OOF, total	690.8	432.0	418.5	501.8	291.0	103.5	538.7
o/w Multilateral	378.8	320.9	255.0	282.1	138.4	-139.3	472.9
o/w IBRD (Net)	146.9	-36.9	45.8	-88.7	-54.9	-254.8	-8.0
TURKEY							
Total Net Receipts	1,385.4	-1,191.9	2,818.7	3,545.2	11,617.2	17,354.2	28,197.4
o/w ODA	168.7	410.3	164.7	285.7	398.7	569.5	797.2
o/w OOF	1,104.6	886.6	359.1	1,853.1	-407.1	1,844.2	3,324.3
o/w Private	112.1	-2,488.8	2,294.8	1,406.5	11,625.7	14,940.4	24,075.9
ODA+OOF, total	1,273.3	1,296.9	523.9	2,138.7	-8.4	2,413.8	4,121.5
o/w Multilateral	1,401.6	1,007.0	350.2	2,007.7	329.7	2,394.5	3,930.1
o/w IBRD (Net)	1,105.7	594.3	-220.2	919.0	-294.0	989.1	557.1

Sources: OECD DAC online database, and Client Connection, retrieved January 27, 2009.

*ODA - Official Development Assistance: Grants or loans to countries and territories on Part 1 of the DAC list of Aid Recipients (developing countries) that are: 1) Undertaken by the Official Sector; 2) Have promotion of economic development and welfare as their main objective; and 3) Are granted at concessional terms (the loan has a grant element of at least 25 percent).

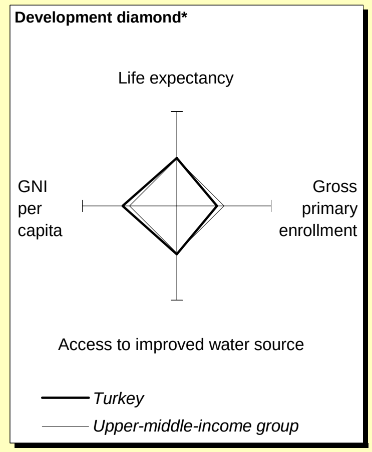
*OOF - Other Official Flows: Transactions by the official sector with countries on the List of Aid Recipients that do not meet the conditions of ODA or Official Aid eligibility, either because they are not primarily aimed at development, or because they have a grant element of less than 25 percent.
Note: IBRD= International Bank for Reconstruction and Development.

Appendix P. Colombia, Tunisia, and Turkey: At a Glance Tables

Turkey at a glance

9/24/08

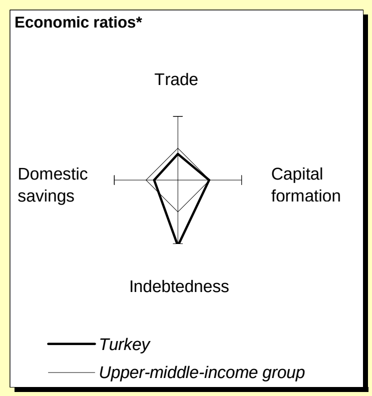
POVERTY and SOCIAL	Turkey	Europe & Central Asia	Upper-middle-income
2007			
Population, mid-year *(millions)*	73.9	445	823
GNI per capita *(Atlas method, US$)*	8,020	6,052	6,987
GNI *(Atlas method, US$ billions)*	592.9	2,694	5,750
Average annual growth, 2001-07			
Population *(%)*	1.3	0.0	0.7
Labor force *(%)*	2.5	0.5	1.3
Most recent estimate (latest year available, 2001-07)			
Poverty *(% of population below national poverty line)*	27	..	..
Urban population *(% of total population)*	68	64	75
Life expectancy at birth *(years)*	71	69	71
Infant mortality *(per 1,000 live births)*	24	23	22
Child malnutrition *(% of children under 5)*	4	..	..
Access to an improved water source *(% of population)*	97	95	95
Literacy *(% of population age 15+)*	87	97	93
Gross primary enrollment *(% of school-age population)*	94	97	111
Male	96	98	112
Female	92	96	109



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

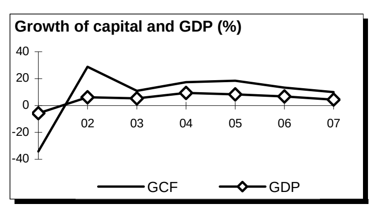
	1987	1997	2006	2007
GDP *(US$ billions)*	122.3	267.0	529.9	657.1
Gross capital formation/GDP	..	..	22.1	22.2
Exports of goods and services/GDP	..	..	22.7	21.9
Gross domestic savings/GDP	..	..	17.1	17.1
Gross national savings/GDP	..	..	16.2	16.3
Current account balance/GDP	-0.7	-1.0	-6.2	-4.9
Interest payments/GDP	1.6	1.4	1.4	..
Total debt/GDP	33.5	31.8	39.2	..
Total debt service/exports	41.2	22.4	33.5	..
Present value of debt/GDP	..	..	40.8	..
Present value of debt/exports	..	..	178.6	..

(average annual growth)	1987-97	1997-07	2006	2007	2007-11
GDP	4.1	4.2	6.9	4.5	..
GDP per capita	2.1	2.7	5.6	3.2	..
Exports of goods and services	..	7.0	6.6	6.7	..

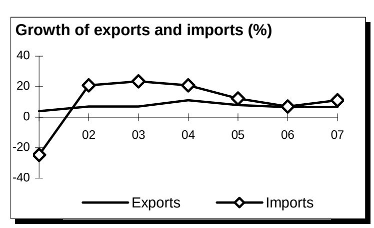


STRUCTURE of the ECONOMY

(% of GDP)	1987	1997	2006	2007
Agriculture	..	..	9.5	8.9
Industry	..	..	28.7	28.3
Manufacturing	..	..	19.8	19.0
Services	..	..	61.8	62.8
Household final consumption expenditure	..	..	70.5	70.7
General gov't final consumption expenditure	..	..	12.3	12.2
Imports of goods and services	..	..	27.6	27.0



(average annual growth)	1987-97	1997-07	2006	2007
Agriculture	..	1.3	1.4	-6.8
Industry	..	4.9	10.2	5.4
Manufacturing	..	4.8	8.4	5.4
Services	..	5.2	6.0	5.9
Household final consumption expenditure	..	5.1	4.6	4.6
General gov't final consumption expenditure	..	3.2	8.4	2.8
Gross capital formation	..	7.3	13.3	10.1
Imports of goods and services	..	9.9	6.9	11.1



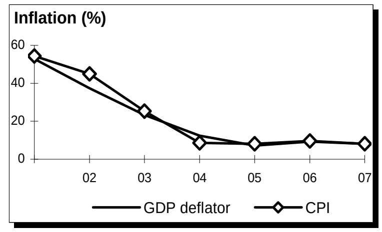
Note: 2007 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

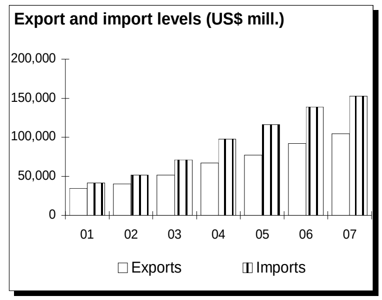
PRICES and GOVERNMENT FINANCE

	1987	1997	2006	2007
Domestic prices				
(% change)				
Consumer prices	..	85.0	9.6	8.1
Implicit GDP deflator	88.1	86.1	9.3	8.1
Government finance				
(% of GDP, includes current grants)				
Current revenue	16.3	16.9	21.2	21.1
Current budget balance	4.3	0.2	-7.7	-7.3
Overall surplus/deficit	-4.1	-5.5	0.2	-0.8



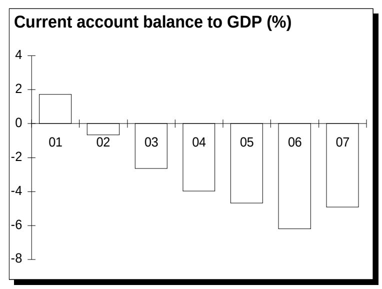
TRADE

	1987	1997	2006	2007
(US$ millions)				
Total exports (fob)	10,190	32,110	91,937	104,235
Agriculture and livestock	3,316	9,969	19,438	..
Mining and quarry products	1,826	4,365	4,521	..
Manufactures	9,050	30,648	87,179	99,023
Total imports (cif)	14,158	50,954	138,973	152,421
Food	830	2,425	2,537	..
Fuel and energy	3,275	6,258	29,664	..
Capital goods	3,956	11,353	23,316	..
Export price index *(2000=100)*	107	117	138	143
Import price index *(2000=100)*	114	106	149	154
Terms of trade *(2000=100)*	94	111	92	93



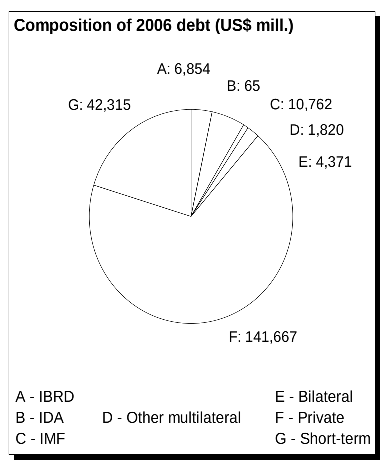
BALANCE of PAYMENTS

	1987	1997	2006	2007
(US$ millions)				
Exports of goods and services	14,135	51,358	116,427	130,625
Imports of goods and services	15,179	55,494	144,304	156,810
Resource balance	-1,044	-4,136	-27,877	-26,185
Net income	-2,085	-3,013	-6,584	-6,940
Net current transfers	2,323	4,511	1,687	1,820
Current account balance	-806	-2,638	-32,774	-32,228
Financing items (net)	1,775	5,954	36,494	37,526
Changes in net reserves	-969	-3,316	-3,720	-5,298
Memo:				
Reserves including gold *(US$ millions)*	2,740	19,993	60,705	69,438
Conversion rate *(DEC, local/US$)*	8.60E-4	0.2	1.4	1.3



EXTERNAL DEBT and RESOURCE FLOWS

	1987	1997	2006	2007
(US$ millions)				
Total debt outstanding and disbursed	40,944	84,785	207,854	..
IBRD	6,290	3,587	6,854	7,541
IDA	170	118	65	59
Total debt service	5,981	11,914	40,511	..
IBRD	776	999	1,135	1,055
IDA	5	7	6	6
Composition of net resource flows				
Official grants	42	58	415	..
Official creditors	480	-134	720	..
Private creditors	1,285	3,755	33,400	..
Foreign direct investment (net inflows)	115	805	20,070	..
Portfolio equity (net inflows)	0	8	1,939	..
World Bank program				
Commitments	957	35	1,909	867
Disbursements	787	266	1,796	1,223
Principal repayments	320	732	813	672
Net flows	467	-466	983	551
Interest payments	461	273	329	389
Net transfers	7	-740	654	162



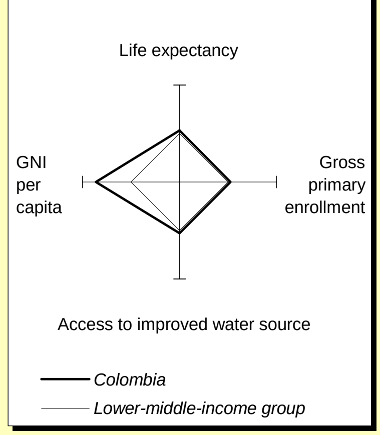
Note: This table was produced from the Development Economics LDB database. 9/24/08

Colombia at a glance

9/24/08

POVERTY and SOCIAL	Colombia	Latin America & Carib.	Lower-middle-income
2007			
Population, mid-year *(millions)*	46.1	563	3,437
GNI per capita *(Atlas method, US$)*	3,250	5,540	1,887
GNI *(Atlas method, US$ billions)*	149.9	3,118	6,485
Average annual growth, 2001-07			
Population *(%)*	1.4	1.3	1.1
Labor force *(%)*	2.7	2.1	1.5
Most recent estimate (latest year available, 2001-07)			
Poverty *(% of population below national poverty line)*	..	..	..
Urban population *(% of total population)*	74	78	42
Life expectancy at birth *(years)*	73	73	69
Infant mortality *(per 1,000 live births)*	17	22	41
Child malnutrition *(% of children under 5)*	5	5	25
Access to an improved water source *(% of population)*	93	91	88
Literacy *(% of population age 15+)*	93	90	89
Gross primary enrollment *(% of school-age population)*	116	118	111
Male	117	120	112
Female	115	116	109

Development diamond*

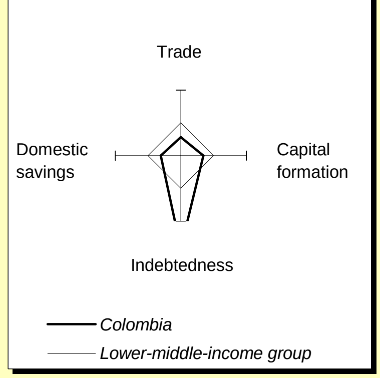


KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1987	1997	2006	2007
GDP *(US$ billions)*	36.4	106.7	135.7	172.0
Gross capital formation/GDP	19.1	20.9	23.6	24.4
Exports of goods and services/GDP	17.0	14.8	22.5	19.4
Gross domestic savings/GDP	23.1	15.0	21.1	23.3
Gross national savings/GDP	21.2	13.3	20.0	..
Current account balance/GDP	-0.1	-5.4	-2.3	-3.4
Interest payments/GDP	3.7	1.6	1.8	..
Total debt/GDP	46.8	29.9	29.3	..
Total debt service/exports	38.9	29.4	32.5	..
Present value of debt/GDP	..	..	30.3	..
Present value of debt/exports	..	..	125.7	..

	1987-97	1997-07	2006	2007	2007-11
(average annual growth)					
GDP	4.0	3.0	6.8	7.5	4.8
GDP per capita	2.1	1.4	5.4	6.2	3.3
Exports of goods and services	7.0	4.5	7.8	1.4	5.2

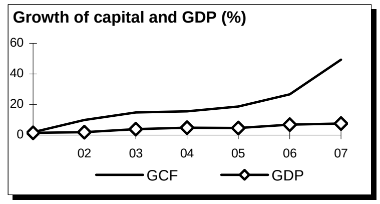
Economic ratios*



STRUCTURE of the ECONOMY

	1987	1997	2006	2007
(% of GDP)				
Agriculture	18.7	13.7	12.0	10.5
Industry	36.0	29.4	35.7	29.3
Manufacturing	21.1	14.9	16.7	12.6
Services	45.3	56.9	52.3	60.1
Household final consumption expenditure	68.2	64.6	61.1	63.4
General gov't final consumption expenditure	8.7	20.4	17.8	13.3
Imports of goods and services	12.9	20.8	24.9	20.5

Growth of capital and GDP (%)



	1987-97	1997-07	2006	2007
(average annual growth)				
Agriculture	-1.1	0.6	2.3	2.4
Industry	3.2	2.7	9.2	4.3
Manufacturing	-0.7	3.0	10.8	3.1
Services	4.9	3.4	5.5	9.4
Household final consumption expenditure	3.6	2.5	6.7	-3.2
General gov't final consumption expenditure	9.0	1.5	2.1	6.6
Gross capital formation	7.8	8.2	26.8	49.3
Imports of goods and services	15.4	6.5	20.8	15.4

Growth of exports and imports (%)

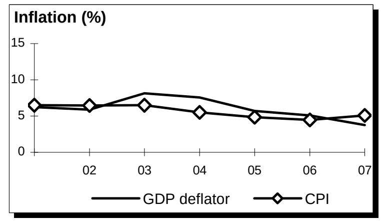
Note: 2007 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

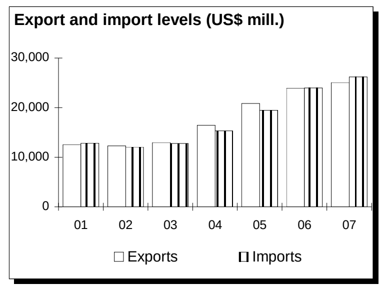
PRICES and GOVERNMENT FINANCE

	1987	1997	2006	2007
Domestic prices				
(% change)				
Consumer prices	24.0	17.7	4.5	5.1
Implicit GDP deflator	23.4	16.8	5.1	3.8
Government finance				
(% of GDP, includes current grants)				
Current revenue	10.5	12.5	20.1	0.0
Current budget balance	2.6	0.3	2.2	0.0
Overall surplus/deficit	2.0	-3.7	-0.6	0.0



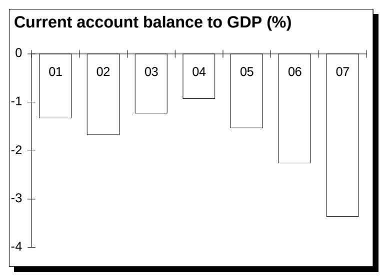
TRADE

	1987	1997	2006	2007
(US$ millions)				
Total exports (fob)	5,409	11,549	23,930	25,049
Coffee	1,651	2,259	1,461	1,528
Petroleum products	1,369	2,707	6,328	6,949
Manufactures	1,071	7,466	9,237	9,048
Total imports (cif)	4,228	4,083	23,976	26,214
Food	215	1,673	2,332	2,236
Fuel and energy	109	439	681	563
Capital goods	1,518	5,826	7,154	10,964
Export price index *(2000=100)*	12	58	47	..
Import price index *(2000=100)*	12	57	38	..
Terms of trade *(2000=100)*	104	102	125	..



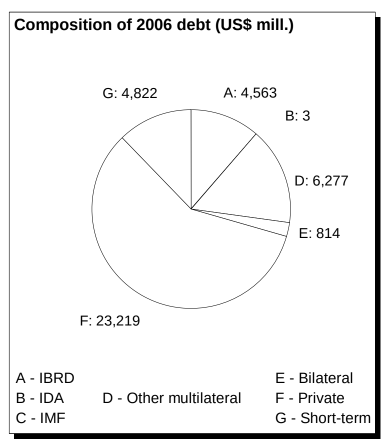
BALANCE of PAYMENTS

	1987	1997	2006	2007
(US$ millions)				
Exports of goods and services	6,422	13,690	27,303	30,071
Imports of goods and services	5,751	17,958	26,829	31,733
Resource balance	670	-4,268	474	-1,662
Net income	-1,692	-2,312	-5,983	-8,251
Net current transfers	1,001	496	4,450	..
Current account balance	-21	-5,751	-3,057	-5,773
Financing items (net)	43	5,474	3,034	7,632
Changes in net reserves	-22	277	23	-1,860
Memo:				
Reserves including gold *(US$ millions)*	..	9,908	15,440	..
Conversion rate *(DEC, local/US$)*	242.6	1,141.0	2,361.1	2,078.3



EXTERNAL DEBT and RESOURCE FLOWS

	1987	1997	2006	2007
(US$ millions)				
Total debt outstanding and disbursed	17,024	31,937	39,698	..
IBRD	4,113	1,723	4,563	4,756
IDA	17	10	3	2
Total debt service	2,815	4,511	10,640	..
IBRD	618	573	468	688
IDA	1	1	1	1
Composition of net resource flows				
Official grants	17	89	245	..
Official creditors	234	-452	1,114	..
Private creditors	-318	4,194	-147	..
Foreign direct investment (net inflows)	319	5,562	6,463	..
Portfolio equity (net inflows)	0	278	-30	..
World Bank program				
Commitments	180	75	683	632
Disbursements	364	189	942	564
Principal repayments	299	437	259	432
Net flows	65	-249	683	132
Interest payments	319	137	210	256
Net transfers	-254	-385	473	-124



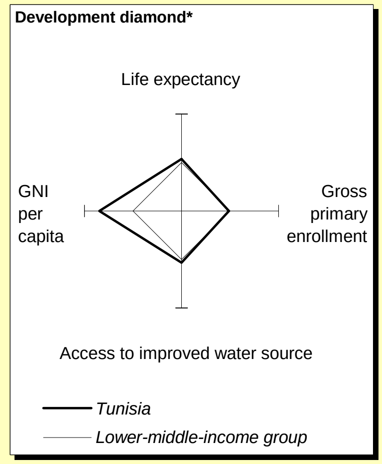
Note: This table was produced from the Development Economics LDB database. 9/24/08

Note: cif= cost, insurance and freight; DEC= Development Economics; fob= free on board; GDP= gross domestic product; GNI= gross national income; IBRD= International Bank for Reconstruction and Development; IDA= International Development Association; IMF= International Monetary Fund.

Tunisia at a glance

9/24/08

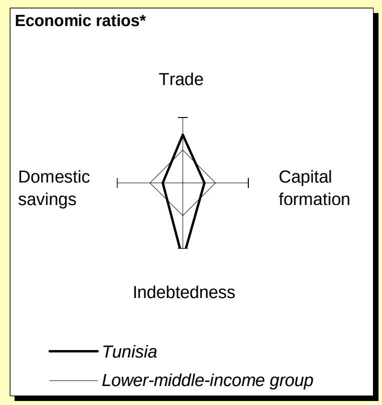
POVERTY and SOCIAL	Tunisia	M. East & North Africa	Lower-middle-income
2007			
Population, mid-year *(millions)*	10.2	313	3,437
GNI per capita *(Atlas method, US$)*	3,200	2,794	1,887
GNI *(Atlas method, US$ billions)*	32.8	876	6,485
Average annual growth, 2001-07			
Population *(%)*	1.0	1.8	1.1
Labor force *(%)*	2.8	3.6	1.5
Most recent estimate (latest year available, 2001-07)			
Poverty *(% of population below national poverty line)*	..	..	..
Urban population *(% of total population)*	66	57	42
Life expectancy at birth *(years)*	74	70	69
Infant mortality *(per 1,000 live births)*	19	34	41
Child malnutrition *(% of children under 5)*	..	..	25
Access to an improved water source *(% of population)*	94	89	88
Literacy *(% of population age 15+)*	74	73	89
Gross primary enrollment *(% of school-age population)*	108	105	111
Male	110	108	112
Female	107	103	109



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

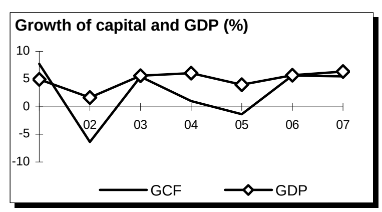
	1987	1997	2006	2007
GDP *(US$ billions)*	9.7	18.9	31.0	35.0
Gross capital formation/GDP	23.5	26.4	23.5	23.4
Exports of goods and services/GDP	34.8	43.8	53.2	51.8
Gross domestic savings/GDP	22.5	24.0	23.6	23.0
Gross national savings/GDP	22.5	23.4	25.4	23.9
Current account balance/GDP	-1.0	-3.1	-1.1	-1.2
Interest payments/GDP	3.6	2.5	2.2	..
Total debt/GDP	70.3	59.4	59.7	..
Total debt service/exports	28.4	15.7	14.5	..
Present value of debt/GDP	..	..	58.4	..
Present value of debt/exports	..	..	103.7	..

	1987-97	1997-07	2006	2007	2007-11
(average annual growth)					
GDP	4.3	4.8	5.7	6.3	5.9
GDP per capita	2.4	3.7	4.6	5.1	4.5
Exports of goods and services	5.4	3.9	3.9	4.2	5.3

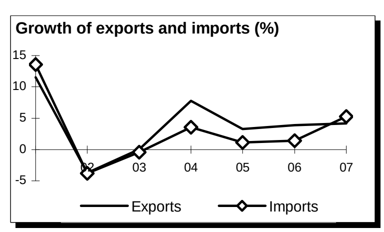


STRUCTURE of the ECONOMY

	1987	1997	2006	2007
(% of GDP)				
Agriculture	16.5	13.2	11.1	10.9
Industry	29.5	28.6	27.8	27.5
Manufacturing	15.1	18.5	17.0	16.9
Services	54.1	58.2	61.1	61.6
Household final consumption expenditure	60.6	60.2	63.0	63.6
General gov't final consumption expenditure	16.9	15.8	13.4	13.4
Imports of goods and services	35.8	46.2	53.1	52.2



	1987-97	1997-07	2006	2007
(average annual growth)				
Agriculture	3.9	2.7	3.0	4.5
Industry	4.8	3.8	3.8	4.1
Manufacturing	3.0	4.0	4.2	4.4
Services	4.2	5.7	7.1	7.7
Household final consumption expenditure	3.7	5.2	4.8	7.4
General gov't final consumption expenditure	3.8	4.4	2.6	6.4
Gross capital formation	5.9	3.0	5.6	5.5
Imports of goods and services	5.1	3.4	1.4	5.3



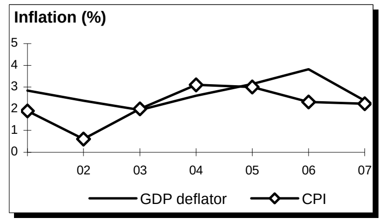
Note: 2007 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

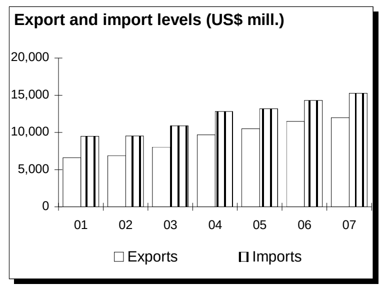
PRICES and GOVERNMENT FINANCE

	1987	1997	2006	2007
Domestic prices				
(% change)				
Consumer prices	8.1	3.7	2.3	2.2
Implicit GDP deflator	5.2	4.0	3.8	2.4
Government finance				
(% of GDP, includes current grants)				
Current revenue	28.3	24.0	23.0	22.8
Current budget balance	4.9	2.4	3.5	3.6
Overall surplus/deficit	-1.4	-4.3	-3.0	-2.9



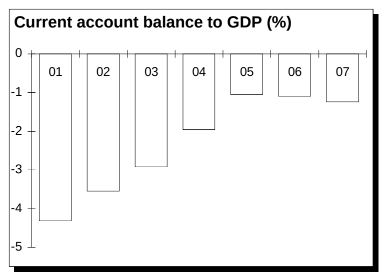
TRADE

	1987	1997	2006	2007
(US$ millions)				
Total exports (fob)	2,137	5,559	11,488	11,971
Fuel	505	503	1,737	1,766
Agriculture	276	616	1,228	1,234
Manufactures	959	3,680	7,814	8,288
Total imports (cif)	3,028	7,951	14,299	15,246
Food	312	691	900	924
Fuel and energy	318	597	2,075	2,113
Capital goods	520	1,724	2,797	2,997
Export price index *(2000=100)*	44	82	150	151
Import price index *(2000=100)*	62	114	152	153
Terms of trade *(2000=100)*	71	72	99	99



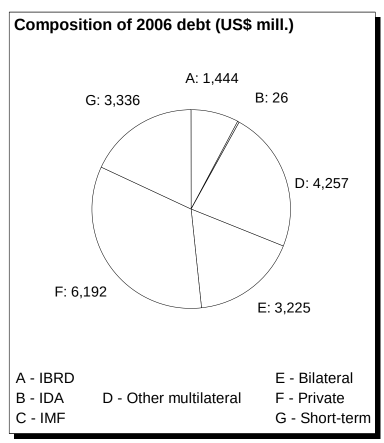
BALANCE of PAYMENTS

	1987	1997	2006	2007
(US$ millions)				
Exports of goods and services	3,377	8,174	15,868	16,790
Imports of goods and services	3,473	8,695	15,840	16,919
Resource balance	-96	-521	27	-129
Net income	-486	-863	-2,339	-2,384
Net current transfers	484	791	1,974	2,078
Current account balance	-99	-593	-338	-435
Financing items (net)	215	917	2,785	959
Changes in net reserves	-116	-324	-2,447	-524
Memo:				
Reserves including gold *(US$ millions)*	535	1,988	6,824	7,348
Conversion rate *(DEC, local/US$)*	0.8	1.1	1.3	1.3



EXTERNAL DEBT and RESOURCE FLOWS

	1987	1997	2006	2007
(US$ millions)				
Total debt outstanding and disbursed	6,816	11,228	18,480	..
IBRD	1,052	1,434	1,444	1,571
IDA	63	45	26	24
Total debt service	1,105	1,413	2,520	..
IBRD	177	275	438	236
IDA	2	2	2	2
Composition of net resource flows				
Official grants	85	137	185	..
Official creditors	131	72	-208	..
Private creditors	-121	583	-265	..
Foreign direct investment (net inflows)	92	339	3,270	..
Portfolio equity (net inflows)	17	55	65	..
World Bank program				
Commitments	200	167	143	28
Disbursements	166	127	112	161
Principal repayments	100	175	368	172
Net flows	66	-48	-257	-10
Interest payments	79	103	72	67
Net transfers	-13	-151	-329	-77



Note: This table was produced from the Development Economics LDB database. 9/24/08

Note: cif= cost, insurance and freight; DEC= Development Economics; fob= free on board; GDP= gross domestic product; GNI= gross national income; IBRD= International Bank for Reconstruction and Development; IDA= International Development Association; IMF= International Monetary Fund.

Appendix Q. Colombia, Tunisia, and Turkey: Millennium Development Goals

Colombia

	1990	1995	2000	2007
Goal 1: Eradicate extreme poverty and hunger				
Employment to population ratio, 15+, total (%)	..	58	58	*63*
Employment to population ratio, ages 15-24, total (%)	..	43	42	*46*
Income share held by lowest 20%	..	3	3	..
Malnutrition prevalence, weight for age (% of children under 5)	..	6	5	*5*
Poverty headcount ratio at national poverty line (% of population)	..	60	*64*	..
Prevalence of undernourishment (% of population)	..	..	..	..
Vulnerable employment, total (% of total employment)	..	30	35	*44*
Goal 2: Achieve universal primary education				
Literacy rate, youth female (% of females ages 15-24)	..	*92*	..	*98*
Literacy rate, youth male (% of males ages 15-24)	..	*89*	..	*98*
Persistence to last grade of primary, total (% of cohort)	..	..	61	*82*
Primary completion rate, total (% of relevant age group)	67	80	92	*105*
Total enrollment, primary (% net)	..	..	93	*92*
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliament (%)	5	..	12	8
Ratio of female to male enrollments in tertiary education	..	..	109	*109*
Ratio of female to male primary enrollment	..	..	100	*99*
Ratio of female to male secondary enrollment	..	..	110	*111*
Ratio of young literate females to males (% ages 15-24)	..	*103*	..	*101*
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	44.9	48.8	..
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	82	95	75	*88*
Mortality rate, infant (per 1,000 live births)	26	24	20	*17*
Mortality rate, under-5 (per 1,000)	35	31	26	*21*
Goal 5: Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	..	79	*67*
Births attended by skilled health staff (% of total)	82	86	86	*96*
Contraceptive prevalence (% of women ages 15-49)	66	72	77	*78*
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	*130*
Pregnant women receiving prenatal care (%)	83	83	91	*94*
Unmet need for contraception (% of married women ages 15-49)	11	8	6	*6*
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	..	..
Condom use, population ages 15-24, female (% of females ages 15-24)	..	10	18	*23*
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	63	57	51	*45*
Prevalence of HIV, female (% ages 15-24)	..	..	..	0.3
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	1
Tuberculosis cases detected under DOTS (%)	..	..	87	*83*
Goal 7: Ensure environmental sustainability				
Annual freshwater withdrawals, total (% of internal resources)	..	..	..	..
CO2 emissions (kg per PPP $ of GDP)	0.5	0.3	0.3	..
CO2 emissions (metric tons per capita)	1.7	1.5	1.4	..
Forest area (% of land area)	55	..	55	*55*
Improved sanitation facilities (% of population with access)	68	71	74	*78*
Improved water source (% of population with access)	89	90	91	*93*
Marine protected areas, (% of surface area)	..	..	..	..
Nationally protected areas (% of total land area)	..	..	..	..
Goal 8: Develop a global partnership for development				
Aid per capita (current US$)	3	4	4	*22*
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	35	24	21	*19*
Internet users (per 100 people)	0	0	2	26
Mobile phone subscribers (per 100 people)	0	1	5	74
Telephone mainlines (per 100 people)	7	10	17	17
Other				
Fertility rate, total (births per woman)	3	2.8	2.6	*2.3*
GNI per capita, Atlas method (current US$)	1200	2100	2080	3250
GNI, Atlas method (current US$) (billions)	41.7	80.2	86.8	149.9
Gross capital formation (% of GDP)	18.5	25.8	13.7	24.4
Life expectancy at birth, total (years)	68	70	71	*73*
Literacy rate, adult total (% of people ages 15 and above)	..	*81*	..	*93*
Population, total (millions)	34.9	38.3	41.7	46.1
Trade (% of GDP)	35.4	35.5	40.9	39.9

Source: World Development Indicators database

TUNISIA

	1990	1995	2000	2007
Goal 1: Eradicate extreme poverty and hunger				
Employment to population ratio, 15+, total (%)	..	41	42	*45*
Employment to population ratio, ages 15-24, total (%)	..	27	27	*29*
Income share held by lowest 20%	6	6	6	..
Malnutrition prevalence, weight for age (% of children under 5)	*9*	..	..	..
Poverty headcount ratio at national poverty line (% of population)	7	8	..	..
Prevalence of undernourishment (% of population)	..	..	..	..
Vulnerable employment, total (% of total employment)	..	..	..	..
Goal 2: Achieve universal primary education				
Literacy rate, youth female (% of females ages 15-24)	..	..	..	..
Literacy rate, youth male (% of males ages 15-24)	..	..	..	..
Persistence to last grade of primary, total (% of cohort)	..	..	88	*94*
Primary completion rate, total (% of relevant age group)	80	91	87	*120*
Total enrollment, primary (% net)	..	..	95	*98*
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliament (%)	4	..	12	23
Ratio of female to male enrollments in tertiary education	..	..	*97*	*142*
Ratio of female to male primary enrollment	..	..	96	*97*
Ratio of female to male secondary enrollment	..	..	106	*110*
Ratio of young literate females to males (% ages 15-24)	..	..	..	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	*23.1*	24.6	..
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	93	91	95	*98*
Mortality rate, infant (per 1,000 live births)	41	32	25	*19*
Mortality rate, under-5 (per 1,000)	52	40	31	*23*
Goal 5: Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	..	8	*7*
Births attended by skilled health staff (% of total)	*69*	81	90	..
Contraceptive prevalence (% of women ages 15-49)	*50*	60	66	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	*100*
Pregnant women receiving prenatal care (%)	*58*	..	92	..
Unmet need for contraception (% of married women ages 15-49)	..	..	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	..	..
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	..	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	31	31	25	*25*
Prevalence of HIV, female (% ages 15-24)	..	..	..	0.1
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	0
Tuberculosis cases detected under DOTS (%)	..	..	101	*81*
Goal 7: Ensure environmental sustainability				
Annual freshwater withdrawals, total (% of internal resources)	..	..	..	..
CO2 emissions (kg per PPP $ of GDP)	0.6	0.5	0.4	..
CO2 emissions (metric tons per capita)	1.6	1.8	2.1	..
Forest area (% of land area)	4	..	6	*7*
Improved sanitation facilities (% of population with access)	74	78	81	*85*
Improved water source (% of population with access)	82	86	90	*94*
Marine protected areas, (% of surface area)	..	..	..	..
Nationally protected areas (% of total land area)	..	..	..	..
Goal 8: Develop a global partnership for development				
Aid per capita (current US$)	48	8	23	*43*
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	26	18	21	*15*
Internet users (per 100 people)	0	0	3	17
Mobile phone subscribers (per 100 people)	0	0	1	77
Telephone mainlines (per 100 people)	4	6	10	12
Other				
Fertility rate, total (births per woman)	3.5	2.7	2.1	*2*
GNI per capita, Atlas method (current US$)	1430	1820	2090	3200
GNI, Atlas method (current US$) (billions)	11.6	16.3	20	32.8
Gross capital formation (% of GDP)	27.1	24.7	27.3	23.4
Life expectancy at birth, total (years)	70	71	73	*74*
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	..
Population, total (millions)	8.2	9	9.6	10.2
Trade (% of GDP)	94.2	93.7	92.7	103.9

Source: World Development Indicators database

TURKEY

	1990	1995	2000	2007
Goal 1: Eradicate extreme poverty and hunger				
Employment to population ratio, 15+, total (%)	..	51	47	*47*
Employment to population ratio, ages 15-24, total (%)	..	42	38	*39*
Income share held by lowest 20%	..	*6*	..	*5*
Malnutrition prevalence, weight for age (% of children under 5)	..	*9*	*7*	..
Poverty headcount ratio at national poverty line (% of population)	..	*28*	..	..
Prevalence of undernourishment (% of population)	..	..	..	..
Vulnerable employment, total (% of total employment)	..	..	46	*41*
Goal 2: Achieve universal primary education				
Literacy rate, youth female (% of females ages 15-24)	88	..	..	..
Literacy rate, youth male (% of males ages 15-24)	97	..	..	..
Persistence to last grade of primary, total (% of cohort)	..	..	..	..
Primary completion rate, total (% of relevant age group)	..	..	..	*96*
Total enrollment, primary (% net)	..	..	..	*90*
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliament (%)	1	..	4	9
Ratio of female to male enrollments in tertiary education	..	..	68	*75*
Ratio of female to male primary enrollment	..	..	91	*95*
Ratio of female to male secondary enrollment	..	..	..	*83*
Ratio of young literate females to males (% ages 15-24)	92	..	..	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	16.7	19.1	*20.3*
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	78	65	86	*98*
Mortality rate, infant (per 1,000 live births)	67	52	38	*24*
Mortality rate, under-5 (per 1,000)	82	63	44	*26*
Goal 5: Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	..	51	*39*
Births attended by skilled health staff (% of total)	..	*76*	*81*	..
Contraceptive prevalence (% of women ages 15-49)	*63*	*63*	*64*	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	*44*
Pregnant women receiving prenatal care (%)	..	*62*	*68*	..
Unmet need for contraception (% of married women ages 15-49)	..	*11*	*10*	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	..	..
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	..	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	49	40	31	*29*
Prevalence of HIV, female (% ages 15-24)	..	..	..	..
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	..
Tuberculosis cases detected under DOTS (%)	..	..	..	*80*
Goal 7: Ensure environmental sustainability				
Annual freshwater withdrawals, total (% of internal resources)	..	..	..	..
CO2 emissions (kg per PPP $ of GDP)	0.4	0.4	0.4	..
CO2 emissions (metric tons per capita)	2.6	2.8	3.3	..
Forest area (% of land area)	13	..	13	*13*
Improved sanitation facilities (% of population with access)	85	86	87	*88*
Improved water source (% of population with access)	85	89	93	*97*
Marine protected areas, (% of surface area)	..	..	..	..
Nationally protected areas (% of total land area)	..	..	..	..
Goal 8: Develop a global partnership for development				
Aid per capita (current US$)	21	5	5	*8*
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	30	24	19	*16*
Internet users (per 100 people)	0	0	4	*18*
Mobile phone subscribers (per 100 people)	0	1	24	84
Telephone mainlines (per 100 people)	12	21	27	25
Other				
Fertility rate, total (births per woman)	3	2.8	2.6	*2.2*
GNI per capita, Atlas method (current US$)	3070	3870	3930	8020
GNI, Atlas method (current US$) (billions)	172.6	238.8	265.2	592.9
Gross capital formation (% of GDP)	..	..	20.8	22.2
Life expectancy at birth, total (years)	66	68	70	*71*
Literacy rate, adult total (% of people ages 15 and above)	79	..	..	..
Population, total (millions)	56.2	61.7	67.4	73.9
Trade (% of GDP)	..	..	43.2	48.9

Source: World Development Indicators database

Note: DOTS= Directly Observed Treatment (short course); G&S= goods and services; GDP= gross domestic product; GNI= gross national income; HIV= human immunodeficiency virus; IMF= International Monetary Fund; PPG= public and publicly guaranteed (debt); PPP= purchasing power parity.

Appendix R. Colombia, Tunisia, and Turkey: Total Cost of Bank Programs

Cost of Bank Programs, FY1998–FY2008

	Lending	Project Supervision	ESW	Total
US$ Thousands				
Colombia	$ 19,450	$ 20,326	$ 11,291	$ 51,067
Tunisia	$ 10,036	$ 17,916	$ 9,608	$ 37,561
Turkey	$ 23,447	$ 28,196	$ 18,325	$ 69,967
Africa	$ 376,284	$ 470,412	$ 347,283	$ 1,193,978
East Asia and Pacific	$ 234,403	$ 259,563	$ 214,130	$ 708,096
South Asia	$ 176,295	$ 197,805	$ 162,902	$ 537,002
Europe and Central Asia	$ 303,703	$ 355,938	$ 305,198	$ 964,839
Middle East and North Africa	$ 102,562	$ 127,049	$ 184,532	$ 414,143
Latin America and Caribbean	$ 239,838	$ 320,779	$ 204,183	$ 764,800
World Bank	$ 1,457,452	$ 1,809,902	$ 1,463,349	$ 4,730,702
Proportion of total				
Colombia	38.1	39.8	22.1	100.0
Tunisia	26.7	47.7	25.6	100.0
Turkey	33.5	40.3	26.2	100.0
Africa	31.5	39.4	29.1	100.0
East Asia and Pacific	33.1	36.7	30.2	100.0
South Asia	32.8	36.8	30.3	100.0
Europe and Central Asia	31.5	36.9	31.6	100.0
Middle East and North Africa	24.8	30.7	44.6	100.0
Latin America and Caribbean	31.4	41.9	26.7	100.0
World Bank	30.8	38.3	30.9	100.0

Source: World Bank internal database.
Note: ESW= economic and sector work; FY= fiscal year.

Appendix S. Colombia, Tunisia, and Turkey: Average Cost of Tasks, Total and by MILES

Average Cost per task, FY2000–07 (thousands of US$)

	Total FY2000–07	INV	DPL	ESW	TA
Colombia					
All tasks	260.7	118.8	64.7	69.8	7.4
MILES tasks	310.3	112.0	111.5	86.8	0.0
Tunisia					
All tasks	287.7	118.2	48.2	115.7	5.6
MILES tasks	309.3	106.6	66.6	134.0	2.1
Turkey					
All tasks	367.0	86.4	168.4	90.6	21.6
MILES tasks	633.5	124.5	393.8	115.3	0.0
Latin America and Caribbean	233.5	89.3	41.3	93.0	9.9
Middle East and North Africa	191.0	61.4	15.0	68.8	45.8
Africa	487.4	423.1	30.4	25.5	8.5
Europe and Central Asia	168.5	68.9	13.2	66.3	20.1
South Asia	196.9	67.2	22.2	90.2	17.3
World	*255.5*	*142.0*	*24.4*	*68.7*	*20.3*

Source: World Bank internal database.
Note: Total cost of projects opened and closed between FY00 and FY07. MILES tasks refer to World Bank Lending, AAA and TA that has a bearing on employment creation and earnings as defined by this evaluation.
Note: AAA= analytic and advisory activities; DPL= Development Policy Loan; ESW= economic and sector work; FY= fiscal year; INV= investment operations; MILES= Macroeconomic conditions, Investment Climate and infrastructure; Labor market regulations and institutions, Education and skill development; and Social safety net; TA= technical assistance.

Appendix T. Colombia, Tunisia, and Turkey: Bank Senior Management

Colombia: Bank's Senior Management, FY 2000–2008

Year	Vice president	Country director	Chief / resident representative	Lead Economist
2000	David de Ferranti	Olivier Lafourcade	Alberto Chueca Mora	David Yuravlivker Marcelo Giugale
2001	David de Ferranti	Olivier Lafourcade	Alberto Chueca Mora	Marcelo Giugale
2002	David de Ferranti	Olivier Lafourcade	Alberto Chueca Mora	Marcelo Giugale
2003	David de Ferranti	Isabel Guerrero	Alberto Chueca Mora	Joaquin Cottani
2004	David de Ferranti	Isabel Guerrero	Alberto Chueca Mora	Joaquin Cottani David Gould
2005	Pamela Cox	Isabel Guerrero	Alberto Chueca Mora	David Gould David Rosenblatt
2006	Pamela Cox	Isabel Guerrero	Miguel Lopez-Bakovic	David Rosenblatt
2007	Pamela Cox	Isabel Guerrero Axel van Trotsenburg	Miguel Lopez-Bakovic	David Rosenblatt
2008	Pamela Cox	Axel van Trotsenburg	M.Lopez-Bakovic Eduardo Somensatto	David Rosenblatt

Source: World Bank Group Directory

Turkey: Bank's Senior Management, 1991–2008

Year	Vice president	Country director	Chief / resident representative	Economist
1991	Willii A. Wapenhaus	Michael Wiehen	Luis de Azcarate	-
1992	Wilfried Thalwitz	Michael Wiehen	Luis de Azcarate	R. Coutinho
1993	Wilfried Thalwitz	Michael Wiehen	Luis de Azcarate	R. Coutinho
1994	Wilfried Thalwitz	Michael Wiehen	Frederick Thomas Temple	S. Otoo
1995	Wilfried Thalwitz	Rachel Lomax	Frederick Thomas Temple	S. Otoo Jacob Kolster
1996	Johannes Linn	Kenneth Lay	Frederick Thomas Temple	S. Otoo Jacob Kolster
1997	Johannes Linn	Kenneth Lay	Frederick Thomas Temple	S. Otoo
1998	Johannes Linn	Ajay Chibber		S. Otoo
1999	Johannes Linn	Ajay Chibber		S. Otoo
2000	Johannes Linn	Ajay Chibber *		S. Otoo
2001	Johannes Linn	Ajay Chibber *		James Parks *
2002	Johannes Linn	Ajay Chibber *		James Parks *
2003	Johannes Linn	Ajay Chibber *		James Parks *
2004	Shigeo Katsu	Andrew N. Vorkink *		James Parks *
2005	Shigeo Katsu	Andrew N. Vorkink *		Rodrigo A. Chaves*
2006	Shigeo Katsu	Ulrich Zachau *		Rodrigo A. Chaves*
2007	Shigeo Katsu	Ulrich Zachau *		Mark Roland Thomas*
2008	Shigeo Katsu	Ulrich Zachau *		Mark Roland Thomas*

Source: The World Bank Group Directory 1995 - 2005

Note: * Staff located at the Country Office at Ankara, Turkey.

Andrew N. Vorkink * was the country director from August 2003 to November 2006.

Ulrich Zachau * has been Country Director for Turkey since January 2007.

The title " Chief / resident representative" for Turkey has not existed since 2003.

Tunisia: Bank's Senior Management, 1991–2008

Year	Vice president	Country director	Resident Representative
1991	Willii A. Wapenhaus	Kemal Dervis	-
1992	Caio Koch-Weser	Pieter Bottelier	-
1993	Caio Koch-Weser	Harinder S. Kohli	-
1994	Caio Koch-Weser	Daniel Ritchie	-
1995	Caio Koch-Weser	Daniel Ritchie	-
1996	Kemal Dervis	Daniel Ritchie	-
1997	Kemal Dervis	Christian Delvoie	-
1998	Kemal Dervis	Christian Delvoie	-
1999	Kemal Dervis	Christian Delvoie	-
2000	Jean-Louis Sarbib	Christian Delvoie	-
2001	Jean-Louis Sarbib	Christian Delvoie	-
2002	Jean-Louis Sarbib	Theodore O. Ahlers	-
2003	Christiaan J. Poortmann	Theodore O. Ahlers	-
2004	Christiaan J. Poortmann	Theodore O. Ahlers	-
2005	Christiaan J. Poortmann	Theodore O. Ahlers	-
2006	Christiaan J. Poortmann (until 9/7/2006)	Theodore O. Ahlers	-
	Daniela Gressani (from 9/8/2006)		-
2007	Daniela Gressani	Theodore O. Ahlers (until 7/31/07)	-
		Mats Karlsson (from 11/1/07)	
2008	Daniela Gressani	Mats Karlsson	-

Source: World Bank Group Directory

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continued⇨⇨⇨

ENDNOTES

Chapter 1

1. Table 1.1 draws on internal Bank presentations on the MILES framework.

2. The review ranked employment performance indicators for all countries with available information in order to determine which countries presented significant recent shifts in such indicators. The review resulted in a pre-selection of 15 cases. This was followed by a discussion of the cases and a selection of countries that would be likely to offer the most useful lessons.

3. In 2008, the Bank had 19 active projects with undisbursed amounts of $1.6 billion in Colombia; 14 active projects with undisbursed amounts of $0.5 billion in Tunisia; and 14 active projects with undisbursed amounts of $4.0 billion in Turkey. Lending and AAA activities in the three countries are listed in Appendixes C, G, and K and summarized in the country ratings tables that follow the Evaluation Summary.

4. See Independent Evaluation Group, "Development Results in Middle-Income Countries: An Evaluation of the World Bank's Support," The World Bank, 2007.

Chapter 2

1. Although the Bank's activities helped Colombia reduce its fiscal deficit and public debt, the Bank was less successful in helping Colombia to address some fiscal rigidities that contribute to the continued reliance on high payroll charges. These charges make it difficult to reverse the high levels of informality in Colombia's labor markets.

2. There are limits to what an external agency such as the Bank can do to address politically sensitive policy issues. The Bank's policy work correctly diagnosed the underlying issues. However, many stakeholders interviewed in Colombia said that a bolder use of its convening power would be useful--especially to help lay the groundwork for future policy reforms.

3. The main concern expressed by those interviewed in Colombia was not about the current costs of the CCT but about the implications of the program's continuing rapid growth and the lack of a clear exit strategy. The various Bank documents discussing the CCT do not contain any overall analysis of these medium-term costs, despite the rapid expansion of the program.

4. Low-quality self-employment and other forms of informality of employment are high by international standards, accounting for about 55-75 percent of total employment depending on how informality is measured. Bernal (Bernal (2009)) discusses 27 possible definitions of worker informality in Colombia. The Bank's 2008 report on Informality in Colombia, which classified workers as informal if they did not contribute to both contributory health and pension schemes, estimates that, taking account of per capita income levels, informality in Colombia is about 20 percentage points higher than would be expected based on cross-country comparisons (The World Bank, 2008a).

5. As estimated by the Bank (World Bank, 2002a), p. 57.

6. See (World Bank, 2008b), p. 2.

7. Colombia also negotiated a series of arrangements with the IMF during this period, all of which were treated as precautionary (that is, the government announced it did not intend to draw on the resources).

8. The World Bank (2008a).

9. Some areas of social protection where the Bank has made significant contributions (such as child nutrition) are not discussed because they do not have a direct link to labor market issues.

continued⇨⇨⇨

10. The United States also provided some initial financing.

Chapter 3

1. There is no question that there has been a major decline in poverty since 1980. However, the period 1990-95 included three consecutive years of severe drought and of a drop in production of almost 25 percent during the years 1993-95 affecting the rural sector, where most of the poor live. Accordingly, Ayadi et al. (2005) estimated an increase in poverty between 1990 and 1995, when a lower poverty line was used; alternatively, there was a decline in poverty when a higher poverty line was used. Other recent research by Muller (2007) suggests that poverty remained stable for a low poverty line and increased for a higher poverty line.

2. See Jansen (2004).

3. See Baccouche and Boughzala (2003).

4. In Tunisia, a holder of the Baccalaureate has a virtually automatic right of entry into a university.

5. According to the tracer study, which covered graduates for 2004, only 43 percent of all 2004 graduates had found employment 18 months after graduating and 62 percent after 40 months. Fifty-four percent of the latter group were engaged by the public sector, 12 percent with regular, indefinite contracts in the private sector, 19 percent with fixed-term contracts, 5 percent under subsidized arrangements, and 10 percent without a contract. About 15 percent of those employed after 40 months, mostly in the private sector, found themselves with a mismatch between the tasks they perform and the skills they had acquired. In nearly all cases, this involves a *de facto* downgrading. These data suggest the possible effects of gaps in education. The indicated paucity of regular contracts in the private sector is likely to be influenced by Tunisia's rigid labor regulations, which lead many workers to the informal sector. Although available data does not distinguish between formal and informal sector employment, anecdotal information and data on work status indicates a substantial amount of employment in the informal sector. Workers reporting themselves as self-employed account for just over 25 percent of the labor force in work.

6. See Alter Chen, Jhabvala, and Lund (2002), Table 3, p. 27.

7. For example, the third and final tranche of ECAL III was canceled because of serious doubts concerning the bidding process for the second (Global System for Mobile Communications (GSM) license. This was done in the face of strong Tunisian protest and despite the fact that, apart from the bidding process, the transaction achieved its objectives—the successful bidder is a reputable firm, and much needed competition was introduced into the telecoms sector.

8. This technical assistance has been normally financed by the Bank's budget or by resources made available by other partners but managed by the Bank.

Chapter 4

1. An earlier headcount poverty calculation for 1987 used the 1994 methodology but a less complete survey. It was estimated that in 1987, 38.5 percent of the population was living in poverty, suggesting a significant decline in poverty over the past three decades. Some earlier, but less well documented, estimates show headcount poverty reductions occurring since the early 1970s.

2. Table L.2 and Table L.3 (Appendix L) presents details on labor force participation rates and employment-to-population ratios.

3. An employment reform in 2008 reduced labor taxes.

continued⇨⇨⇨

4. See Fletcher (2007).

5. In addition to more general analyses, some specific studies include: Tansel (2002) and Ince, Meltem and Demir, M. Hulusi (2006).

6. See Tansel (2002), p. 20. A related study by the same author Tansel (2004) presents evidence from analysis of the 2002 Household Budget Survey (HBS) data that demonstrate a higher rate of return to education for women than for men.

7. The World Bank (2008d), p. 27. A planned second programmatic Competitiveness and Employment Development Policy Loan (CEDPL2) is intended to address labor market issues.

8. Environmental protection and natural resource management have also been consistent pillars in the Bank's strategy, as evidenced in successive CASs.

9. The major exceptions are environment and health.

10. A good example is The World Bank (1996).

11. This work included 1993, 1996, and 1997 reports that had developed a solid knowledge of Turkey's macroeconomic challenges during the years preceding the structural reforms.

12. In the Bank-Fund discussions on the initial stabilization measures, and the accompanying Stand-By Arrangement (SBA) and ERL, the Bank team wanted banking sector issues addressed up front in the first SBA. However, the Fund decided to leave these related measures for later. The failure to address such problems up front ultimately contributed to the 2001 crisis.

13. The reform package is described in more detail in The World Bank (2008e), Box 5, p. 33.

14. Specifically, this research focused on two questions: (i) what would be the employment impacts of a reduction in labor taxes and; (ii) what would be the fiscal implications? In order to answer these questions, the research included quantitative estimates of labor demand elasticities and simulated fiscal effects using World Bank social insurance models.

15. See The World Bank (2006a), pp. 45-47.

Chapter 5

1 Annex N provides more detail on these issues.

2. See Pamuk, Sevket (2007), p. 269.

3. See, for example, Betcherman, Gordon (2000).

4. Private investment is sensitive to economic and political risk. See Le, Quan V. (2004), a paper that analyzes private investment in a set of 19 countries that include Colombia, Tunisia and Turkey. Increased macroeconomic and political instability will raise risk. investment because it raises risk

5. For example, an OECD study for the late 1990s ranked Turkey near the top of labor rigidity: see The World Bank (2003a), Volume II: Main Report, Table 5.2, p 92. More recent indicators actually suggest that in the late 1990s Turkey's labor regime was relatively less rigid, although it hardened during the decade.

6. See Favro-Paris (2003). Fig. 1, p. 32. In this paper, Turkey ranks at the top on the strictness of employment protection legislation in a sample of 27 primarily developed economies.

7. See World Bank (2000a), Main report.

8. See ILO (2009) p. 34.

9. See IMF (2009)

continued⇨⇨⇨

10. See ILO (2009) p. 38.

Appendix N

[1] Gender, Youth, Ethnic Groups and Intercultural Relations, Culture Demography and Development, Science and Technology, Migration Policy, Foundations and Cooperatives, Promotion of Economic Solidarity, International and Regional Dimensions of Development. (CAS, p.10)

[1] See Bibi (2005) and Ayadi et.al. (2004)

[2] See Pamuk, Sevket (2007). p. 269.

[3] See, for example, Betcherman, Gordon (2000a).

[4] See Akkemik (2007), pp. 65-74. Note that this econometrically calculated partial elasticity, which includes lagged effects, is not comparable to the elasticities calculated by Kapsos (2005), which are total contemporaneous arc or point elasticities.

[5] See, for example, Erbaykal and Okuyan (2008), and Nas and Perry (undated).

[6] The World Bank (2006a), p.13.

[7] Ibid. p. 22.

[8] See Epifani and Gancia(2008), Figure 5, p.950.

[9] Private investment is sensitive to economic and political risk. See Le (2004), a paper that analyzes private investment in a set of 19 countries that includes Colombia, Tunisia and Turkey. Increased macroeconomic and political instability will reduce investment because it raises risk.

[10] The Doing Business surveys cover conditions for starting a business, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and closing a business.

[11] See Escribano and Guasch (2005).

[12] The World Bank (2008e), p. 107. Confidence on price elasticities of employment has been slow to build. It is interesting to note though that the Bank's former employment report was less sanguine on the possible effect of lowering labor taxes than the 2008 report and then the CEM that were simultaneously prepared. See The World Bank (2006b), p. 32 and The World Bank (2006c), p. 140.

[13] For example, an OECD study for the late 1990s ranked Turkey near the top of labor rigidity; see The World Bank (2003a) Table 5.2, p 92. More recent indicators actually suggest that in the late 1990s Turkey's labor regime was relatively free, although it hardened during the decade.

[14] See Lin (2000), Table 2, p.29.

[15] See The World Bank (2005a) Volume II, Box 3.5, p. 35.

[16] See OECD, "Evolution of the tax burden, 2000-2005 " http://www.oecd.org/dataoecd/50/41/36371703.pdf

[17] See The World Bank (2008c), P.43. See also The World Bank (2004) p. 44, footnote 45.

[18] For example, an OECD study regarding the late 1990s ranked Turkey near the top of labor rigidity; see The World Bank (2003a) Table 5.2, p 92. More recent indicators actually suggest that in the late 1990s, Turkey's labor regime was relatively free, although it hardened during the decade.

[19] See Koranchelian and Fanizza (2005).

[20] See Favro-Paris (2003), Fig 1, p.32. In this paper, Turkey ranks at the top in terms of the strictness of employment protection legislation in a sample of 27 primarily developed economies.

[21] See The World Bank (2000b), Main report.

[22] See, for example, Umaña (2003) and Duryea et. al. (2007).

[23] See de Janvry et. al. (2006).

[24.] See ILO (2009) p. 34.

[25.] See IMF (2009)

[26.] See ILO (2009) p. 38.