IsDB
البنك الإسلامي للتنمية
Islamic Development Bank

COUNTRY ENGAGEMENT FRAMEWORK FOR TÜRKIYE

Supporting Resilient, Inclusive and Sustainable Development in Türkiye

2024–2026

CONTENTS

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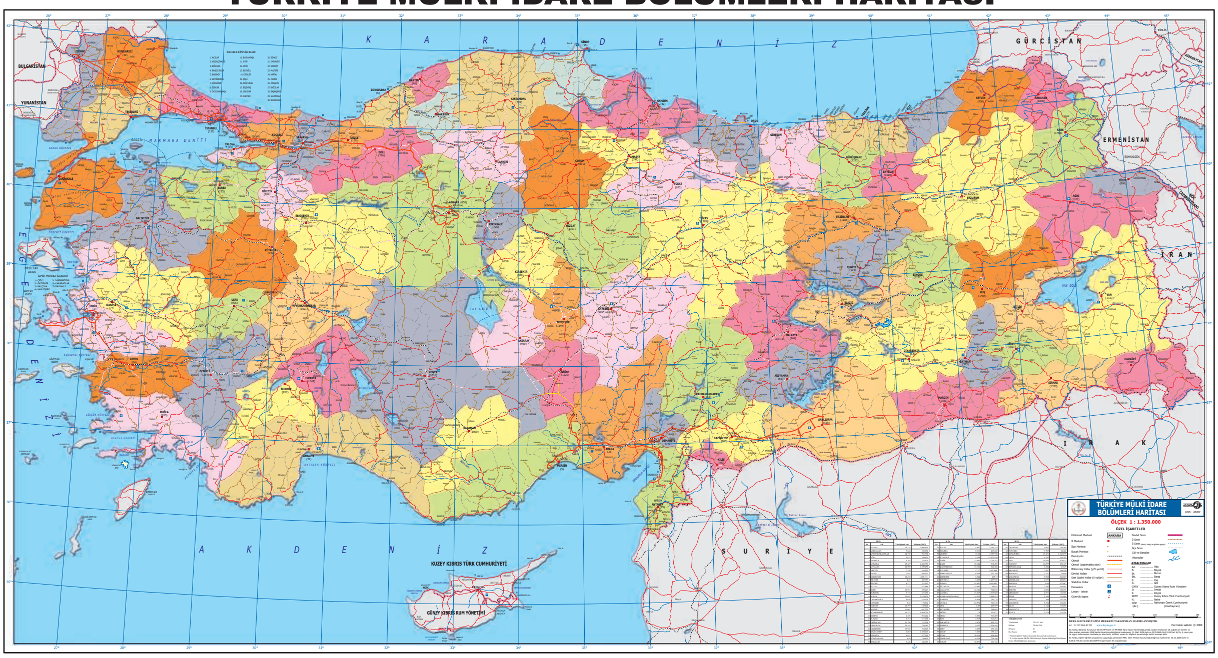
ABBREVIATIONS

CEF	Country Engagement Framework
EA	executing agency
e-GP	electronic government procurement
FDI	forging direct investment
GDP	gross domestic product
ICD	Islamic Corporation for the Development of the Private Sector
ICIEC	Islamic Corporation for the Insurance of Investment and Export Credit
IFCAF	Islamic Finance Country Assessment Framework
IsDB	Islamic Development Bank
IsDBG	Islamic Development Bank Group
IsDBI	Islamic Development Bank Institute
ISFD	Islamic Solidarity Fund for Development
ITFC	International Islamic Trade Finance Corporation
MoTF	Ministry of Treasury and Finance
MTP	Medium-Term Program
OCR	ordinary capital resources
OECD	Organisation for Economic Co-operation and Development
PIASR	project implementation assessment and support report
PMU	project management unit
PPP	public–private partnership
R&D	research and development
S&P	S&P Global Ratings
SDG	Sustainable Development Goal
SMEs	small and medium-sized enterprises
SOE	state-owned enterprise

TÜRKİYE MÜLKİ İDARE BÖLÜMLERİ HARİTASI



EXECUTIVE SUMMARY

The Country Engagement Framework (CEF) for Türkiye is a three-year plan (2024–2026). It is fully aligned with the country's Twelfth Development Plan (2024–2028) and Medium-Term Program (MTP, 2024–2026). The CEF also follows the Islamic Development Bank's Realigned Strategy (2023–2025), which aims to boost recovery, tackle poverty, build resilience and drive green economic growth. The CEF is designed to support Türkiye in its efforts toward sustainable, inclusive and private-sector-led growth, along with significant progress on social and economic indicators in response to current and emerging economic challenges.

The MTP, which is consistent with the broader framework of the Twelfth Development Plan, strives to enhance macro-economic and financial stability. Its goals include promoting high-value-added production and achieving growth through increased productivity and exports with an emphasis on green and digital transformation. The MTP targets a sustained reduction in the current account deficit and lowering inflation to single digits in the medium term. Moreover, it concentrates on improving the business and investment climate, increasing productivity, and bolstering international competitiveness while establishing a policy framework based on maintaining fiscal discipline and taking into account disaster preparedness and management.

The main objective of this CEF is to support Türkiye in attaining resilient, inclusive and sustainable development by providing support to areas that will help the government achieve its development goals. Within the context of its Realigned Strategy (2023–2025), the Islamic Development Bank Group (IsDBG) will finance and facilitate priority development projects in Türkiye under the CEF theme of "Supporting Resilient, Inclusive and Sustainable Development in Türkiye", comprising two strategic pillars: (i) Resilient and sustainable transition; and (ii) Productivity enhancement, competitiveness and inclusive growth. The CEF will have cross-cutting pillars of Digital transformation, Islamic finance, Regional cooperation and integration, Capacity development and South–South cooperation.

The IsDBG entities will finance and facilitate priority projects and programs in Türkiye using a mix of instruments and modalities, drawing on the strengths of IsDB ordinary capital resources (OCR), Islamic Corporation for the Development of the Private Sector (ICD), International Islamic Trade Finance Corporation (ITFC), Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) and Islamic Development Bank Institute (IsDBI). IsDBG will coordinate with the Government of Türkiye and other development partners to ensure the complementarity and synergy of its interventions.

The CEF has been prepared on the basis of extensive consultations with the Government of Türkiye and multilateral stakeholders to identify the CEF pillars and priorities. The financing envelope of IsDBG for the CEF 2024–2026 is tentatively proposed at US$6.3 billion, which will be on a best-effort basis and includes US$3.1 billion in businesses insured through ICIEC. It will be reviewed periodically and adjusted with mutual agreement between IsDBG and Türkiye based on the selection of proposed projects, financing instruments and co-financing opportunities with development partners. Subject to IsDBG Management consideration, headroom availability and readiness of bankable projects, the CEF allocation (especially the OCR amounts) may be revisited.

To monitor the progress of CEF implementation, a CEF Steering Committee or High-level Working Group will be jointly established by the Government of Türkiye and IsDBG. This committee will work through regular portfolio review meetings. The government's formal acceptance of this document would imply its agreement of the engagement framework and the related work program. This CEF enables IsDBG to proceed with business development and project processing activities strategically, enabling the Group to maximize the impact of its interventions in Türkiye in alignment with the country's aspirations.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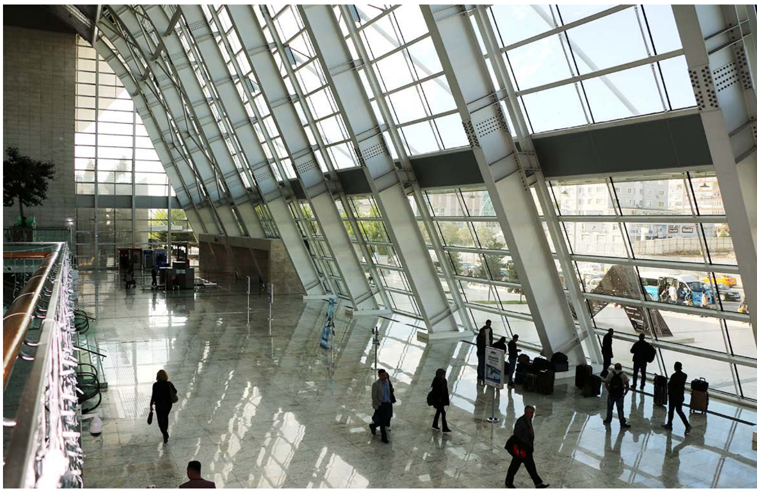
1. INTRODUCTION

> The CEF is designed to support Türkiye in its efforts toward sustainable, inclusive and private-sector-led growth along with significant progress on social and economic indicators.



[1] **The Country Engagement Framework (CEF) for Türkiye covers the three-year period 2024–2026.** It is fully aligned with the country's Twelfth Development Plan (2024–2028) and Medium-Term Program (MTP, 2024–2026). The CEF is designed to support Türkiye in its efforts toward sustainable, inclusive and private-sector-led growth along with significant progress on social and economic indicators in response to current and emerging economic challenges.[1]

[2] **The CEF is prepared in line with the Islamic Development Bank's Realigned Strategy (2023–2025)**, which gives priority to systematic identification, analysis and mitigation of economic and financial risks in Member Countries with the aim of making the Bank more dynamic, evidence-based and selective, which is crucial for enhancing its effectiveness. In this context, the CEF for Türkiye is designed to prioritize key development projects aimed at fostering sustainable and inclusive economic development. Special attention will be given to initiatives focused on enhancing productivity, bolstering international competitiveness, and elevating the country's share in the global economy.

[3] **This CEF has been developed on the basis of extensive consultations with the Government of Türkiye and multilateral stakeholders.** The process benefited from constructive discussions with the government and other development partners to identify the priorities of the country. The formal acceptance of this document by the government will indicate its agreement with the engagement framework and the related work program. This will enable the Islamic Development Bank Group (IsDBG) to proceed with business development and project processing activities. However, it is crucial to underscore that the indicative work program does not constitute a firm financial commitment from IsDBG at this juncture. The realization of these projects hinges upon feasibility studies and adherence to IsDBG's stringent standards for project viability, ensuring that only bankable ventures are pursued.

1 This document outlines the context, background, dialogue process, engagement framework and work program for Türkiye over the medium-term horizon. Unlike the Member Countries Partnership Strategy (MCPS), it does not constitute a comprehensive diagnostic study or offer policy advice as per the agreement with the government. Rather, its focus is on formulating a project-oriented approach to deliver expedited support to the efforts of the government.

2. STRUCTURAL TRANSFORMATION

TABLE 1. SELECTED ECONOMIC INDICATORS AND ECONOMIC OUTLOOK OF TÜRKIYE

Main economic indicators	2021	2022	2023	2024*	2025*	2026*
(1) GDP growth (%)	11.4	5.5	4.5	3.1	3.2	3.3
(2) GDP per capita, current prices (thousand US$)	9.7	10.6	12.9	12.7	12.6	12.9
(3) Inflation (%)	19.6	72.3	53.9	59.5	38.4	22.4
(4) Current account balance (% of GDP)	−0.9	−5.4	−4.1	−2.8	−2.2	−1.7
(5) Net international investment position (% of GDP)	-31.3	-27.9	-26.4*	-27.6	-28.3	-29.1
(6) Output gap (% of potential GDP)	1.5	2.2	1.7*	1.2	0.6	0.1
(7) Overall fiscal balance (% of GDP)	−3.0	−1.1	−5.5	−5.4	−3.7	−3.2
(8) Short-term external debt (% of GDP)	21.1	25.8	22.0*	22.2	22.3	22.1

Note: * denotes projections.
Source: 1, 2, 3, 4 & 7 are based on *IMF World Economic Outlook*, April 2024.
Source: 5, 6 & 8 are based on IMF Country Report No. 23/303, January 2023.

[4] **The outlook for medium-term growth appears modest.** The GDP growth between 2024 and 2026 is expected to decelerate to an average of 3.2 percent, due to current policy framework aims to provide macro-economic stability and rebalance growth composition. As the country relies on external sources for a significant portion of its energy needs, higher global energy prices in 2022 led to increased import costs for oil, natural gas and other energy-related products. However, global energy prices declined in 2023, positively affecting Türkiye's economy through commodity price developments, narrowing the current account deficit from 4.1 percent in 2023 to 2.8 percent of GDP in 2024 (forecast). Moreover, the government faces challenges in managing its budget as it subsidizes energy costs for low-income consumers and industries, and the increased spending on energy subsidies further strains fiscal resources.

[5] **Türkiye is grappling with a triple deficit challenge, encompassing fiscal, current account and trade deficits.** Economic factors such as the gap between domestic savings and investment needs, and energy import dependency are contributing to the current account deficit.

[6] **Türkiye's budget deficit** is anticipated remain below the targets set in the country's MTP (6.4 percent of GDP in 2024), offering the government greater flexibility in implementing more effective fiscal policies to address the risks associated with the country's triple deficits, external vulnerability, currency depreciation and inflationary pressures.

[7] **Türkiye is also facing challenges with its net international investment position (NIIP), as its negative NIIP indicates that the country is a net debtor to the rest of the world.** Several factors contribute to this negative NIIP, including a significant current account deficit, external borrowing, and currency depreciation. However, there was improvement in those indicators together with economic policy normalization in the second half of 2023.[2]

2 Türkiye's NIIP has improved by US$30.9 billion and was negative US$285.2 billion in 2023. In 2023, some 54 percent of total liabilities consisted of long-term liabilities.

[8] **The positive output gap in Türkiye over the period 2021–2023** also suggests that the economy was operating beyond its sustainable capacity. This led to inflationary pressures in the country, for which the government recently undertook necessary actions to cool down the expansion.

[9] **The government debt-to-GDP ratio reduced from 40.4 percent in 2021 to 29.5 percent in 2023.**[3] The total debt-to-GDP ratio also substantially decreased from 161.8 percent in 2021 to 109.5 percent at the end of 2023.[4] The private debt-to-GDP ratio in Türkiye has averaged 158.21 percent over the last decade.[5] Although Türkiye has made progress in reducing its external debt ratio from 59.6 percent of nominal GDP in 2020 to 51.3 percent in 2022,[6] it remains relatively high and continues to be a key source of vulnerability. Furthermore, the combined effect of currency depreciation and an increase in interest rates may intensify challenges related to debt stress. This has led to higher debt-servicing costs, increased budgetary pressures, rollover risks, and inflationary pressures. The private sector, particularly those entities with foreign-currency-denominated debts, faces heightened repayment burdens, potentially leading to financial stress.

[10] **Economic growth in Türkiye has been based on capital accumulation; the share of the labor in growth has been sluggish.** While capital accumulation has contributed to periods of rapid growth, sustaining long-term prosperity requires a more balanced approach. This approach should also focus on enhancing human capital and promoting innovation to increase the share of labor in economic growth and lower unemployment levels. On average, the total unemployment rate has been in double digits at 12.0 percent, with youth unemployment standing at 22.6 percent, men's unemployment at 10.8 percent and women's unemployment at 14.7 percent over 2018–2022

3 Ministry of Treasury and Finance data.
4 IIF (Uluslararasi Finans Enstitusu) Database.
5 Trading Economics.
6 Concise Eurostat International Company Data: Türkiye external debt: % of GDP, 1989–2024.

(*Figure 1*). The country is also experiencing a mismatch between education and the needs of the labor market.[7]

[11] **In the realm of employability, agriculture constitutes 17.42 percent of total employment, yet its contribution to the GDP has been just 6.17 percent over the last five years.** The service sector contributes nearly equally to both GDP and overall employment, at 53.66 percent and 55.89 percent, respectively (*Figure 2*). The proportion of informal employment in total employment stands at 31.8 percent, indicating that approximately one third of the workforce is engaged in work without specific employment benefits and may lack coverage under social protection programs. The elevated rate of informal employment (*see Figure 3*) can be attributed to various factors, including limited formal job opportunities, difficulties in enforcing labor regulations, and the prevalence of small, unregistered businesses.

[12] **Private-sector entities ranging from small and medium-sized enterprises (SMEs) to large corporations play a crucial role in Türkiye's economy.** For instance, active SMEs collectively constituted 70.6 percent of employment and 36.4 percent of value added at factor costs.[8] The private sector, despite its substantial contribution to the economy, grapples with various challenges including limited access to financing, high interest rates, labor market dynamics, regulatory issues, low productivity, low value-added production, and limited adoption of cost-effective and tailored technology for SMEs. Moreover, high inflation and elevated capital costs render many private companies vulnerable to escalating working capital expenses.[9]

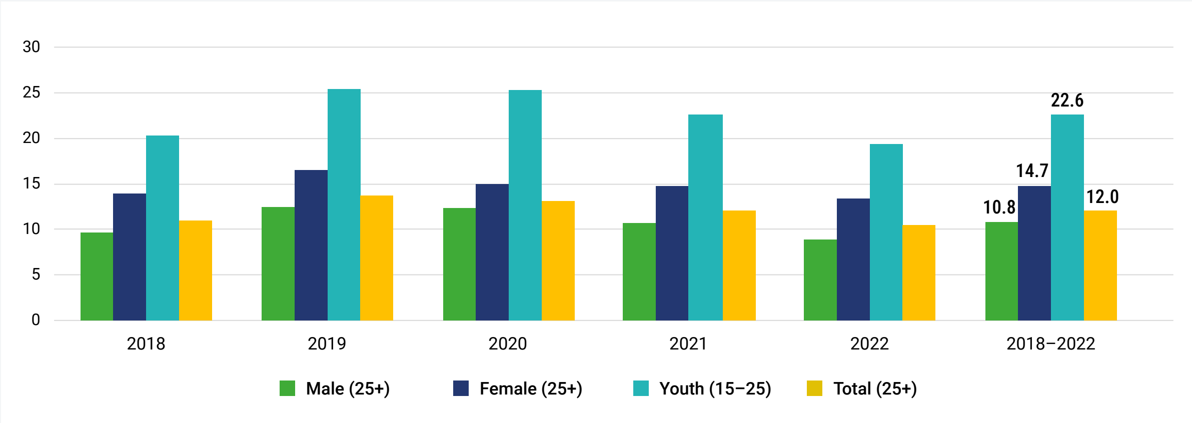
[13] **Türkiye is committed to achieving the Sustainable Development Goals (SDGs) by integrating them into its national development plans and submitting voluntary national reviews (VNR).** The country has implemented policies to address specific goals, making notable progress in dimensions such as eradicating poverty, improving access to basic services, reducing inequalities and addressing vulnerability. However, challenges persist in areas such as gender equality, sustainable production, women's empowerment and participation, education outcomes, skills for employment, inter-regional infrastructural disparities, water-use efficiency, and clean energy and energy efficiency.[10]

> In 2023, Türkiye experienced seismic tremors that affected 15 percent of its population and approximately 9 percent of its GDP.

[14] **Türkiye faces significant threats from climate change, with impacts across key sectors, including agriculture, fisheries, infrastructure and tourism.** Türkiye's geographic, climatic and socio-economic conditions make it vulnerable to climate change and environmental hazards.[11] The projected impact varies depending on emission scenarios. Under a low-emissions scenario in 2030, the impact is minimal (0.07 percent GDP loss), but under a high-emissions scenario, by the end of the century the loss could be nearly 8 percent of GDP. Agriculture is expected to be severely affected as it covers 35 percent of the country's land and accounts for 84 percent of total water withdrawal.[12] In addition, Turkish coastlines and associated infrastructure are vulnerable to sea level rise and storm surges, particularly in low-lying coastal plains and beaches along the Black, Aegean and Mediterranean seas. The Black Sea region is expected to see a rise in flood risk, ranging from 100 percent to 300 percent under medium- and high-emissions scenarios by about 2050.[13] Severe wildfires in

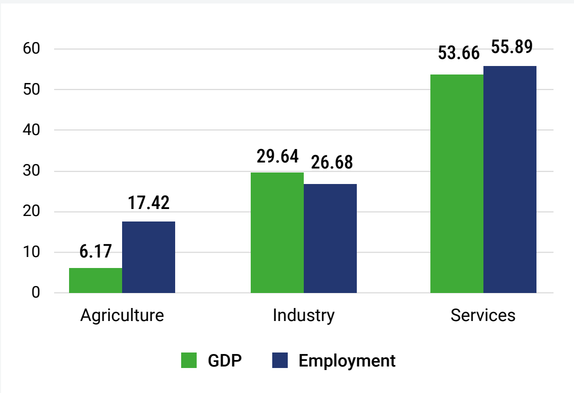
7 According to the World Bank, unemployment with advanced education as a proportion of total unemployment was 12.5 percent in 2021.
8 TURKSTAT, December 2023.
9 Data from the Central Bank reveals that, as of June 2023, the Turkish private sector's foreign debt stood at US$154.6 billion. With the current situation of sharp depreciation of the national currency, the cost of servicing loans denominated in local currency is increasing, and the private sector needs to allocate more local currency to repay the same amount of foreign debt. This may create critical financial difficulties.
10 Measuring Distance to the SDG Targets: Türkiye (OECD, 2022).
11 World Bank Group. 2022. Türkiye Country Climate and Development Report. CCDR Series. Washington, DC: World Bank. http://hdl.handle.net/10986/37521
12 Türkiye has ratified the Paris Agreement and submitted Nationally Determined Contributions (NDCs) demonstrating its commitment to fostering green economic growth with key objectives including: (i) mitigating the impact of climate change and protecting natural resources to ensure environmental sustainability and resilience; (ii) diversifying its energy sources by expanding renewable energy; and (iii) supporting the development of new environmentally friendly industries and technologies.
13 G20 Climate Risk Atlas. Impacts, Policy, Economics, Türkiye.

FIGURE 1. UNEMPLOYMENT RATE BY SEX AND AGE (2018–2022)



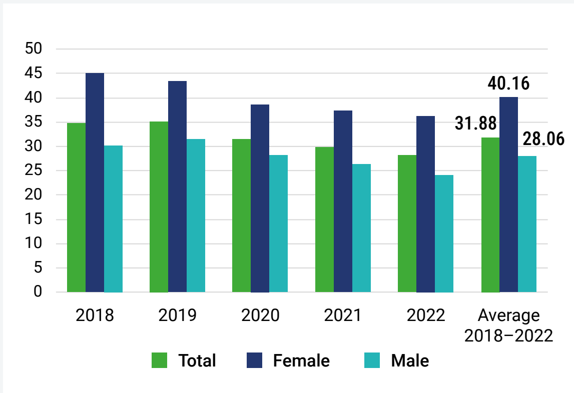
Source: ILOSATT, 2024

FIGURE 2. SECTOR CONTRIBUTION TO GDP AND EMPLOYMENRT (2018–2022)



Source: Statistica and ILO, 2023.

FIGURE 3. PROPORTION OF INFORMAL EMPLOYMENT IN TOTAL EMPLOYMENT (2018–2022)



Source: ILO Database, 2023.

2021 burnt multiple provinces and claimed lives, fueled by heatwave and drought conditions.

[15] **The country's economic development is not evenly distributed across all regions.** Urban centers tend to attract more investments, businesses and employment opportunities, creating urban–rural economic disparity. Certain regions have a higher concentration of industries and economic activities, contributing to disparities in income levels and employment opportunities. Addressing regional economic disparities in the country requires a concerted effort to promote inclusive and balanced economic growth. This involves targeted investments in critical areas such as infrastructure, education and healthcare in less-developed regions.[14]

[16] **In 2023, Türkiye experienced seismic tremors that affected 15 percent of its population and approximately 9 percent of its GDP.** The estimated economic cost ranges from US$20 billion to over US$100 billion.[15] According to Türkiye Earthquakes Recovery and Reconstruction Assessment (TERRA) findings, the earthquakes' direct material damage is estimated at 9.3% of the 2023 GDP (US$103.6 billion). Apart from immediate industrial facility damage, the earthquakes' impact on short- and medium-term production, which hit industry especially hard, could be even more significant. According to TERRA around US$4.35 billion is required for recovery and reconstruction in water, sanitation and hygiene, with an extra US$6.7 billion designated for education in the affected area.

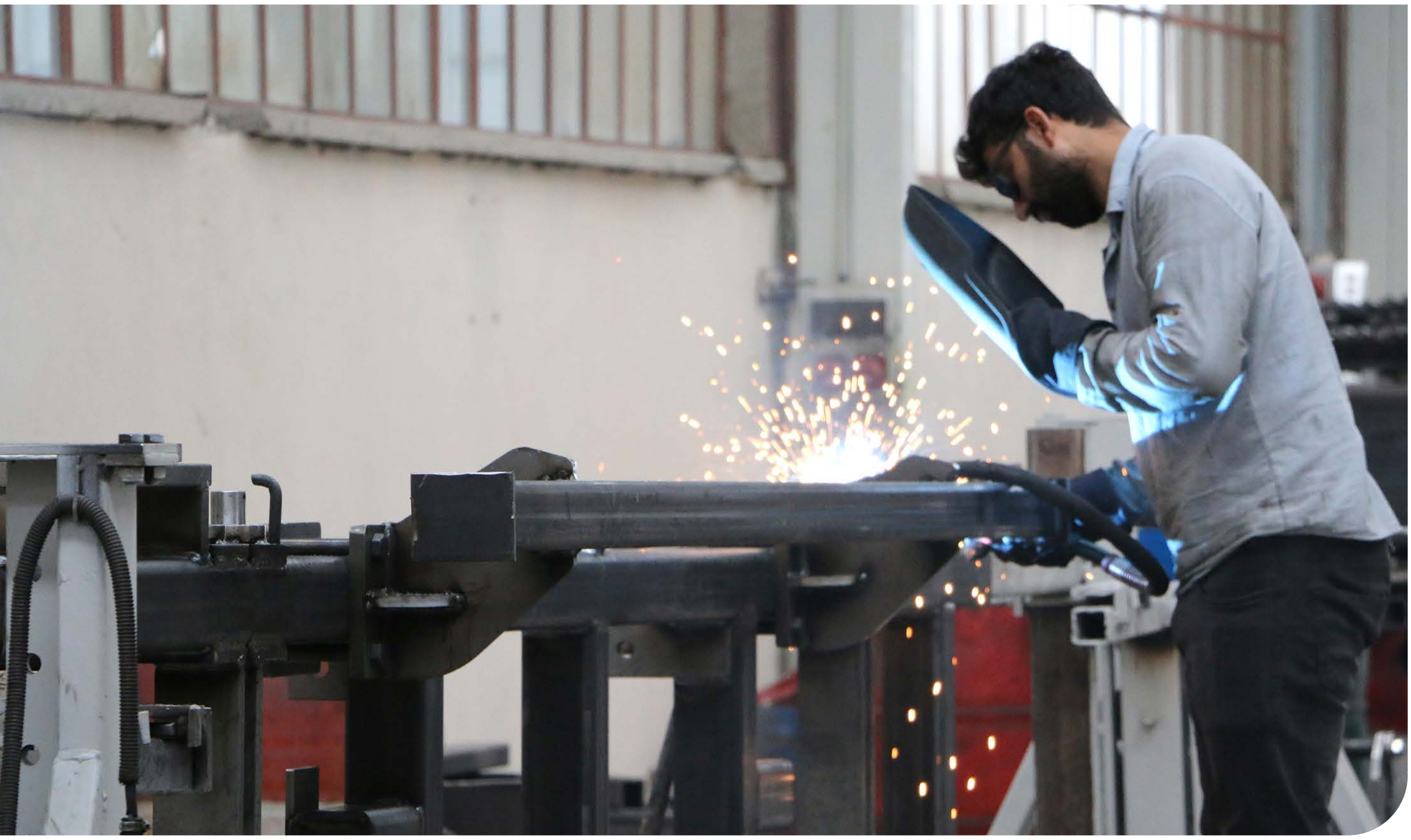
14 Türkiye's diverse geography, including mountainous regions and rural landscapes, can also present challenges for economic activities and infrastructure development in certain areas.
15 Political and Economic Implications of the Turkish Earthquakes, March 2023.

[17] **Medium-term growth prospects remain moderate, but the outlook is subject to external and internal risks.** These include the global economic downturn, global supply chain disruptions, commodity price volatility, global political instability, and country-specific problems such as the stabilization of the Turkish lira and inflation. The financial system continues to maintain strong capitalization, coupled with low and well provisioned non-performing loans (NPLs).[16] However, the main macro-economic risk for the country remains a capital flows reversal, associated with monetary policy in advanced economies or changes in the country risk premium.

TABLE 2. SOVEREIGN RISK RATING, TÜRKIYE

Agency	Rating	Outlook	Date
S&P	B+	Stable	30 Nov 2023
Moody's	B3	Positive	12 Jan 2024
Fitch	B+	Positive	8 Mar 2024

[18] **To address the structural economic development issues, the government needs to undertake a combination of policy measures, reforms and strategic planning to promote sustainable growth, address imbalances and enhance productivity.** This may involve (i) implementing effective monetary and fiscal policies to control inflation and current account deficit, and ensure financial stability; (ii) improving the business environment for private-sector development; (iii) enhancing access to external financing for businesses, particularly SMEs; (iv) increasing investment in human capital development (quality education and services); (v) addressing income inequality and regional disparities with special focus on agriculture and rural development; (vi) addressing the impact of climate change on the economy; (vii) prioritizing investments in critical infrastructure, including transportation, energy and communications, to support economic activities across different regions; and (viii) encouraging innovation and technological advancement to enhance productivity and competitiveness with the aim of promoting regional and global value chains, fostering a more resilient and dynamic economy.



16 The average Capital Adequacy Ratio (CAR) stood at 18.5 percent in September 2023, well above the regulatory standard. The minimum CAR required for banks, as per Basel III norms, is 8 percent. This ratio is a key indicator of a bank's ability to absorb potential losses and withstand adverse economic conditions.

3. NATIONAL DEVELOPMENT PRIORITIES

> In Türkiye's Twelfth Development Plan, the priority sectors have been identified as chemicals, pharmaceuticals and medical devices, electronics, machinery, electrical equipment, automotive, and rail system vehicles.

[19] **Türkiye's Twelfth Development Plan, which aligns with the country's 2053 vision for sustainable development, will guide the government to transform Türkiye into a global power center.** In the new Plan, the priority sectors have been identified as chemicals, pharmaceuticals and medical devices, electronics, machinery, electrical equipment, automotive, and rail system vehicles. Special focus will also be placed on agriculture, energy, industry and tourism. The Plan covers the following five core objectives.

a. **Stable growth and a strong economy:** The Plan aims to boost the country's GDP growth rate to an average of 5 percent per year. The focus is on bolstering macro-economic and financial stability, while fostering high-value-added production.
b. **Competitive production through green and digital transformation:** The primary objective is to enhance exports by fostering productivity and increasing innovation, particularly with a focus on green and digital transformation.
c. **Skilled workforce, strong families and a healthy society:** The aspiration is to enhance access to quality education, healthcare and social services for every citizen. This commitment extends to alleviating regional disparities and improving economic conditions in disadvantaged areas.
d. **Resilient living environments and a sustainable ecosystem:** The Plan highlights sustainable development and environmental protection, aiming to reduce Türkiye's carbon emissions, promote renewable energy sources and enhance energy efficiency.
e. **Democratic governance founded on principles of justice:** The objective is to bolster the rule of law, integrating democratic and good governance principles focused on justice, equality in law, and the provision of effective remedies.

[20] To achieve the above objectives, the MTP sets out policy priorities for solving structural problems with a sound macro-economic framework. The MTP highlights a tight monetary measure and fiscal discipline as the primary macro-economic policy to combat inflation, enhance confidence and create a stable environment. The focus includes encouraging productive investments, fostering employment growth (particularly in green and digital sectors) and driving structural transformations.

4. ISDBG COUNTRY ENGAGEMENT FRAMEWORK: SUPPORTING RESILIENT, INCLUSIVE AND SUSTAINABLE DEVELOPMENT IN TÜRKIYE

IsDBG will finance priority development projects in Türkiye under the CEF theme of **"Supporting Resilient, Inclusive and Sustainable Development in Türkiye".**

4.1. CEF Objective

[21] The primary objective of this CEF is to support Türkiye in achieving targets outlined in its Twelfth Development Plan by addressing some of the critical bottlenecks highlighted in Section 2 and additional complementarity to areas that will help in achieving that objective. Under its Realigned Strategy (2023–2025), which has the objectives of boosting recovery, tackling poverty and building resilience, and driving green[17] economic growth, IsDBG will finance priority development projects in Türkiye under the CEF theme of **"Supporting Resilient, Inclusive and Sustainable Development in Türkiye"**, covering two strategic pillars, (i) Resilient and sustainable transition; and (ii) Productivity enhancement,

17 A definition for "green" may be taken from IsDB's Sustainable Finance Framework, which outlines eligible green project categories.

competitiveness and inclusive growth; supported by the cross-cutting pillars of Digital transformation, Islamic finance, Regional cooperation, Capacity development and South–South cooperation.

4.2. CEF Pillars and Priorities

[22] The pillars of the CEF were formulated based on Türkiye's Twelfth National Development Plan, IsDBG's comparative advantages, and through a constructive discussion and validation process with the government and other key development stakeholders. *Annex 4* shows the strategic alignment of the pillars to the national priorities.

[23] **PILLAR 1: Resilient and sustainable transition:** The CEF will support the Government of Türkiye in achieving its strategic goals with special focus on supporting (i) the reconstruction program in earthquake-affected areas; (ii) regional connectivity through cost-effective, modern and environment-friendly transportation systems; (iii) the diversification of Türkiye's renewable energy sources and energy efficiency programs;[18] and (iv) urban development, water and sanitation (WATSAN) with special focus on waste and water sanitation.

[24] **PILLAR 2: Productivity enhancement, competitiveness and inclusive growth:** The CEF will support the efforts of the government to enhance productivity and international competitiveness. This will be achieved through (i) supporting private-sector development, including SMEs; (ii) facilitating quality and competency-based education and skills development relevant to the evolving industries and technological advancements; (iii) better access to quality healthcare; and (iv) enhancing agricultural productivity by supporting agro-processing industries, establishing food processing units, and developing cold storage facilities to add value to agricultural products and bolster food security.

[25] **Cross-cutting pillars:** For efficient and impactful implementation of Pillars One and Two, the CEF will also deploy the following cross-cutting pillars to support the government's efforts in making further progress on its Twelfth Development Plan (2024–2028).

a. **Digital transformation:** IsDBG will support the country's initiatives to develop core infrastructure, fostering digital transformation and adopting agile methodologies for responsive product development to swiftly address evolving market demands. The primary goal of this assistance is to advance digitization by: (i) enhancing financial support for digital initiatives, and innovative ecosystems; and (ii) leveraging existing business and innovation support infrastructure to establish and update an ecosystem that fosters digital and technology transformation.
b. **Islamic finance:** IsDBG will provide support for the expansion of Islamic finance in Türkiye.[19] The Group will develop an Islamic Finance Country Assessment Framework (IFCAF), contingent upon government consent. The CEF will also support the private sector, including SMEs, women-led businesses and civil society organizations, through Islamic financial instruments and leverage on existing alternative financing such as crowdfunding and impact philanthropy.
c. **Regional cooperation and integration:** IsDBG will support the government's initiatives to promote trade and investment integration with regional and global markets. The Bank will also allocate financing for intra-regional trade and infrastructure and investment promotion, facilitating the exchange of goods, services and capital between Türkiye and other IsDBG Member Countries and European Union Member Countries.
d. **Capacity development and South–South cooperation:** IsDBG plans to continue its capacity development efforts in Türkiye, specifically concentrating on facilitating the transfer and exchange of skills, knowledge and technology in Member Countries. The objective is to match the capacity development offerings and needs of Türkiye with those of other Member Countries through the exchange of skills, expertise and know-how based on solidarity and mutual interest. IsDBG will continue facilitating platforms of dialogue, consultations and initiatives to contribute to addressing issues related to forced displacement (refugees, internally displaced persons [IDPs], hosting communities) due to human-made and natural disasters.

18 In line with its National Energy Plan for 2035, Türkiye has taken an important step in this direction by setting the target of increasing installed solar power capacity from 6.7 GW in 2020 to 52.9 GW by 2035 and tripling its installed wind power capacity.

19 Islamic banking is becoming a significant part of the banking system, with an expanding market share from 5.4 percent in 2018 to 8.5 percent of total sector assets in September 2023. The Turkish Government also issued a five-year fixed-rent rate lease certificate worth 3.57 billion Turkish lira (US$124.43 million) on 14 November 2023 (https://www.islamicfinancenews.com/turkish-government-issues-sukuk.html).

4.3. Planned Group Interventions

[26] As part of the IsDBG synergy agenda of the IsDB Strategic Realignment 2023–2025, the financing and programming of IsDBG will feature a mix of instruments drawing on the strengths of Islamic Development Bank ordinary capital resources (IsDB-OCR), Islamic Corporation for the Development of the Private Sector (ICD), International Islamic Trade Finance Corporation (ITFC), Islamic Corporation for the Insurance of Investment and Export Credit (ICEIC) and Islamic Development Bank Institute (IsDBI) for a holistic Group financing package, aimed at offering complementarity and holistic services, in complete harmony with Türkiye's Twelfth Development Plan (2024–2028) and MTP (2024–2026). (*See Annex 1* for more details.)

[27] **IsDB** intends to prioritize public-sector and public–private partnership (PPP) interventions focused on sustainability, resilience, post-earthquake recovery, and structural transformation, including support through programs such as the Food Security Response Program (FSRP) with a tentative financing envelope of US$2.0 billion. The aim is also to integrate flagship programs, especially those with grant resources, such as Reverse Linkages (RL, as recipient and provider) and science, technology and innovation (STI; e.g., through the Technology Deployment Program), trust funds and partnership initiatives to enhance outcomes and concessionality. The Bank would also contribute through non-lending initiatives, in areas such as procurement, project financial management and joint knowledge activities.

[28] **IsDBI** is committed to deepening its collaboration with Türkiye by offering innovative and results-oriented assessments, training, certification programs and capacity-building initiatives. IsDBI positions itself as a strategic partner in Türkiye's economic transformation journey, to build a robust enabling environment, enhance industry capacity, and promote widespread acceptance of Islamic finance and economics, and supporting the country through the development of the IFCAF, contingent upon government consent. This can be achieved through fintech solutions, Islamic finance grants, capacity-building and awareness, advisory services, and knowledge dissemination.

[29] **ICIEC** plans to support Turkish businesses by providing export credit and investment insurance through Turk Eximbank, aiming to diversify trade partners and reduce the trade deficit while aiding SME growth. Additionally, ICIEC will continue covering critical infrastructure projects in transportation, energy and telecommunications to enhance their credit profile and

FIGURE 4. CEF PILLARS AND ALIGNMENT WITH NATIONAL DEVELOPMENT PRIORITIES

Supporting resilient, inclusive and sustainable development in Türkiye

PILLAR 1: RESILIENT AND SUSTAINABLE TRANSITION

National Priorities

- Green transformation (renewable resources, energy efficiency, electrification and green transportation)
- Sustainable, dynamic, green and inclusive growth
- Green and digital technologies
- Modernizing transport, regional connectivity (reducing regional disparity)
- Restore and improve core infrastructure in the earthquake-affected region and integrate it into the economic and social networks of the country
- Promote gender equality through private-sector engagement
- Deepen the development of high-tech manufacturing industries
- Financial sector and capital market development
- Soft and hard infrastructure to support innovative production
- R&D activities toward producing clean technologies and green products with high value added.
- Participation of women and youth in economic opportunities

CEF areas of cooperation

- Expansion of renewable energy (NP, P1, SDG 7)
- Transport sector via commercialization and private-sector participation (NP, P1, SDGs 9, 11)
- Post-earthquake reconstruction efforts (SDGs 3, 4, 8, 9, 11)
- Water use efficiency (NP, P1, SDGs 6, 7, 13)
- Agriculture and rural development (NP, P1, SDGs 2, 10)

PILLAR 2: PRODUCTIVITY ENHANCEMENT, COMPETITIVENESS AND INCLUSIVE GROWTH

National Priorities

- Enhancing productivity in manufacturing industries
- Export market diversification
- Developing competitive human and social capital in production
- Competitive knowledge economy
- Improving the innovation ecosystem
- Private-sector- and entrepreneurship-led growth
- More modernization of the economy
- Deep structural and institutional reforms
- Private-sector-led, open and competitive production structure (especially SMEs)
- Expansion of the digital economy
- A steadily growing, competitive knowledge economy
- Encouraging alternative and innovative financing methods, including the PPPs, in financing infrastructure
- Participation in global value chains (GVCs) in various products such as chemicals, basic metals, textiles and transport equipment
- Agriculture and rural development

CEF areas of cooperation

- Education and reducing the mismatch between market-demanded skills and education-provided skills (NP, P2, SDGs 1, 4, 8)
- Quality health services (NP, P2, SDGs 1, 3, 10)
- Private-sector development (especially SMEs) with the aim at promoting regional and global value chains (NP, P2, SDGs 1, 8, 12)
- Agriculture and food security (NP, 2, SDG 2)

Cross-cutting areas

- **CC1.** Digital economy and updating telecommunications and information technologies (NP, P1, SDG 9)
- **CC2.** Islamic finance (NP, P2, SDG 8)
- **CC3.** Regional cooperation and integration (NP, SDG 9)
- **CC4.** Capacity development and South–South cooperation (NP, SDGs 11, 12, 17)

NP, National Priorities; P1, P2, IsDB Strategic Pillars; SDG, Sustainable Development Goal.

attractiveness to lenders. The introduction of sukuk[20] insurance products aims to advance Islamic finance in Türkiye, fostering partnerships with the government and state-owned enterprises (SOEs) and attracting Islamic investors globally. Furthermore, ICIEC will promote environmentally sustainable projects and encourage PPPs to attract private-sector investment, demonstrating its commitment to bolstering Türkiye's infrastructure and economic growth.

[30] **ICD** plans to commit up to US$300 million of new financing and investments, on a best-effort basis, to projects in Türkiye. In addition, ICD plans to support Turkish entities in their cross-border initiatives in other IsDBG Member Countries. ICD also stands ready to assist Türkiye in developing sukuk programs for government, SOEs, municipalities and private-sector entities. Investments in selective brown-field Shariah-compliant financial institutions (FIs) and corporate sector will be encouraged. Collaboration with participation banks and takaful[21] companies to explore ICD's expansion plan in Commonwealth of Independent States (CIS) countries is another area showing promise. ICD will explore both Tier-1 capital (US$) and Convertible Tier-2 (US$/local currency) for its interventions in participation banks.

[31] **ITFC** plans to expand its interventions in Türkiye by extending financing for US$900 million to both public and private sectors. The public-sector financing will mainly target supporting agriculture/food security, health and transportation, and addressing the needs of the country stemming from the negative impact of climate change and the 2023 earthquakes. ITFC will extend lines of trade financing facilities to local banks to support the needs of private-sector and SME clients in trade finance. Furthermore, ITFC will be engaged with partners to conduct development projects in trade and business development and provide advisory services to support the public and private sectors in Türkiye. ITFC is willing to collaborate with relevant agencies under the Targeted Interventions and Integrated Trade Solutions programs, and to leverage mutually beneficial cooperation within the framework of its Flagship Program, such as the "Trade Connect Central Asia +".

[32] **Islamic Solidarity Fund for Development (ISFD)** intends to pursue a joint country program of establishing an endowment program, the income of which will be used to fund, on grant basis, social and poverty reduction projects in Türkiye and poverty alleviation projects in some selected least-developed Member Countries.

4.4. Key Result Areas

[33] All interventions anticipated over the CEF time frame will be aligned with the SDGs and National Priorities and aim to contribute to the achievement of results within the CEF cooperation areas listed in *Figure 4*. A CEF Results Framework with more details on projects is presented in *Annex 2*. Specific indicators and results from the IsDB Results-Based Management Framework (RBMF) of potential projects will be aggregated in the CEF Results Framework as the work program is further developed and implemented.

20 Sukuks (Islamic bonds) are financial instruments that comply with Islamic Shariah principles. Unlike conventional bonds that generate returns through interest payments, which is considered usury in Islamic finance, sukuk represent ownership in an asset, project or business venture.

21 Takaful (sometimes translated as 'solidarity' or mutual guarantee) is a cooperative system of reimbursement or repayment in case of loss, organized as an Islamic or Shariah-compliant alternative to conventional insurance, which contains riba (usury) and gharar (excessive uncertainty) (Wikipedia contributors (2024) Takaful. In Wikipedia, The Free Encyclopedia. https://en.wikipedia.org/wiki/Takaful).

5. ISDBG PORTFOLIO AND CEF IMPLEMENTATION ARRANGEMENTS

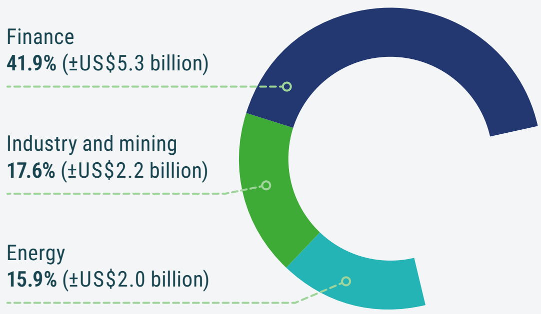
IsDBG has approved total financing of about US$12.9 billion for Türkiye.

5.1. IsDB Group Operations in Türkiye

[34] **Overall portfolio:** As of January 2024, IsDBG has cumulatively approved total financing of about US$12.9 billion for Türkiye. This comprises US$4.2 billion project financing by IsDB, US$601.5 million approved by ICD, US$5.2 billion trade operations by ITFC and US$2.9 billion by other IsDBG funds and operations (mostly trade finance under IsDB-OCR). In addition, ICIEC has provided US$20.6 billion as business insured and US$6.9 billion as new insurance commitments.

[35] **Modalities and sectoral breakdown:** Project financing represents 31 percent (US$3.9 billion) of total financing, while trade financing represents 68.4 percent (US$8.6 billion) and concessional financing 0.6 percent (US$71.8 million). The sectoral breakdown of IsDBG operations in Türkiye is as follows: the sector with highest share is finance[22] at 41.9 percent (about US$5.3 billion), followed by industry and mining at 17.6 percent (about US$2.2 billion) and energy at 15.9 percent (about US$2.0 billion).

ISDB GROUP OPERATIONS IN TÜRKIYE: SECTORAL BREAKDOWN



22 It should be noted that finance has the largest share because most of the financing in the country was made through national financial institutions (e.g., TurkExim, TKYB, TSKB). However, approx. US$750 million of funds through these institutions was used to support private firms in the energy sector. As such, energy would have the second largest IsDBG footprint in the country, if taken on pure sectoral lines.

5.2. IsDB Portfolio in Türkiye

[36] **Active portfolio:** Out of IsDB's active project portfolio of US$862.73 million, US$420 million (close to 50 percent) is pre-effective, comprising the three projects approved in the fourth quarter of 2023. The portfolio implementation status is good, with projects meeting the policy deadlines of 18 months consisting of the 6–6–6 criteria for signature, effectiveness and first disbursement. The performance in terms of outputs/outcomes of the active portfolio has been satisfactory, with an average project implementation assessment and support report (PIASR) rating of 0.85 across the projects. The disbursement ratio is around 55 percent, much higher than the Bank-wide average of 23 percent.

5.3. Lessons Learned and Systemic Portfolio Issues

[37] As per the CEF mission's findings and evaluation of previous operations, and the Country Portfolio Review findings, the following issues have been identified that could hinder effective collaboration and smooth implementation of projects.

a. **Procurement and financial management:** Given the importance of the procurement function during CEF implementation, it is recommended to: (i) have timely and quality financial auditing as part of prudent financial management; (ii) arrange targeted procurement clinics, especially to familiarize executing agency (EA) and project management unit (PMU) staff on IsDB's new e-Procurement Portal (EPP); and (iii) assess the country's own public procurement system and e-government procurement (e-GP) system to explore the possible use of country systems.
b. **Disbursement and dues:** The disbursements to the country have started to improve and over the past five years (2019–2023) have reached US$718.7 million, with an average of US$143.7 million per year. This trend is expected to continue with the fast-disbursing new projects approved in 2023. In terms of repayment, the country has been paying its operations dues to the Bank on a regular basis and has never been suspended by the Bank for any overdue payments.
c. **Counterpart capacity and co-financing commitment:** Overall, the government's commitment as a counterpart is robust, with no significant delays in accessing counterpart funds. Co-financing funds, when applicable, have not been subject to any delays or issues.

5.4. Recommendations and Approach for CEF Implementation

[38] Implementing the recommendations summarized below will help the CEF improve the efficiency and effectiveness of project design, implementation and oversight within the portfolio.

a. **Project design and implementation:** (i) Ensure availability of a robust, implementable project pipeline; (ii) have context-specific project designs; (iii) assess the capacity and ownership of the executing agencies; (iv) bring in smart clustering/packaging for procurement of project components; (v) ensure prompt issuance of IsDB clearances; (vi) integrate environmental and social safeguards (ESS); (vii) assign appropriate limits and arrangements for special accounts (SAs); and (viii) in consultation with the Ministry of Treasury and Finance (MoTF), ensure an inclusive and participatory approach by involving communities, civil society organizations (CSOs) and existing partners during stakeholder consultation.
b. **Financial management:** (i) Ensure timely and effective financial audits for responsible financial practices; and (ii) streamline the preparation and submission of project audit reports to facilitate financial closure.
c. **Project procurement:** (i) Arrange targeted procurement clinics to enhance understanding of IsDB requirements and guidelines; (ii) strengthen the capacity of EAs and PMUs to navigate procurement processes effectively; and (iii) explore joint work with partners in country assessments and procurement reforms, including aspects such as e-GP.
d. **Project follow-up, oversight and monitoring:** (i) Improve monitoring mechanisms through regular video calls, PIASRs and progress reports; (ii) conduct physical missions for enhanced supervision and oversight; and (iii) establish and institutionalize technical working groups and steering/review committees among the financiers and the government.
e. **Formation of a Joint CEF Steering Committee:** A joint steering committee will be established, including members from the Bank Group and the government, with a focus on strategic oversight. The steering committee, with representatives from the IsDBG Regional Hub Türkiye, MoTF and any other relevant stakeholders deemed necessary by MoTF, will become the compass guiding the CEF toward its goals, promoting synergy, and ultimately strengthening implementation and enhancing the chances of successful outcomes.

5.5. CEF Programming Approach for the IsDB Work Program

[39] **In close consultation with the government, a tentative pipeline of potential IsDB interventions for 2024–2026 was developed (*see Annex 1*).** This list is subject to changes based on the country's priorities, readiness factors, and internal IsDB strategic directives. The indicative financing envelope mentioned at the project level should not be considered a commitment from IsDBG. The finalization of each annual work program is expected to be completed by the end of the third quarter of the Program's preceding year, allowing for timely project preparation activities. Some key considerations in the CEF approach and project identification and selection guidance for the IsDB work program are listed below.

a. **IsDB quality and prioritization requirements** that will assess various quality and prioritization parameters for each project before being included in the three-year annual work program as Category A or Category B projects.
b. **Partnerships** are crucial, as each development partner brings unique advantages. In the current global and country contexts, development financiers are striving to improve coordination and co-financing. IsDB will engage other partners to consider joint programming missions. *Annex 5* presents the development partner map, which can be used to identify potential co-financing areas.
c. **Readiness** would include, but not be limited to, the readiness and quality of the project proposal (e.g., feasibility study) from the EA; the status of internal processing and clearance of the proposal by the competent national forum (e.g., inclusion in public investment program, where applicable); the status of a capable PMU; readiness in terms of the land clearances, environmental and social safeguards, and other standard prerequisites. Implementation readiness covers all elements that will ensure quality-during-implementation dimensions, such as a detailed and up-to-date financing plan, project management structures, procurement plans and realistic implementation schedules.

5.6. Financing and Resource Mobilization

[40] The indicative financing envelope for the CEF 2024–2026 is US$6.30 billion (including ICIEC insurance commitments) and will be reviewed periodically between IsDBG and the government. The final amounts will be based on the choice of projects to be proposed for financing, the instruments and their respective leverage ratios, IsDB's exposure limits, resource mobilization by IsDBG, and co-financing opportunities from development partners. IsDBG would strongly prefer co-financing with other development partners, particularly for projects in the earthquake-affected regions and those projects focusing on resilient, green projects (renewable energy, water supply and irrigation), contributing to PPP projects, and providing lines of finance to boost private-sector growth.

6. RISK MANAGEMENT

> IsDBG will work closely with the government to mitigate the identified risks and ensure coordination of its operations with the government to achieve the intended results.

[41] Implementation of the CEF could be affected by several risks (*see Annex 3*). As the country relies on external sources for a significant portion of its energy needs, higher global energy prices have led to increased costs for energy-related products. This negatively affects the country's trade balance and contributes to inflationary pressures leading to a triple deficit challenge. The government has already been implementing an effective fiscal policy to address the risks associated with the country's triple deficits, external vulnerability, currency depreciation, and inflationary pressures. However, economic and financial uncertainty is influenced by various factors, including the resumption of participation in global supply chains, and country-specific issues such as stabilizing the Turkish lira and managing inflation. IsDBG will work closely with the government to mitigate the identified risks and ensure coordination of its operations with the government to achieve the intended results.

ANNEX 1: INDICATIVE COUNTRY WORK PROGRAM, 2024–2026

Indicative financing by Islamic Development Bank Group under CEF Türkiye (2024–2026)

IsDB Group member	Indicative amount (US$ millions)
Islamic Development Bank (IsDB, including PPP)	2,000
International Islamic Trade Finance Corporation (ITFC)	900
Islamic Corporation for the Development of the Private Sector (ICD)	300
Total financing	**3,200**
Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) (business insured)	3,100
Total CEF envelope	**6,300**

A. Indicative IsDB-OCR financing, including standby projects (US$ millions)

No.	CEF year (approval year)	Project name	Sector	Ministry/ institution	CEF Pillar	IsDB financing	Co-financing	Total financing
1	2024	School Resilience and Reconstruction Project	Education	MoNE	2, CC1	160.00	190.00	350.00
2	2024	Modernization of Divrigi–Kars Railway Line Project	Transport	AYGM	1, CC3	200.00	910.00	1,160.00
3	2024	Nakkas Motorway Project – PPP	Transport	Renaissance	1, CC3	70.00	EBRD+IsDBG Entities+ commercial	70.00
4	2024	Economic Support Project (ESP)	Finance/ Multi-sector	Turk Eximbank	2, CC3	100.00	tbd	100.00
5	2024	Urban Infrastructure Recovery and Resilience Project	Urban	IlBank	1	200.00	OPEC Fund (pot.), WB, EBRD, JICA	200.00
6	2025	Resilient and Seismic-proof Urban Infrastructure Project	Urban/ Education	ISMEP	2	200.00	tbd	200.00
7	2025	Atatürk Dam–Karakaya Dam Watershed Rehabilitation Project	Rural Dev./ Agriculture	MoAF	1, 2	75.00	75.00	150.00
8	2025	Climate Finance and Employment Creation	Multi-sector/ Finance	TSKB	1, 2, CC4	150.00	tbd	150.00
9	2025	Antalya–Alanya PPP Motorway	Transport	Limak	1, CC3	100.00	tbd	100.00
10	2025	Strengthening of Hospitals in Istanbul	Health	MoH	2	200.00	1,950.00	2,172.22
11	2025	Enhancing Food Security (Food loss and waste)	Agriculture	MoAF	2, CC4	100.00	tbd	100.00
12	2026	Modernizing and digitizing the transmission grid for renewable energy integration	Energy	MoENR	1, CC1, CC4	200.00	750.00	950.00

No.	CEF year (approval year)	Project name	Sector	Ministry/ institution	CEF Pillar	IsDB financing	Co-financing	Total financing
13	2026	Special Industrial Estates in earthquake regions	Industry	MoIT	1, CC1, CC4	100.00	tbd	100.00
14	2026	Bosphorus Crossing Project	Transport	MoT	1, CC3	250.00	tbd	250.00
15	2026	SME Support Project within a specific sector or thematic area	Multi-sector/ Finance	TKYB	2, CC3	100.00	tbd	100.00
16	2026	Construction of City Hospital	Health	MoH	1	300.00	tbd	300.00
Total						**2,505.00**	**3,875.00**	**6,452.22**

AYGM, Altyapı Yatırımları Genel Müdürlüğü; CC, CEF cross-cutting area; EBRD, European Bank for Reconstruction and Development; IlBank, Iller Bank; ISMEP, Istanbul seismic risk mitigation & Emergency Preparedness Project; JICA, Japan International Cooperation Agency; MoAF, Ministry of Treasury and Finance; MoENR, Ministry of Energy and Natural Resources; MoH, Ministry of Health; MoIT, Ministry of Industry and Technology; MoNE, Ministry of National Education; MoT, Ministry of Transportation; tbd, to be determined; TKYB, Türkiye Kalkınma ve Yatırım Bankası; TSKB, Türkiye Sınai Kalkınma Bankası; WB, World Bank.

Notes:
1. The above IsDB work program is tentative and based on the initial business development programming exercises undertaken prior to, and during, the CEF development.
2. Projects to be processed under each annual work program will be filtered, screened and processed based on quality of design, readiness to implement, co-financing, capacity of the executing agencies, country risk and other macro-level considerations.
3. Although, the total IsDB amount in the work program is larger than the amount allocated under the CEF, country allocations of the Bank will be abided by. There will be periodic and dynamic updates of the work program based on emerging priorities and needs, including any adjustments based on revised country allocations.
4. The "co-financing" amounts are tentative, and in some cases they are yet to be determined (i.e., tbd). These figures will be updated during periodic reviews of the CEF. Similarly, the government and institutional financing (i.e., counterpart funds) will also be determined during project processing and the CEF will be updated during the review exercises.

B. Indicative IsDB Group entities financing (US$ millions)

No.	CEF year	Project/cluster name	Financing	Sector(s)	IsDBG focal points	CEF Pillar
1	2024–2026	Businesses Insured (new and renewals)	3,100.00	Insurance	ICIEC/ RH-T Istanbul Office	2
2	2024–2026	Lines of Financing to banks and non-bank financial institutions (FIs)	180.00	FIs	ICD/ RH-T Istanbul Office	2 and CC2
3	2024–2026	Financing for Corporates and Project Finance Transactions	120.00	Corporate and project finance	ICD/ RH-T Istanbul Office	2 and CC2
4	2024–2026	Public and Private Trade Financing Operations	900.00	Earthquake mitigation, food security/ agriculture, FIs	ITFC/ RH-T Istanbul Office	2 and CC2

C, CEF cross-cutting area; RH-T, Regional Hub Türkiye.

IsDBI may support the effort of the government in expansion of Islamic finance through the following.

a. **Fintech solutions**: Recognizing the potential for growth in Türkiye, IsDBI aims to be a strategic partner in addressing economic and financial hurdles. IsDBI seeks to propel Türkiye toward sustainable and inclusive development by delivering innovative, cutting-edge digital solutions grounded in knowledge. Through pioneering applications of fintech, the Institute also seeks to engineer inclusive and sustainable development, while upholding the integrity of Islamic economic and financial values. IsDBI is committed to fostering a flourishing Islamic finance ecosystem in Türkiye.

b. **Islamic finance grants:** IsDBI can provide Islamic finance grants to support Türkiye in developing sound legal, regulatory and supervisory frameworks for the Islamic banking industry. IsDBI's expertise assists in establishing the infrastructure necessary for the smooth operation and growth of Islamic financial institutions.

c. **Capacity-building and awareness:** Through tailored capacity-building programs and awareness campaigns, IsDBI works to equip professionals, institutions and the public with the knowledge and skills required to participate confidently in the Islamic finance market. This initiative fosters a deeper understanding and broader acceptance of Islamic finance principles. IsDBI is willing to meet the Republic of Türkiye's capacity-building needs to develop its participation in the finance sector.

d. **Advisory services:** IsDBI's expert advisors offer strategic guidance to Islamic infrastructure institutions in Türkiye. IsDBI provides insights on policies, standards and guidelines, and conducts studies to support the industry's continued growth, stability and resilience.

e. **Knowledge dissemination:** IsDBI has a remarkable track record of publishing cutting-edge research and analysis in Islamic economics and finance. Its flagship reports, books and journals have established it as a leading voice in the field. Notably, IsDBI remains committed to regional accessibility by offering numerous publications in Turkish as well as English. Building on this legacy, the Institute actively pursues innovative e-publishing solutions to solidify its position as a pre-eminent thought leader in disseminating Islamic economic and financial knowledge. Part of the support would be to develop the Islamic Finance Country Assessment Framework (IFCAF) for Türkiye, with government concurrence.

ICIEC's indicative support to Türkiye during the three-year period of the CEF of Türkiye (2024–2026) is estimated as follows.

- Business insured for new projects in Türkiye: **US$800 million** for the period 2024–2026;.
- Business insured for new projects executed by Turkish contractors and investors outside Türkiye: **US$500 million** for the period 2024–2026.

In addition, ICIEC has an existing portfolio in the country that is expected to be renewed on annual basis as follows.

- Expected renewals of existing insurance policies for projects in Türkiye: **US$400 million** on annual basis.
- Expected renewals for existing insurance policies for cross-border projects executed by Turkish companies: **US$500 million** on an annual basis.

ICIEC is a reinsurer to Turk Eximbank under its Quota Share Reinsurance Treaty, which is being renewed on a yearly basis. The volume of ICIEC's support under the Quota Share Reinsurance Treaty is a proportion of Turk Eximbank's volume of business.

ICD plans to commit up to US$300 million of new financing and investments, on a best-effort basis, to projects in Türkiye. In addition, ICD plans to support Turkish entities in their cross-border initiatives in other Member Countries. ICD also stands ready to assist Türkiye to develop sukuk programs for government, SOEs, municipalities and private-sector entities. Investments in selective brown-field Shariah-compliant FIs and corporate sector will be encouraged. Collaboration with participation banks and takaful companies to explore ICD's expansion plan in Commonwealth of Independent States countries is another area showing promise. ICD will explore both Tier-1 capital (US$) and Convertible Tier-2 (US$/Local currency) for its interventions in participation banks.

ITFC is willing to expand its interventions in Türkiye by extending financing for an indicative amount of US$900 million to both public and private sectors. The public-sector financing will mainly target supporting agriculture/food security, health and transportation, and addressing the needs of the country stemming from the negative impact of the 2023 earthquakes. ITFC will extend lines of trade financing facilities to local banks to support the needs of private-sector and small and medium-sized enterprise (SME) clients in trade finance. Furthermore, ITFC will be engaged with partners to conduct development projects in trade and business development and provide advisory services to support the public and private sectors in Türkiye. ITFC is willing to collaborate with relevant agencies under the Targeted Interventions and Integrated Trade Solutions programs, and to leverage mutually beneficial cooperation within the framework of its Flagship Program, such as the "Trade Connect Central +".

ISFD intends to pursue a joint country program of establishing an endowment program, the income of which will be used to fund, on grant basis, social and poverty reduction projects in Türkiye and poverty alleviation projects in some selected least-developed Member Countries.

ANNEX 2: RESULTS FRAMEWORK

This Results Framework presented below has been derived from the Twelfth Development Plan (2024–2028) and the Medium Term Program (MTP, 2024–2026) of Türkiye. The Country Engagement Framework (CEF) will actively contribute to these results indicators, aligning Islamic Development Bank Group (IsDBG) organizational initiatives with the objectives of the MTP. Through proposed strategic planning and concerted efforts, the CEF aims to play a significant role in supporting Türkiye in achieving milestones that contribute to broader socio-economic progress. All interventions anticipated over the CEF time frame will be aligned with the Sustainable Development Goals (SDGs), National Priorities and specific indicators of the IsDB's Results-Based Management Framework (RBMF) as potential projects from the indicative pipeline are entered into the IsDB project cycle.

Tentative indicators and results areas expected across the CEF Pillars

CEF outcomes	Key results indicators
PILLAR 1: RESILIENT AND SUSTAINABLE TRANSITION	
Priority 1: Supporting energy sector	
Achieving self-sufficiency in energy sector by 2053, utilizing renewable and nuclear energy resources for sustainable, secure and cost-effective power, consistent with the net-zero emission commitment.	Indicator 1: Reduction in absolute emissions Baseline: tbd Target: 35% reduction by 2030 Indicator 2: Renewable energy share increased in electricity production Baseline: Current percentage share of renewable energy in electricity production (tbd) Target: 75% by 2030 Indicator 3: Growth in installed electricity power capacity Baseline: 106,800 MW (2023) Target: 136,000 MW by 2028 Indicator 4: Energy savings through efficiency
Priority 2: Supporting transport sector	
Developing intermodal and multimodal transportation applications; establishing a safe, accessible, integrated, environmentally friendly and low-cost transportation system; maximizing the country's potential as a regional hub in transportation and logistics by creating an infrastructure that supports competitive production and exports.	Indicator 1: Increased proportion of electrical tractive stock (main line locomotives + train sets) in total number of tractive vehicles (%) Baseline: 32% (2023) Target: 40% by 2028 Indicator 2: Increased length of high-speed train lines Baseline: 2,252 km (2023) Target: 5,343 km by 2028
Priority 3: Disaster management	
Assisting the government's effort in comprehensive disaster management, from pre-disaster planning and resilience building to post-disaster recovery, with the aim of minimizing loss of life and physical assets by effectively reducing disaster risks and damages.	Indicator 1: Supported post-earthquake reconstruction efforts Indicator 2: Established disaster-resistant, healthy, liveable and sustainable areas, particularly in provinces affected by earthquakes Indicator 3: New industrial development areas and logistics created outside high disaster risk regions, to alleviate over-concentration of industry, especially in the Marmara Region

CEF outcomes	Key results indicators
PILLAR 2: PRODUCTIVITY ENHANCEMENT, COMPETITIVENESS AND INCLUSIVE GROWTH	
Priority 1: Quality education and health	
Ensuring that all individuals have equal access to high-quality education and lifelong learning opportunities based on the principle of inclusiveness; developing their academic and professional skills and having access to healthy life services, in accordance with international standards; developing competencies in the fields of analytical thinking, financial literacy, collaborative work and leadership.	**Indicator 1:** Reduced mismatch between market-demanded skills and education-provided skills to enhance employability Baseline 1: Youth employment rate, 37.9% (2023) Target 1 : 41.7% by 2028 Baseline 2: Women's employment rate, 31.4% (2023) Target 2: 36.2% by 2028 **Indicator 2:** Healthy living centers constructed and improved service quality Baseline: Hospital beds, 80.2% (2023) Target: 90% by 2028
Priority 2: Participation in global value chains	
Facilitating the transition to a high-value-added production structure by boosting competitiveness and efficiency around the pillars of green and digital transition in all sectors, especially in priority sectors, in the manufacturing industry such as chemicals, basic metals, textiles, transport equipment, and telecommunication services.	**Indicator 1:** Increased share of priority sectors in manufacturing industry exports Baseline: 38% (2023) Target: 46% by 2028 **Indicator 2:** Increased share of mid-high technology industries in manufacturing industry exports Baseline: 37% (2023) Target: 44% by 2028 **Indicator 3:** Increased share of high and mid-high technology exports in the loan volume of the Turkish Eximbank Baseline 40% (2023) Target: 45.5% by 2028
Priority 3: Private-sector development (especially SMEs)	
Supporting the development of the private sector, with a special focus on SMEs – to increase their share in global value chains (GVCs) while reducing reliance on imports and ensuring supply security.	**Indicator 1:** Increased exports of SMEs (US$ billions) Baseline: 70 (2023) Target: 120 by 2028 **Indicator 2:** Increased share of high technology in the exports of SMEs operating in the manufacturing industry Baseline: 1.5% (2023) Target: 3% by 2028
Priority 4: Agriculture and rural development	
Supporting a productive labor force in rural areas, ensuring sustainable natural resource management, climate-smart agriculture, and retaining the population in rural areas by improving the quality of living, agricultural productivity, value addition in the rural non-farm economy, and market access.	**Indicator 1:** Increased revenue and employment, benefiting approximately 23% of people residing in rural areas by increased industrial plantation (thousand ha, annual) Baseline: 5 Target: 15 **Indicator 2:** Rural roads constructed and enhanced connectivity Baseline: 137,080 km (2023) Target: 144,580 km by 2028 **Indicator 3:** Stability in food prices supported and ensured security of supply of strategic agricultural products **Indicator 4:** Reduced ratio of per-capita income of the highest income region to that of the lowest income region (%) Baseline: 4.30 (2023) Target: 3.85 by 2028

CEF outcomes	Key results indicators
CROSS-CUTTING THEMATIC AREAS	
Objective CC1. Improved digitization and increased economic efficiency	
Supporting the utilization of digital technologies at the highest level to enhance productivity and international competitiveness.	Indicator 1: Strengthened digital finance infrastructure and domestic technologies advanced in the fintech field to increase foreign direct investment (FDI) inflow (US$ billions) Baseline: 12.8 (2023) Target: 27.0 by 2028 Indicator 2: Increased use of eGovernment services Baseline: 73.9% (2023) Target 80.0% by 2028 Indicator 3: Increased Internet usage rate Baseline: 87.1% (2023) Target: 96.5% by 2028 Indicator 4: Increased share of private sector in R&D expenditures (%) Baseline: 62% (2023) Target 67% by 2028
Objective CC2: Islamic finance and financial market depth	
Supporting the efforts of the government to mainstream a Shariah-compliant banking system as an alternative mechanism, to strengthen financial institutions' abilities to lend to the real economy.	Indicator 1: Increased financial facilities, particularly for SMEs, the informal sector, low-income people and the agricultural sector Indicator 2: Enhanced access to financing opportunities both for infrastructure development (through sukuk) and SME investments (through profit-and-loss sharing-based instruments)
Objective CC3: Regional cooperation and integration	
Enhancing economic cooperation through approaches such as "sourcing from neighboring countries and regions" – to enhance market diversification, support economic resilience and strengthen trade and investment relations with countries that share common values, goals and interests.	Indicator 1: Increased FDI inflow (US$ billions) Baseline: 12.8 (2023) Target: 27.0 by 2028 Indicator 2: Increased export (FOB, US$ billions) Baseline: 255.0 (2023) Target: 375.4 by 2028
Objective CC4: Capacity development and South–South cooperation	
Supporting boosting of collaboration and exchange of resources, technology, knowledge and expertise between Türkiye and other IsDBG Member Countries – to address developmental challenges and needs related to the structural determinants of productivity and competitiveness.	Indictor 1: Capacity development initiatives supported in priority sectors, such as agriculture (smart farming and precision agriculture), education, health, and private-sector development (particularly focusing on SMEs) Indicator 2: Strengthened activities of Islamic Countries Statistics, Economic and Social Research and Education Center and Islamic Cooperation Youth Forum Indicator 3: Assistance actively provided for the establishment and activation processes of the Islamic Forum of Halal Accreditation Bodies, aiming for mutual recognition of halal certificates among Organization of Islamic Cooperation (OIC) Member Countries Indicator 4: Support provided for the implementation of the Standing Committee for Economic and Commercial Cooperation (COMCEC) SME Program, benefiting SMEs in OIC Member Countries

ANNEX 3: RISKS TO CEF AND MITIGATION MEASURES

Risks	Scale	Mitigation
Macro-economic risk: Renewed external or domestic shocks could lead to further pressures on prices, external balances or currency.	Low	Policy normalization is ongoing and the economy is rebalancing. The current account has declined, inflationary pressures have softened, foreign exchange reserves have increased, and lending spreads have declined. S&P raised its outlook to positive in November 2023. Fitch upgraded the rating to B+ positive. Public debt is generally low and sustainable. The government's relatively strong balance sheet and uninterrupted access to financial markets is a strength. Private sector and banks have proven resilient to macro-economic volatility.
Inflationary risks: While inflation is expected to decrease in the coming years, this could affect budget allocations for CEF projects, potentially causing delays or adjustments in planned timelines.	Medium	Regular joint portfolio reviews will be carried out to find cost-effective solutions and strategies.
Currency risk: This risk might lead to increased costs for imported goods and materials, resulting in budget shortfalls or requiring additional funding.	Medium	For borrowers not subject to material currency risk, CEF will thoroughly assess the estimated costs and agree on the project's financial arrangements before processing any project.
Disruptions to global trade and commodity price shocks: Geopolitical risks remain high, particularly relating to the ongoing conflict in the Middle East. A widening or escalation of the conflict could disrupt shipping more extensively than presently expected.	Low	Medium-term growth prospects are moderate, but face risks from global economic downturns, trade tensions and global political instability. While risks are low, regular joint portfolio reviews will be carried out.
Climate change and non-climate related threat: Türkiye faces substantial threats from climate change affecting key sectors such as agriculture, fisheries, infrastructure and tourism. The projected consequence is a significant 2.26 percent loss in GDP by 2050. Urgent action is needed to mitigate these impacts and prevent long-term economic damage. Shorter-term climate and non-climate physical risks include wildfires and earthquakes, which could impact Türkiye's socio-economy.	Medium	The Islamic Development Bank Group (IsDBG), along with other multilateral development banks, will align their operations with the goals of the Paris Agreement. To actualize this commitment, the Bank will identify strategic sectors and activities that can reduce emissions, promote green growth and enhance long-term climate resilience in the country. Taking into account recent climate and non-climate shocks, projects will mainstream climate change and emphasize resilience.
Project risk: Cost overruns may occur during project implementation due to fluctuations in physical quantities and/or increased inflation and depreciation of the Turkish lira (TL). Furthermore, risks at the fiduciary level, including procurement risks and other implementation aspects would have to be considered during due diligence.	Medium/ Low	The CEF will thoroughly assess the estimated costs and agree on the project's financial arrangements before processing any project. Contingencies would also be adequately built in, and thorough due diligence undertaken on all fiduciary aspects at the project level.

ANNEX 4: DEVELOPMENT CHALLENGES ALIGNMENT MATRIX

Key development challenge	National Priorities	IsDB Strategic Realignment 2023–2025	SDG alignment
Enhancing competitiveness through green and digital transformation in production	• Green transformation (renewable resources, energy efficiency, electrification and green transportation) • Green and digital technologies • Soft and hard infrastructure to support innovative production structure • Deepen the development of high-tech manufacturing industries	**P1:** Green, resilient and sustainable infrastructure **C1, C4:** Digital economy, Capacity development	**SDGs 12, 13**
Diversification of renewable energy sources and energy efficiency	• Green energy and green economy • Advanced technologies and practices to enhance the efficiency of energy-consuming processes • Reducing dependence on fossil fuels, lowering greenhouse gas emissions, and mitigating climate change • Resilience to energy price fluctuations	**P1:** Green, resilient and sustainable infrastructure **C4:** Capacity development	**SDGs 7, 9**
Modernizing the transportation system and enhancing regional connectivity and disparities	• Modernizing transport and promoting energy-efficient transportation systems, including electric vehicles, improved fuel efficiency, and public transportation • Restoring and improving core infrastructure in the earthquake-affected regions • Promoting inclusive and balanced development	**P1:** Green, resilient and sustainable infrastructure **C4:** Capacity development	**SDGs 6, 8, 9**
Rural development and mitigating the impact of climate change on the economy, especially on the agricultural sector	• Increase in agricultural products, especially climate-resilient crop varieties • Improve rural infrastructure, including roads, storage facilities and processing units, to enhance the efficiency of agricultural supply chains • Implement efficient water management practices • Promote agricultural technologies that optimize resource use, reduce waste and enhance overall efficiency	**P1, P2:** Green, resilient and sustainable infrastructure, Competitive production and drive productivity-based inclusive growth **C1, C3, C4:** Digital economy, Regional cooperation, Capacity development	**SDGs 1, 3, 8, 9, 10**

Key development challenge	National Priorities	IsDB Strategic Realignment 2023–2025	SDG alignment
Enhancing the level of productivity and international competitiveness	• Competitive knowledge economy • Competitive human and social capital in production • More investment in R&D to develop new technologies and processes that enhance productivity • Private-sector-led, open and competitive production structure (especially SMEs)	**P2:** Competitive production and drive productivity-based inclusive growth **C1, C3, C4:** Digital economy, Regional cooperation, Capacity development	**SDGs 8, 9, 12**
Restore and improve core infrastructure in the earthquake-affected regions	• Allocate sufficient resources and funds for infrastructure development in both urban and rural areas in the earthquake-affected regions • Development and enhancement of both hard and soft infrastructure in the region	**P1:** Green, resilient and sustainable infrastructure **C1, C3:** Digital economy, Regional cooperation	**SDGs 4, 7, 9**
Addressing regional disparities and gender inequality – crucial for structural transformation and modernization of the economy	• Dynamic and inclusive development • Ensuring that everyone has access to quality economic opportunities and physical infrastructure • Enhancing educational opportunities for employment • Promoting women's entrepreneurship, particularly in marginalized regions	**P2:** Competitive production and drive productivity-based inclusive growth **C1, C3, C4:** Digital economy, Regional cooperation, Capacity development	**SDGs 3, 4, 5, 8, 10**
Addressing the high cost of finance for economic activities, particularly for SMEs, youth and women entrepreneurs	• Achieving inclusive and balanced growth • Private-sector- and entrepreneurship-led growth • Ensuring that SMEs, youth and women entrepreneurs have improved access to affordable financial services • Promoting digital financial service	**P2:** Competitive production and drive productivity-based inclusive growth **C2, C4:** Islamic finance, Capacity development	**SDGs 1, 2, 3, 5, 8, 9, 10**

ANNEX 5: DEVELOPMENT PARTNER MAP OF TÜRKIYE

	Sectors									Cross-cutting themes			
Development partner	Energy	Trade finance	Transportation	Water & sanitation	Agriculture	Public finance	Private sector	Health	Education	Regional cooperation	Youth & gender	Climate action	Capacity development
World Bank (WB)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Asian Infrastructure Investment Bank (AIIB)	✓		✓				✓	✓			✓	✓	✓
European Bank for Reconstruction and Development (EBRD)	✓	✓	✓	✓			✓	✓		✓	✓	✓	✓
European Investment Bank (EIB)	✓	✓	✓	✓	✓		✓	✓				✓	
Japan International Cooperation Agency (JICA)		✓	✓				✓					✓	
German investment and development bank (KfW)	✓			✓			✓						
African Development Bank (AfD)							✓						
Council of Europe Development Bank (CEB)		✓	✓	✓	✓	✓				✓	✓	✓	✓
Black Sea Trade and Development Bank (BSTDB)	✓	✓					✓	✓			✓	✓	✓
IsDBG	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓

Source: Ministry of Treasury and Finance.

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