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20/12/2017

UNDP-TLR-20171220-0003743

REQUEST FOR ADDENDUM

Subject: Request for Addendum – 1

Purpose: Request for Extension of the Project for 6 Months and Budget Change

Contract/Agreement No: TR2013/0740.10-02/GRA/003

Title of Project: Support to Development of a Policy Framework on Total Factor Productivity

Dear Mr. Selim Uslu,

Please kindly find attached for your kind review and approval, the Addendum No:1 which introduces revisions to Annual Work Plan and Budget of the above-mentioned Project.



Mr. M. Selim Uslu

PAO-CFCU Director

Central Finance and Contracts Unit

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Cc: Ministry of Development (General Directorate of Strategic Research and Economical Modelling)

Enclosed: Addendum No: 1

**Technical Assistance for
Support to Development of a Policy Framework on
Total Factor Productivity**

**Reference Contract No:
DOGER/SDPF/TR2013/0740.10-10.02/GRA/003**



**ADDENDUM No: 1
December 2017**

A1

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Project Synopsis

Summary of the action

Title of the action:	Support to Development of a Policy Framework on Total Factor Productivity
Name of the Beneficiary Institution:	Kalkınma Bakanlığı Ekonomik Modeller Başkanlığı Ekonomik ve Stratejik Araştırmalar Dairesi Necatibey Caddesi, No:110/A Kat:10, Yücetepe, Ankara/TURKEY Phone : +90.312.294 60 26 Fax : +90.312.294 60 77
Location of the Action:	Turkey
Total duration of the action:	30 Months
Total budget for the action:	EUR 2.975.411,30
EU and Turkey financing requested:	EUR 2.975.411,30 (EU+Turkey)
EU and Turkey financing requested as a percentage of total budget of the Action:	100 %
Objectives of the action:	Overall objective: To improve the contribution of total factor productivity to growth. Specific objective: To improve the institutional capacities to formulate and implement sector policies and strategies that contribute to national competitiveness.
Target groups:	The Project will target to reach and interact with a wide range of stakeholders from public sector to private sector covering policy makers and business actors including think tanks, business service organisations, SMEs etc. Minimum 3000 companies will be reached through surveys and more than 40 institutional stakeholders will be reached through working groups, scientific committee etc.
Final beneficiaries:	Ministry of Development will be the final beneficiary who will own the policy framework and manufacturing industry representatives and overall economic actors will be also among the final beneficiaries to be affected by the policy framework.
Estimated results:	1. Factors limiting Total Factor Productivity in Turkey identified. 2. A macro-level policy framework that would boost total factor productivity developed and operationalized.

Activity	Status
C 0.1 Research and Synthesis Framework	✓
C.0.1.1 Development of the Research Framework	✓
C.0.1.2 Development of the Synthesis Framework	✓
C.1.3. Inception Report	✓
C.0.2. Working Groups	✓
C.1 TFP Assessment	✓
C.1.1 Assessment of the Factors Limiting TFP at Company Level	✓
C.1.1.1 Design of the Company-Level Surveys	✓
C.1.1.2 Survey	✓
C.1.1.3 Assessment of Results	✓
C.1.2 Benchmarking Turkey's Growth Prospects with a Convergence Perspective	✓
C.1.1.1 Scoping	✓
C.1.1.2 International Benchmarking Exercise	✓
C.1.3 Synthesis	✓
C.1.1.3 Development of the Synthesis Action Plan	✓
C.1.1.4 Implementation of the Synthesis Action Plan	✓
C.2 TFP Policy Framework	➔
C.2.1 Development of the Policy Framework	➔
C.2.2 Piloting the Operationalization of the Policy Framework	➔
C.2.3 Strengthening of Institutional Framework	➔
C.2.4 Dissemination	➔
C.2.4.1 Development of Communication Strategy	➔
C.2.4.2 Implementation of Communication Action Plan	➔

NS: Not Started

✓ : Completed

➔ : In Progress

1- INTRODUCTION

UNDP Turkey aims to find practical solutions to Turkey's development challenges and manages projects together with the Turkish Government and other partners to address them. Since 1986 it has implemented over 80 programs across the country. In addition, the UNDP has played a major role in response to crises and disasters in Turkey and the surrounding region.

UNDP Turkey has positioned to contribute through three core areas: 1) Inclusive and Democratic Governance (IDG); 2) Inclusive and Sustainable Growth (ISG); and 3) Climate Change and Environment (CCE); and in addition to these core areas, UNDP Turkey is emphasizing the role of Strategic Partnerships that cut across the entire country programme as well as regionally and globally.

The ISG Portfolio is geared towards addressing structural economic problems, such as productivity, innovation, the middle-income trap, multi-dimensional poverty, energy security and regional disparities, as well as challenges with social, environmental and economic repercussions, such as urbanization.

Within the scope of the Economic-Growth and Competitiveness Cluster of the ISG portfolio, UNDP aims to support Turkey in its economic and social development and to enhance competitiveness. Increasing productivity is critical for improvement of the manufacturing capacity, enhancement of competitiveness and acceleration of growth and thus economic and social development. In Turkey, productivity is the main obstacle of the growth. The purpose of the Project is to produce a policy framework, which is shaped by a forward-looking analysis, based on economic convergence scenarios, and which at the same time takes into account the fundamental differences between manufacturing industries in terms of Total Factor Productivity (TFP) constraints.

Support to Development of a Policy Framework on Total Factor Productivity Project's overall objective is to improve the contribution of total factor productivity to growth and specific objective is to improve the institutional capacities to formulate and implement sector policies and strategies that contribute to national competitiveness. The Project, funded by EUD, will target to reach and interact with a wide range of stakeholders from public sector to private sector covering policy makers and business actors including think tanks, business service organizations etc. Ministry of Development will be the final beneficiary who will own the policy framework and manufacturing industry representatives and overall economic actors will be also among the final beneficiaries to be affected by the policy framework. In line with the Description of Action there are three components; Inception phase, TFP Assessment and TFP Policy Framework.

The policy utilizing the framework, and the follow-up activities after the policy to be in place is supported by pilot studies. Pilot studies are likely to help to identify the strengths and weaknesses of the policy setting. Four Pilot Projects have been identified as follows:

Pilot 1 : "Need Assessment Study for the Establishment of a Digital Supply Chain in Ready Made Garments Sector". Need Assessment Study kicked off with a Research Conference Methodology in order to include all stakeholders in the process with a Participatory Approach.

Pilot 2 : Testing the Digital Supply Chain Model and Road Map Designed with a prefeasibility study of Small Number of SMEs

Pilot : 3 Design of a Road Map with related stakeholders to enable SMEs to utilize Carbon Fiber more widely

Pilot 4 : SME Productivity Assessment Study- Impact of National and International Rewards on Productivity of SMEs Based on KALDER and EFQM Models

Until now, “Component 0: Inception” and “Component 1: TFP assessment” have been successfully completed and the activities under “Component 2: TFP Policy Framework” are ongoing. However, as it has been recognized by all stakeholders during Project Steering Committee and Coordination meetings, the PMU has come across some difficulties in the implementation process and there have been some incidents beyond the control of the PMU. Unfortunately, these factors have caused major delays in the delivery of the project outputs.

Within the Project, Semi-structured In-depth (SSID) Interviews, Semi-structured Surveys and Structured Surveys have been conducted with 100 large-scale manufacturers, 400 (mostly) medium-sized suppliers and 2,500 end-to-end SMEs. For better assessment of the factors limiting TFP at company level, the surveys were designed broad in scope. Because of the scope of these surveys, the completion of the surveys took longer time than expected. In fact, the PMU had recognized the insufficiency of the 5-months period allowed for surveys in DoA and the duration was modified to 9 months. Additionally, 15 July 2017 coup attempt affected adversely the participation of companies to the surveys. This factor unfortunately has emerged as an important challenge for the completion of field search on time. As a result, the surveys and their assessment was completed yet in October 2017.

In fact, the surveys constitutes the backbone of the project since both TFP Assessment and TFP Policy Framework are to be built on the results of the analysis of these surveys. Synthesis report collates survey analysis, international benchmarking exercises, country studies and the result of thematic and sectoral meetings in a way to produce the main policy framework to be introduced by Green Paper and White Paper. Therefore, the main outputs and deliverables of the Project have been affected from the delay in the completion of the survey analysis.

Additionally, because of the 15 July 2017 incident and its repercussions in the public institutions, the PMU has not been able to hold Steering Committee and Working Group meetings as planned. Successive staff changes as well as the vacant positions in the institutions constrained the holding of these meetings on time.

In order to mitigate these delays and increase the quality of the outputs, counter measures have been put forward by the PMU. The scope of the benchmarking exercise was widened and more than 50 countries have been analysed in comparison to four selected sector performances together with the policy level actions. Global Value Chain Assessment Vertical Report, providing an overall summary of the four global value chain reports was developed and introduced in depth analysis of the four global value chains providing detailed assessments of trends norms and political norms that are affecting company level decisions and actions. Country reports on Germany and South Korea were prepared as well to provide deeper insight for public policy measures in response to specific needs of the MoD. Moreover, for the effective use of time, the timeline for sectoral and thematic workshops were advanced. During June, July and August 2017 four sectoral and four thematic meetings were held with the participation of public institutions, private sector companies, universities, NGOs and all relevant stakeholders. In these meetings, the PMU managed to reach approximately 240 participants and get valuable insights and information as an input to the synthesis report. Additionally, after the consultations with relevant stakeholders in different platforms and in Working Group meetings, the pilot projects were determined. Accordingly, three pilot projects (Pilot 4 to be launched following the completion of Pilot 1) were launched on a participatory basis in November 2017 and working groups and communication strategy have already been established.

Furthermore, the first version of the Synthesis Report has been submitted and the final version is planned to completed by the end of 2017. Accordingly, the report will be discussed in Scientific Committee in January 2017 and together with the contributions of the Committee, it will give an input to the Green paper, which will be released in February 2018. However, considering the duration of the project, which will end on 12 May 2018, the consultative process between Green Paper and White Paper is limited with only 2 months. PMU gives utmost importance to the consultation process, since it will increase the participatory basis and

the quality of the final output of the Project and therefore would like to spend 6 months for consultation process as seen in DoA.

Moreover, Pilot 1 and Pilot 2 projects have been designed as successive projects in such a way that while Pilot 1 aims to determine the road map, Pilot 2 aims to test this road map with a number of private sector company's engagement. Six months each, in total one year period is required for these projects which are believed to establish and test a sustainable model enhancing TFP growth. Therefore, additional six month is essential for the launch and implementation of Pilot 2.

Therefore, in order to ensure the high quality of the deliverables, preserve the duration of the consultation process and increase overall impact of the process, 6 month extension is requested. This extension will only serve to improve the quality and enhance consultative process. In the meantime, changes in the operational costs have decreased due to move of the office premises and decreases in the salaries due to change in exchange rate (as will be explained in 2.2.3).

2 PROPOSED MODIFICATIONS AND JUSTIFICATION

The present Addendum to the Project proposes 6 months extension of the project together with the modifications of the time plan in some of the project activities in order to enable the utmost result with no additional cost.

The Addendum-1 introduces the revisions to the Action Plan and the Budget of the Project. The feedbacks are received from the final beneficiary, MoD before the submission of the addendum dossier.

The following types of modifications, along with corresponding remarks and justifications are presented:

2.1. The Revised Action Plan With 6 Month Extension Assumption

The revised action plan reflects the changes in the duration and timelines of the project with an extension of six (6) months attached in Annex 1 Activity Plan. (Annex 1-a: Revised Annual Work plan; Annex 1-b: Explanation and Justification for the Revised Annual Work plan.)

2.2. Request for a Change in Budget item 3 Equipment and Supplies with no additional cost

In case an extension is granted for the project, the pilot 2 will be implemented to test the digital supply chain for ready-made garments. In order to enable software equipment for the Pilot 2, it is requested to add a new budget item under 3 Equipment and Supplies as “3.5.3. Software Equipment” and transfer 78.000 Euros to this heading (62.448,55 Euros from 5 Other Costs and Services; 5.678,79 Euro from 4 Local Office; 9.892 Euro from other budget items under Equipment and Supplies).

2.3. Notification of changes in the salaries of Team Leader, Deputy Team Leader and Project Coordinator

The estimated unit amount for Team Leader, Deputy Team Leader and Project Coordinator in the project was budgeted, 7250 Euros, 5625 Euros and 5625 Euros respectively and it was notified to you with our letter dated 4 November 2016.

Due to the new Service Contract Salary Scale of UNDP Turkey CO which was accepted as of May 1st 2017, the realized unit value of Team Leader, Deputy Team Leader and Project Coordinator are realised as 6007 Euros, 5166 Euros and 5166 Euros respectively. Therefore, we kindly propose to change the unit value of the salaries of Team Leader, Team Leader, Deputy Team Leader and Project Coordinator. Please kindly note CO confirms that current rate is compatible with market prices as observed in other programs being implemented under CO and salary changes are still within the budgeted amounts under Human Resources budget.

	2015 November to 2017 May			2017 June- ...			Change in Euro
	TL	Euro	Dollar	TL	Euro	Dollar	%
Team Leader	21.390	6.686	7.332	23.900	6.727	6.007	-10%
Deputy Team Leader	15.650	4.892	5.364	18.355	4.613	5.166	-5%
Project Coordinator	15.650	4.892	5.364	18.355	4.613	5.166	-5%

Red: Implemented on time as reference to the Inception Time Plan

Green: Delay in the start of the activity in reference to the Inception Time Plan

Blue: Displays duration of belated action needs extension)

ANNEX 1-B EXPLANATION AND JUSTIFICATION FOR THE REVISED ACTION PLAN

Component 0: Inception Phase
C.0.1. Research & Synthesis Framework
C.0.1.1 Development of the Research Frame
C.0.1.2 Development of the Synthesis Frame
All activities were completed in time as reference to the Time Plan presented with the Inception Report.
Component 1: TFP Assessment
C.1.1 Assessment of the Factors Limiting TFP at Company Level
C.1.1.1 Design of the company level surveys
Design of the company level surveys were planned to take 3 months between February 2016 and April 2016. It took 4 months between February 2016 and May 2016.
C.1.1.2 Surveys
The actual implementation of surveys was planned to be between May 2016 and December 2016, however it took longer and were completed by June 2017 due to the reasons beyond the control of the project and mainly due to the adverse external conditions. The attempted coup on 15th July 2016 and its implications following the date, slowed down the planned field work. The selected private sector companies were very reluctant to engage in the survey work.
C.1.1.3 Assessment of Results
The assessment of results took off with a delay of 13 months due to the reasons that the surveys were not completed on time. The assessment of results started as of June 2017 and concluded as of October 2017.
C.1.2 Benchmarking Turkey's Growth Prospects with a Convergence Perspective
C.1.2.1 Scoping
The scoping study for benchmarking took 2 months in line with the planned time period stated at the Inception Report.
C.1.2.2 International Benchmarking Exercise
The International Benchmarking Exercise took longer than anticipated. It started as of March 2016 and ended as of May 2017 with a delay of 10 months.
C.1.3 Synthesis
C.1.3.1 Development of Synthesis Action Plan

ANNEX 1-B EXPLANATION AND JUSTIFICATION FOR THE REVISED ACTION PLAN

<p>There has been a delay of 5 months in the development of the synthesis action plan. It is planned to take 10 months and will be finished at the end of February 2018.</p>
<p>C.1.3.2 Implementation of Synthesis Action Plan</p>
<p>Sectoral Workshops(tentative)</p>
<p>The Sectoral Workshops were realized with a delay of 4 months and executed in July and August 2017.</p>
<p>Thematic Workshops(Tentative)</p>
<p>In order to compensate the delays in other activities, dates of the thematic workshops brought forward. Thematic workshops were held in June 2017 and will be implemented in February- April 2018.</p>
<p>Working Group Meetings</p>
<p>The first two working group meetings were held on time, the first one in March 2016 and in October 2016. The belated meetings were held in September 2017 and the December 2017 respectively and the next one will be executed with one month delay in January 2018. Two more working groups are planned to be executed in May and September 2018.</p>
<p>Scientific Committee Meetings (Tentative)</p>
<p>The Scientific Committee Meetings were not organized in the first 2 years of the project due to delay in the completion of surveys and assessment results. The Scientific Committee meetings will be organized with in January 2018 and March 2018.</p>
<p>Component 2: TFP Policy Framework</p>
<p>C.2.1 Development of the Policy Framework</p>
<p>C.2.1.1 Development of TFP Green Paper</p>
<p>The development of the Policy Framework started off with 7 months of delay in June 2017 and will be finished at the end of February 2018 with the reflection of 7 months of delay.</p>
<p>C.2.1.2 TFP Green Paper Consultations</p>
<p>The Green Paper Consultations can start with 14 months delay and can be finished in July 2018. As per DoA, the consultations should be open for comments to different stakeholders for 6 months.</p>
<p>C.2.1.3 Development of TFP White Paper (Policy Framework)</p>
<p>The Development of TFP White Paper can start of in April 2018 with a delay of 5 months and will be finished in April 2018.</p>
<p>C.2.2 Piloting the Operationalization of the Policy Framework</p>

ANNEX 1-B EXPLANATION AND JUSTIFICATION FOR THE REVISED ACTION PLAN

Furthermore, the pilot studies are likely to help to identify the strengths and weaknesses of the policy setting. Four pilot projects have been identified.

C2.2.1 Identification of TFP Pilots I

In the identification process of the pilots, the TFP framework and findings generated by the international benchmarking exercise, assessment of surveys results and synthesis report were essential. Because of the delays in the completion of above mentioned components, there has been a delay in the identification of pilots. This process started off in May 2017 and ended in October 2017.

Pilot 1

Pilot 1: Need Assessment Study for the Establishment of a Digital Supply Chain in Ready Made Garments Sector. Need Assessment Study will kick off with a Research Conference Methodology in order to include all the related stakeholders in the process with a Participatory Approach.

The planned activities and expected deliverables are listed below:

- Search conference
- Six meetings with stakeholders of the project (monthly)
- Need assessment report at the beginning of the project
- Analysis reports in line with stakeholder's meetings
- Policy framework report at the closure of the project

C.2.2.2. Implementation of TFP Pilot Initiatives:

The implementation of Pilot 1 started as of November 2017 and will be finished in April 2018.

C.2.2.3 Assessment of Results

The Assessment of results took off with a delay of 7 months and will start as in January 2018 to be finished in April 2018.

Pilot 2

Pilot 2: Testing the Digital Supply Chain Model and Road Map Designed with a prefeasibility study of Small Number of SMEs

Following the finalization of road map created in Pilot 1; the road map will be tested with the participation of private sector actors.

The planned activities and expected deliverables are listed below:

- Opening meeting

ANNEX 1-B EXPLANATION AND JUSTIFICATION FOR THE REVISED ACTION PLAN

<ul style="list-style-type: none">-30 meetings with the stakeholders and the participant companies-Tested supply chain and supply chain software-Special report in line with the findings of c).-Policy framework report on digital supply chains
C.2.2.2 Implementation of TFP Pilot Initiatives
The implementation can start in February 2017 and will end in October 2018.
C.2.2.3 Assessment of Results
The assessment of results will start in July 2018 and end in October 2018.
Pilot 3
Pilot 3 : Design of a Road Map with related stakeholders to enable SMEs to utilize Carbon Fiber more widely
This pilot project aims to extend the use of carbon fiber in Turkey. The planned activities and expected deliverables are listed below: Opening meeting with a SWOT Analysis and establishments of four working groups on materials, production, marketing, politics and strategy with the participation of industry, government and university representatives. 4 monthly meetings with working groups Needs assessment report The report on main trends in carbon fiber around the world and the future of the industry. Market and competition analysis of carbon fiber in Turkey. Policy framework report on the countrywide use of carbon fiber
C 2.2.2 Implementation of TFP Pilot Initiatives
The Pilot III started off in November 2017 and will end in April 2018.
C 2.2.3 Assessment of Results
Assessment of results will start with in January 2018 and finish in April 2018.
Pilot 4
Pilot 4 : SME Productivity Assessment Study- Impact of National and International Rewards on Productivity of SMEs Based on KALDER and EFQM Models.

ANNEX 1-B EXPLANATION AND JUSTIFICATION FOR THE REVISED ACTION PLAN

<p>-The planned activities and expected deliverables are listed below:</p> <ul style="list-style-type: none">-Preparation meeting with KALDER-Opening meeting with KALDER, all stakeholders and the participant companies-20 post-evaluation company reports that assess the performance of 20 SMEs in terms of institutionalization and productivity levels after they have been granted quality rewards.-Consolidated evaluation report that consolidates the reports indicated in c).-5 application process evaluation reports that assess the performance of five SMEs that will apply to the quality rewards.-Policy framework report
C2.2.2 Implementation of TFP Pilot Initiatives
The Pilot 3 kicked off with in November 2017 and will end in October 2018.
C2.2.3 Assessment of Results
The assessment of results will start in July 2018 and end in October 2018.
As explained in detail in terms of identification, implementation and assessment steps of the pilot projects, a no cost extension of six months is requested:
Pilot 1 and Pilot 2 projects have been designed as successive projects in such a way that while Pilot 1 aims to determine the road map, Pilot 2 aims to test this road map with a number of private sector company's engagement. Six months each, in total one year period is required for these projects which are believed to establish and test a sustainable model enhancing TFP growth.
Furthermore, the six-month extension is very crucial for pilot 4, which aims to assess the application process of SMEs for quality rewards. To have a better understanding of the preparation of SMEs to the quality awards and their progress in institutionalization and productivity during the process, one year time is needed.
C.2.3 Strengthening of the Institutional Framework
C.2.3.1. Identification of a suitable institutional framework
The identification of a suitable institutional framework will start with a delay of 16 months in January 2018 and will continue until November 2018.
C.2.3.2 Improvement of Institutional Capacities
The improvement of the Institutional Capacities will start with in January 2018 and will last until November 2018.
Needs Assessment

ANNEX 1-B EXPLANATION AND JUSTIFICATION FOR THE REVISED ACTION PLAN

Needs Assessment action was not mentioned in the Inception Period Action Plan, it will start in January 2018 and will finish at the end of February 2018.
Capacity Improvement Programme
Capacity improvement programme has been designed in line with the TFP findings generated by synthesis report framework. Therefore, the activities of the Capacity Improvement Programme will start in January 2018 and finish as of November 2018.
Study Visits (International Benchmarking)
Due to the delay in the International Benchmarking exercise, the first Study Visit took place in November 2017 and the 2 more visits are planned to take place between January and June 2018.
C.2.3.3 Development of Computerised Systems
The work on the development of computerised systems started of with a delay of 11 months in July 2017 due to delays in the analysis of survey results and will be finished in September 2018.
C.2.4. Dissemination
C.2.4.1 Development of the Communication Strategy
The development of the communication strategy work started in March 2016 and was completed in October 2016.
C.2.4.2 Implementation of the Communication Action Plan
The implementation started in October 2016 and will continue until the end of the project with the time requested as of November 2018. As part of the implementation plan, a communication expert is mobilised, press releases periodically are produced, with a social media strategy and project web site in place.
Launch Event
Launch Event in the format of Press Gatherings will take place in February and March 2018.
International Conference
The international conference will take place in March 2018 with delay instead of the originally the planned timing of June-July 2017.
Closure Event
The event will take place in October 2018 instead of a planned event in April 2018.
Steering Committee Meetings
The steering committee meetings until now were organized in September 2016 and April 2017.

