



RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING

OF

TURKEY RAPID SUPPORT FOR MICRO AND SMALL ENTERPRISES DURING THE COVID-19 CRISIS

Approved on DECEMBER 18, 2020

TO

SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ORGANIZATION OF TURKEY/KÜÇÜK VE ORTA ÖLÇEKLI İŞLET

November 24, 2021

FINANCE, COMPETITIVENESS AND INNOVATION

EUROPE AND CENTRAL ASIA

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ABBREVIATIONS AND ACRONYMS

ESS	Environmental and Social Standards
ISR	Implementation Supervision Report
KOSGEB	Small and Medium Enterprises Development Organization of Turkey/Küçük ve Orta Ölçekli İşlet
MoIT	Ministry of Industry and Technology
MSE	Micro and Small Enterprise
M&E	Monitoring and Evaluation
PDO	Project Development Objective
PIU	Project Implementation Unit
RSF	Reimbursable Support Financing
TRY	Turkish Lira
USD	United States Dollars



BASIC DATA

Product Information

Project ID P174144	Financing Instrument Investment Project Financing
Environmental and Social Risk Classification (ESRC) Moderate	
Approval Date 18-Dec-2020	Current Closing Date 30-Jun-2023

Organizations

Borrower Small and Medium Enterprises Development Organization of Turkey/Küçük ve Orta Ölçekli İşlet	Responsible Agency Small and Medium Enterprises Development Organization of Turkey/Küçük ve Orta Ölçekli İşlet
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Project Development Objective (PDO)

Original PDO

The Project Development Objective (PDO) is to avert the closure of viable micro and small enterprises (MSEs) affected by the COVID-19 crisis and maintain their employment levels during the crisis.

Summary Status of Financing (US\$, Millions)

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net		
					Commitment	Disbursed	Undisbursed
IBRD-91950	18-Dec-2020	08-Mar-2021	23-Apr-2021	30-Jun-2023	300.00	45.77	254.23

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No



I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

A. Introduction

1. This restructuring paper follows the recently approved and signed restructuring paper RES48714. The original text of RES48714 is not repeated here; only the changes that pertain to the present restructuring are described. Changes are introduced to eliminate all references to the base month of March 2020 that appeared in the original Project Appraisal Document and Loan Agreement and to introduce the concept of increased employment in micro and small enterprises (MSEs) relative to the average employment level of an MSE for the 12-month period preceding the date on which the relevant Reimbursable Support Financing call-for-application is issued and to which the MSE is applying. The Loan Agreement and Results Framework are also modified to delete all references to the base month of March 2020.

B. Background

2. The Turkey MSE project was prepared in 2020 during the height of the COVID-19 pandemic, under circumstances of economic and social uncertainty in Turkey and around the world, with the Project Development Objective (PDO) being to avert the closure of viable MSEs affected by the COVID-19 crisis and maintain their employment levels during the crisis. The project consists of three components:

- (a) Component 1: Performance-based reimbursable support financing for eligible MSEs in the manufacturing sector
- (b) Component 2: Performance-based reimbursable support financing for eligible innovative young firms
- (c) Component 3: Technical support to the PIU under the Small and Medium Enterprise Organization of Turkey (KOSGEB)

3. The project was one of the World Bank's COVID-response lending operations in support of the private sector and, together with the Emergency Firm Support Project (P17412), provided a lifeline to viable MSMEs in Turkey at the height of the Covid-19 crisis. The project was prepared and delivered on a fast-track schedule and involved intense deliberations at concept stage and appraisal about the design and timeline for delivery. KOSGEB (the Borrower), the Ministry of Industry and Technology (MoIT) and the Ministry of Treasury and Finance (MoTF) were actively involved in all stages of preparation and have demonstrated high levels of commitment to implement the project properly, once it became effective.

C. Status of implementation

4. The project was approved on December 18, 2020 and became effective on April 23, 2021. The current closing date is June 30, 2023, thanks to the recent extension of closing date and amendment to the original Loan Agreement. Current implementation status remains the same as recorded in the previous restructuring paper and KOSGEB is anticipating the conclusion of the restructuring process to launch a third call for applications. Implementation progress continues to be satisfactory.

D. Rationale for restructuring

5. The project was restructured on December 16, 2021 with the purpose of expanding the sectors that can benefit from reimbursable support financing and provide support to MSEs that hire additional employees. The current restructuring builds on the former, further specifying that the concept of the base month of March 2020, against which MSE employment levels were to be compared, is no longer relevant under the new design. The base month of March 2020 was used as a reference point during the design of this project at the beginning and height of the COVID-19 pandemic.



Since then, the firms targeted by this project have adapted to the pandemic and the ensuing economic crisis, possibly decreasing employment temporarily. Now that Turkey has entered the current late-pandemic recovery period, it is more relevant to measure their baseline employment as an average of the 12 months preceding their application for RSF, while also encouraging them to increase employment with the RSF. The new concept of Benchmark Level of employment is introduced to replace the base month and any reference to a specific time.

This restructuring is also required to eliminate any references to manufacturing, computer programming and scientific research and development (R&D) sectors, which were the focus of the original operation. Instead, the current restructuring fine-tunes the concept of Target Sector that was introduced with the previous restructuring and allows for the collective use of the term Target Sectors when describing all target sectors.

This restructuring is required to also amend PDO Indicator #2, which specifically referred to MSE employment levels of March 2020, by making the indicator consistent with the new benchmark levels of employment and the new requirement that MSEs increase employment.

Finally, this restructuring will also amend one of the reimbursable support financing criteria by excluding MSEs with more than 50% female employees. This change was introduced in the previous restructuring but would be difficult to implement and, is therefore, required to facilitate future project implementation.

7. The changes proposed in this paper will require a Level-2 restructuring. Consultations with WB operational specialists and the project legal team concluded that the PDO does not need to be changed.

II. DESCRIPTION OF PROPOSED CHANGES

E. Changes that apply to both Components 1 and 2

8. The concept of maintaining employment relative to a ‘base month’ (previously March 2020) is eliminated. It is substituted by the requirement for MSEs to increase employment relative to the average employment level of the MSE over the 12-month period preceding the date on which the relevant Reimbursable Support Financing call-for-application is issued and to which the MSE is applying. This 12-month period is now referred to as the benchmark level of employment. This would allow for a more recent and more accurate measure of employment to be used as a benchmark against which beneficiary MSEs would be expected to increase their employment following receipt of RSF.

In addition, this restructuring introduces the collective concept of target sectors, as all the sectors that satisfied the definition of a target sector under the previous restructuring. Since the original loan focused only on manufacturing and innovative young firms in manufacturing, computer programming and scientific research and development (R&D) sectors, a change in the titles of components 1 and 2 is required to delete references to manufacturing (component 1) and manufacturing, computer programming and scientific R&D sectors (component 2) and replace these with the broader term of “Targeted Sectors”. This was omitted in the previous restructuring and this change remedies that omission. The new titles of components 1 and 2 will be:

Component 1. Performance-based Reimbursable Support Financing for eligible MSEs in Targeted Sectors.

Component 2. Performance-based Reimbursable Support Financing for eligible Innovative Young Firms in Targeted Sectors



Finally, the condition for reimbursable support financing with respect to MSEs with more than 50% female employment is removed, so that the condition only refers to MSEs that are owned by females. This change was introduced in the previous restructuring, but is modified to facilitate implementation at the request of the Borrower.

F. Other changes

9. PDO indicators: PDO indicator # 2, which states “Share of beneficiary surviving MSEs that maintain employment at the level recorded in March 2020, for at least 6 months after receiving performance-based reimbursable support financing (Percentage)” is modified to eliminate the reference to March 2020 and capture the requirement for MSEs to increase employment for at least 12 months after receiving RSF. That is, the indicator is changed to: “Share of beneficiary surviving MSEs that increase employment relative to the average employment level of the MSE for the 12-month period preceding the date on which the relevant Reimbursable Support Financing call-for-application is issued and to which the MSE is applying, for at least 12 months after receiving reimbursable support financing.” Note that the full name of the revised indicator does not fit in the basic datasheet below, but is spelled out fully in the description of indicators.

18 Legal covenants: Changes are made to the Loan Agreement in Schedule 1 (Project Description), Schedule 2 (Implementation Arrangements), and the Appendix (Definitions) to replace the reference to “Base Month” with “Benchmark Level,” specifying Benchmark Level of employment means the average employment level of an MSE for the 12-month period preceding the date on which the relevant Reimbursable Support Financing call-for-application is issued and to which the MSE is applying. Changes are also made to the Loan Agreement, Schedule 1, to specify that eligible firms in Component 1 and Component 2 are those in Targeted Sectors, defined as all such sectors (approved by the World Bank for the purposes of this Project and incorporated in the Project Operations Manual following such approval) that has been (a) verified by the Borrower as having 55 percent or more of its enterprises experience income loss in calendar year 2020 relative to calendar year 2019, or (b) assessed and listed by the Organisation for Economic Co-operation and Development (OECD) as one of the economic sectors most directly affected by (COVID-19) lockdown measures (see https://www.oecd.org/sdd/business-stats/statistical-insights-small-medium-and-vulnerable.htm), but excluding the construction sector. Schedule 2, on the criteria to determine the amount of RSF, has been revised to recognize the amounts applicable to Micro Enterprises and Small Enterprises that are owned by women only.

III. SUMMARY OF CHANGES

	Changed	Not Changed
Results Framework	✓	
Components and Cost	✓	
Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
PBCs		✓



Loan Closing Date(s)		✓
Cancellations Proposed		✓
Reallocation between Disbursement Categories		✓
Disbursements Arrangements		✓
Disbursement Estimates		✓
Overall Risk Rating		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Implementation Schedule		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓

IV. DETAILED CHANGE(S)**COMPONENTS**

Current Component Name	Current Cost (US\$M)	Action	Proposed Component Name	Proposed Cost (US\$M)
Component 1: Performance-based reimbursable support financing for eligible MSEs in the manufacturing sector	259.00	Revised	Component 1: Performance-based Reimbursable Support Financing for eligible MSEs in Targeted Sectors	259.00
Component 2: Performance-based reimbursable support financing for eligible innovative young firms	40.00	Revised	Component 2: Performance-based Reimbursable Support Financing for eligible Innovative Young Firms in Targeted Sectors	40.00
Component 3: Technical support to the PIU under KOSGEB	1.00	No Change	Component 3: Technical support to the PIU under KOSGEB	1.00



TOTAL	300.00	300.00
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Results framework

COUNTRY: Turkey

Turkey Rapid Support for Micro and Small Enterprises during the COVID-19 crisis

Project Development Objectives(s)

The Project Development Objective (PDO) is to avert the closure of viable micro and small enterprises (MSEs) affected by the COVID-19 crisis and maintain their employment levels during the crisis.

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	PBC	Baseline	Intermediate Targets	End Target
			1	
Project Development Objective Indicators				
Share of beneficiary MSEs that survive the COVID-19 crisis for at least six months after receiving performance-based reimbursable support financing (Percentage)		0.00	25.00	65.00
Share of beneficiary surviving MSEs that increase employment relative to the average employment level of the MSE for the 12-month period preceding on which the app [see description for full name] (Percentage)		0.00	25.00	70.00
Action: This indicator has been Revised				
Share of beneficiary innovative young firms that survive the COVID-19 crisis for at least six months after receiving performance-based reimbursable support financing (Percentage)		0.00	20.00	50.00



Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	Intermediate Targets	End Target
			1	
Performance-based reimbursable support financing for eligible MSEs				
Of applicants that are female-led or -owned MSEs or with female majority workforce, share that meet the eligibility criteria and receive reimbursable support financing (Percentage)		0.00	20.00	50.00
KOSGEB Firm Engagement: Beneficiary firms reporting that the provided reimbursable support financing reflected their needs (Percentage)		0.00	30.00	70.00
Performance-based reimbursable support financing for innovative young firms (est. in 2017 or later)				
Of applicants that are female-led or -owned young innovative MSEs or with female majority workforce, share that meet the eligibility criteria and receive reimbursable support financing (Percentage)		0.00	20.00	50.00
KOSGEB Firm Engagement: Beneficiary young firms reporting that the provided reimbursable support financing reflected their needs (Percentage)		0.00	30.00	70.00



ANNEX 1- PROPOSED TARGET SECTORS LIST

*: Only the sub sectors which are in KOSGEB’s legal target audience will be covered. Sub sectors in WB exclusion list will be excluded.

Current target sectors of project*	Sectors proposed to be added to project’s target audience*	NACE Section Code	NACE Section Name	NACE Division Code	NACE Division Name	OECD most affected sectors list	Total number of MSEs in the sector	The ratio of the number of MSEs that lost revenue in 2020 compared to 2019 to the total number of MSEs in the sector
X		C	Manufacturing	10	Manufacture of food products		28665	47,3%
X		C	Manufacturing	11	Manufacture of beverages		441	44,7%
X		C	Manufacturing	13	Manufacture of textiles		12517	48,7%
X		C	Manufacturing	14	Manufacture of wearing apparel		21188	56,9%
X		C	Manufacturing	15	Manufacture of leather and related products		4879	63,1%
X		C	Manufacturing	16	Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials		7872	50,6%
X		C	Manufacturing	17	Manufacture of paper and paper products		2969	34,8%
X		C	Manufacturing	18	Printing and reproduction of recorded media		7273	57,3%
X		C	Manufacturing	20	Manufacture of chemicals and chemical products		4989	33,4%
X		C	Manufacturing	21	Manufacture of basic pharmaceutical products and pharmaceutical preparations		480	30,6%
X		C	Manufacturing	22	Manufacture of rubber and plastic products		12060	42,7%
X		C	Manufacturing	23	Manufacture of other non-metallic mineral products		4882	48,3%
X		C	Manufacturing	24	Manufacture of basic metals		5318	39,9%
X		C	Manufacturing	25	Manufacture of fabricated metal products, except machinery and equipment		29976	42,2%
X		C	Manufacturing	26	Manufacture of computer, electronic and optical products		1837	39,5%
X		C	Manufacturing	27	Manufacture of electrical equipment		6636	40,3%



Current target sectors of project*	Sectors proposed to be added to project's target audience*	NACE Section Code	NACE Section Name	NACE Division Code	NACE Division Name	OECD most affected sectors list	Total number of MSEs in the sector	The ratio of the number of MSEs that lost revenue in 2020 compared to 2019 to the total number of MSEs in the sector
X		C	Manufacturing	28	Manufacture of machinery and equipment n.e.c.		14067	35,9%
X		C	Manufacturing	29	Manufacture of motor vehicles, trailers and semi-trailers	X	3776	32,0%
X		C	Manufacturing	30	Manufacture of other transport equipment	X	1056	45,7%
X		C	Manufacturing	31	Manufacture of furniture		18351	53,8%
X		C	Manufacturing	32	Other manufacturing		3441	55,8%
X		C	Manufacturing	33	Repair and installation of machinery and equipment		14122	40,0%
	X	G	Wholesale and Retail Trade; Repair Of Motor Vehicles and Motorcycles	45	Wholesale and retail trade and repair of motor vehicles and motorcycles	X	70616	34,0%
	X	G	Wholesale and Retail Trade; Repair Of Motor Vehicles and Motorcycles	46	Wholesale trade, except of motor vehicles and motorcycles	X	172285	46,9%
	X	G	Wholesale and Retail Trade; Repair Of Motor Vehicles and Motorcycles	47	Retail trade, except of motor vehicles and motorcycles	X	349129	44,8%
	X	I	Accommodation and Food	55	Accommodation	X	13521	77,8%



Current target sectors of project*	Sectors proposed to be added to project's target audience*	NACE Section Code	NACE Section Name	NACE Division Code	NACE Division Name	OECD most affected sectors list	Total number of MSEs in the sector	The ratio of the number of MSEs that lost revenue in 2020 compared to 2019 to the total number of MSEs in the sector
			Service Activities					
	X	I	Accommodation and Food Service Activities	56	Food and beverage service activities	X	82026	64,2%
	X	J	Information and Communication	58	Publishing activities		2647	55,9%
	X	J	Information and Communication	59	Motion picture, video and television program production, sound recording and music publishing activities		1991	62,6%
	X	J	Information and Communication	60	Programming and broadcasting activities		653	59,1%
X		J	Information and Communication	62	Computer programming, consultancy and related activities		11391	39,7%
	X	M	Professional, Scientific and Technical Activities	70	Activities of head offices; management consultancy activities	X	7587	51,9%
	X	M	Professional, Scientific and Technical Activities	71	Architectural and engineering activities; technical testing and analysis	X	21348	52,3%
X		M	Professional, Scientific and Technical Activities	72	Scientific research and development	X	768	47,1%



Current target sectors of project*	Sectors proposed to be added to project's target audience*	NACE Section Code	NACE Section Name	NACE Division Code	NACE Division Name	OECD most affected sectors list	Total number of MSEs in the sector	The ratio of the number of MSEs that lost revenue in 2020 compared to 2019 to the total number of MSEs in the sector
	X	M	Professional, Scientific and Technical Activities	73	Advertising and market research	X	8117	59,2%
	X	M	Professional, Scientific and Technical Activities	74	Other professional, scientific and technical activities	X	7447	56,7%
	X	N	Administrative and Support Service Activities	79	Travel agency, tour operator reservation service and related activities		7833	83,4%
	X	N	Administrative and Support Service Activities	82	Office administrative, office support and other business support activities		6980	65,6%
	X	P	Education	85	Education (only the sports courses will be covered)		13802	62,7%
	X	R	Arts, Entertainment and Recreation	91	Libraries, archives, museums and other cultural activities	X	68	61,8%
	X	R	Arts, Entertainment and Recreation	93	Sports activities and amusement and recreation activities (Only the sports facilities, fitness and body building halls, sports support services, other sports services are covered)	X	4353	81,7%
	X	S	Other Service Activities	95	Repair of computers and personal and household goods	X	8166	40,9%
	X	S	Other Service Activities	96	Other personal service activities	X	13217	75,2%



The World Bank

Turkey Rapid Support for Micro and Small Enterprises during the COVID-19 crisis (P174144)
