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Report No: PAD3491

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED LOAN

IN THE AMOUNT OF €316 MILLION
(US$347.35 MILLION EQUIVALENT)

TO THE

DEVELOPMENT AND INVESTMENT BANK OF TURKEY

FOR A

FORMAL EMPLOYMENT CREATION PROJECT

March 17, 2020

Social Protection and Jobs Global Practice
Europe And Central Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective February 29, 2020)

Currency Unit =	Turkish Lira
5. 96 TL =	US$1
US$0.17 =	TL 1
6.62 TL =	EURO 1
EURO 0.15 =	TL 1
Euro 1.0 =	US$0.90954568

FISCAL YEAR
January 1 - December 31

Regional Vice President:	Cyril E Muller
Country Director:	Auguste Tano Kouame
Regional Director:	Fadia M. Saadah
Practice Manager:	Cem Mete
Task Team Leader(s):	Ahmet Levent Yener; Mattia Makovec

ABBREVIATIONS AND ACRONYMS

CAR	Capital Adequacy Ratio
CPF	Country Partnership Framework
CQS	Selection based on the Consultants' Qualifications
E&S	Environmental and Social
EC	European Commission
EBRD	European Bank for Reconstruction and Development
EFIL	Export Finance Intermediation Loan
ESA	Environmental and Social Assessment
ESF	Environmental and Social Framework
ESMS	Environmental and Social Management System
ESS	Environmental and Social Standard
ESSN	Emergency Social Safety Net Program
EU	European Union
FRIT	Facility for Refugees in Turkey
FCC	Fully Credit Constrained
GRS	Grievance Redress Service
GRM	Grievance Redress Mechanism
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFI	International Financial Institution
IT	Information Technology
İŞKUR	Türkiye İş Kurumu
LE	Large Enterprise
KfW	*Kreditanstalt für Wiederaufbau*
LMP	Labour Management Procedure
M&E	Monitoring and Evaluation
LCC	Likely Credit Constrained
NPL	Nonperforming Loan
MoNE	Ministry of National Education
OECD	Organisation for Economic Co-operation and Development
PDO	Project Development Objective
PFI	Participating Financial Institution
PIU	Project Implementation Unit
POM	Project Operations Manual
PPSD	Project Procurement Strategy for Development
ROA	Return on Assets
SBIC	Small Business Investment Company
SEP	Stakeholder Engagement Plan
SGK	Sosyal Güvenlik Kurumu
SME	Small and Medium Enterprises
SOE	Statement of Expenses
STEP	Systematic Tracking of Exchanges in Procurement

SuTP	Syrians Under Temporary Protection
TIMSS	Trends in International Mathematics and Science Study
TKYB	Türkiye Kalkınma ve Yatırım Bankası
WDR	World Development Report

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DATASHEET

BASIC INFORMATION

Country(ies)	Project Name		
Turkey	Formal Employment Creation Project		
Project ID	Financing Instrument	Environmental and Social Risk Classification	Process
P171766	Investment Project Financing	Substantial	Urgent Need or Capacity Constraints (FCC)

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[ ] Fragile State(s)
[ ] Disbursement-linked Indicators (DLIs)	[ ] Small State(s)
[✓] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[✓] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
31-Mar-2020	31-Dec-2024

Bank/IFC Collaboration
No

Proposed Development Objective(s)

The project objective is to enhance the conditions for formal job creation by firms operating in provinces with high incidence of Syrians under Temporary Protection (SuTP), for the benefit of Turkish citizens and refugees.

Components

Component Name	Cost (US$, millions)
Loans targeting firms with high potential for job creation	345.77
Grants targeting firms conditional on job creation	76.94
Technical and Institutional Support	7.27

Organizations

Borrower:	Development and Investment Bank of Turkey
Implementing Agency:	Development and Investment Bank of Turkey

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	430.85
Total Financing	347.35
of which IBRD/IDA	347.35
Financing Gap	83.50

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	347.35

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2020	2021	2022	2023	2024	2025
Annual	0.00	141.91	152.62	37.20	15.63	0.00
Cumulative	0.00	141.91	294.53	331.73	347.35	347.35

INSTITUTIONAL DATA

Practice Area (Lead)	Contributing Practice Areas
Social Protection & Jobs	Finance, Competitiveness and Innovation

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Moderate
7. Environment and Social	Substantial
8. Stakeholders	Moderate
9. Other	Substantial
10. Overall	Substantial

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Relevant
Financial Intermediaries	Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Sections and Description
Loan Agreement, Schedule 2, Section I.A.1. The Borrower shall, throughout the implementation of the Project: (a) maintain a Project Implementation Unit ("PIU"); and (b) ensure the PIU functions at all times in a manner and with staffing and budgetary resources necessary and appropriate for the implementation of the Project, acceptable to the Bank, including (i) an environmental expert, (ii) a social expert, and (iii) a focal point for the grievance redress mechanism and stakeholder engagement.

Sections and Description
Loan Agreement, Schedule 2, Section I.A.2. The Borrower shall, throughout the implementation of the Project, comply with the applicable prudential regulations of the Guarantor.

Sections and Description
Loan Agreement, Schedule 2, Section I.A.3. By no later than ninety (90) days after the Effective Date, the Recipient

shall execute and deliver the Grant Agreement, and fulfill all conditions precedent to the effectiveness of, or to the right of TKYB to make withdrawals under, said Grant Agreement.

Sections and Description
Loan Agreement, Schedule 2, Section I.B.1 and 2. The Borrower shall maintain, throughout Project implementation, an Operations Manual for Sub-loans, in substance and manner acceptable to the Bank, and shall carry out the Project, and cause the Project to be carried out, in accordance with the arrangements, procedures and guidelines set forth in the Operations Manual for Sub-loans.

Sections and Description
Loan Agreement, Schedule 2, Section I.C.1. For the purpose of carrying out of Part 1 of the Project, Large Enterprise and SME firms shall (a) be financially viable, and (b) have a consolidated record of job creation.

Sections and Description
Loan Agreement, Schedule 2, Section I.C.2. The Borrower shall take reasonable measures to encourage the participation of Large Enterprise and SME firms in Less Developed Sub-regions affected by SuTP influx and Women-Inclusive Enterprises.

Sections and Description
Loan Agreement, Schedule 2, Section I.C.3. For the purpose of carrying out Part 1.A of the Project, the Borrower shall ensure that (a) the selection criteria of Large Enterprise firms, (b) the eligibility criteria for selecting Sub-projects, (c) the terms and conditions for the Borrower's provision of Sub-loans to Large Enterprise firms, and (d) the procedures for approving Sub-projects, set forth and/or referred to in Annex 2 of Schedule 2 to the Loan Agreement, and the Operations Manual for Sub-loans, are followed.

Sections and Description
Loan Agreement, Schedule 2, Section I.C.4. All Sub-loans extended under Part 1.A of the Project and extended through PFIs under Part 1.B of the Project may be subject to ex-post review by the Bank to verify compliance with the requirements set forth in this Agreement and Operations Manual for Sub-loans.

Sections and Description
Loan Agreement, Schedule 2, Section I.C.5 (a). For the purposes of carrying out Part 1.B of the Project, the Borrower shall ensure that (i) the eligibility criteria and procedures for selecting PFIs, (ii) the terms and conditions for the Borrower's provision of Subsidiary Financing to PFIs, (iii) the eligibility criteria and procedures for selecting beneficiary SMEs, (iv) the eligibility criteria and procedures for selecting and approving Sub-projects, and (v) the terms and conditions for the selected PFIs' provision of Sub-loans to SMEs, as set forth in Annex 1 of Schedule 2 of the Loan Agreement and in the Operations Manual for Sub-loans, are followed.

Sections and Description
Loan Agreement, Schedule 2, Section I.C.5 (b). For the purposes of carrying out Part 1.B of the Project, the Borrower shall provide that the amount of Subsidiary Financing extended to any single PFI not exceed the equivalent of EUR 40,000,000, or such other amount agreed to by the Bank and set forth in the Operations Manual for Sub-loans.

Sections and Description
Loan Agreement, Schedule 2, Section I.C.6. After the collection from a PFI of at least EUR 20,000,000 in Repayments, or such amount as agreed to in writing by the Bank, the Borrower shall (unless otherwise agreed to in writing by the Bank) utilize the principal Repayments from the first financing cycle to provide additional Subsidiary Financing to the same or other PFIs under Part 1.B of the Project, and additional Sub-loans to the same or other Large Enterprise firms under Part 1.A of the Project (each case, "Reflows") – for the same purpose – for at least one additional financing cycle, and such Reflows shall be made within twelve (12) months of the principal Repayments reaching a total equivalent to EUR 20,000,000.

Sections and Description
Loan Agreement, Schedule 2, Section I.D.1 and 2. The Borrower shall ensure that the Project is carried out in accordance with the Environmental and Social Standards, in a manner acceptable to the Bank. and shall ensure that the Project is implemented in accordance with the Environmental and Social Commitment Plan ("ESCP"), in a manner acceptable to the Bank.

Sections and Description
Loan Agreement, Schedule 2, Section I.E.1. The Borrower shall: (a) prepare and furnish to the Bank not later than February 28th of each year during the implementation of the Project, a proposed Annual Work Plan and Budget; (b) afford the Bank a reasonable opportunity to exchange views on each such proposed Annual Work Plan and Budget, and shall thereafter ensure that the Project is implemented with due diligence during said following year, in accordance with such Annual Work Plan and Budget accepted by the Bank; and (c) make any significant changes, or allow any significant changes to be made, to the Annual Work Plan and Budget that has been accepted by the Bank only after receiving the Bank's prior written confirmation.

Conditions

Type	Description
Effectiveness	Loan Agreement, Section 4.01 (a). The Borrower has adopted an Operations Manual for Sub-loans acceptable to the Bank.
Effectiveness	Loan Agreement, Section 4.01 (b). The Borrower has properly staffed its Project Implementation Unit, with positions, terms of reference, and staff qualifications acceptable to the Bank.
Effectiveness	Loan Agreement, Section 4.01 (c). The Borrower has designated a senior management representative to have overall accountability for environmental and social performance of Sub-projects.
Effectiveness	Loan Agreement, Section 4.01 (d). The Borrower has developed, adopted, and operationalized a grievance redress mechanism for the Project.

I. STRATEGIC CONTEXT

A. Country Context

1. **Turkey has high growth potential, but recent shocks have affected the sustainability of its economic gains since the early 2000s**. After the Global Financial Crisis in 2008-2009, growth has been increasingly fueled by credit growth and accumulation of (mostly foreign exchange) private sector debt, together with temporary stimulus policies. These led to declining productivity growth and macroeconomic imbalances in late 2017/early 2018. The situation was compounded by exogenous factors including multiple election cycles, regional conflict, and difficult international relations.

2. **Economic vulnerabilities that had accumulated over the past four years came to a head in mid-2018.** Policy stimulus in the aftermath of the 2016 failed coup led to economic overheating. Though growth accelerated to 7.4 percent in 2017, this came at a cost of double-digit inflation and a large current account deficit. A hardening of external economic conditions in mid-2018, together with tense international relations, led to a depreciation in the Turkish lira. This profoundly affected the real and financial sectors. Corporations and banks suffered due to high foreign exchange debt, annual inflation peaked at 25 percent in October 2018, the economy went into recession in the second half of 2018, and unemployment spiked from 10 percent in January 2018 to 14 percent in June 2019.

3. **The Turkish economy over the past 12 months has experienced major adjustments.** Current account imbalances have declined, banks have reduced their external exposure, and portfolio flows have started to recover. These adjustments have lessened external vulnerabilities that had accumulated in the run up to the August 2018 currency shock. They have also contributed to a more stable lira, notwithstanding bouts of currency volatility. There has also been steady disinflation over this period. These developments were supported by selected policy responses and accommodative global monetary conditions. Even so, foreign exchange reserves have eroded over the past two years, exposing Turkey to external market pressure.

4. **Stagnating output, high costs of production, and high consumer prices have led to significant job losses and falling real wages.** Unemployment among the youth is particularly high, jumping from 19 percent to 25 percent between May 2018 and May 2019. Average real wages declined by 2.6 percent between 2017 and 2018 but have picked up more recently due to adjustments to the minimum wage. Poorer households have been most affected because many low-income workers are employed in construction and agriculture—the sectors that saw the biggest decline in jobs. Moreover, the long-term impact of the real wage effects is greater for the poorest households because they have limited coping mechanisms.

5. **Turkey now faces a two-fold challenge.** In the near-term to extricate itself from a downturn whilst maintaining the disinflation momentum, navigating an uncertain external environment, and addressing corporate debt overhang; and to put in place appropriate policy and institutional settings to support a shift to a sustainable-medium term growth model. The pace and sustainability of Turkey's recovery will depend on reducing economic uncertainty backed by consistent policy mix. The economy has stabilized in the short-term. The gross domestic product is projected to rebound to 3 percent and 4 percent in 2020 and 2021, respectively. However, given the high degree of uncertainty in the global outlook, restoring

confidence and reducing domestic risk premia with appropriate monetary stance and effective fiscal policy would be key for sustaining recovery. Rigorous progress in advancing structural reforms such as deepening financial markets and completing overdue labor market reforms will help to mitigate vulnerabilities, and support growth in the medium term.

6. **Turkey is both a transit and reception country for migrants and refugees and, globally, the country hosts the highest number of refugees.**[1] Because of the crisis in its southern border with Syria, Turkey has been hosting an increasing number of refugees and foreigners seeking international protection. In addition to hosting more than 3.6 million Syrians,[2] who are under temporary protection, there are an estimated 400,000 asylum seekers and refugees from other nations. The country's refugee response has been progressive and provides a model to other countries hosting refugees. However, the magnitude of the refugee and migrant influx continues to pose substantial development consequences for not only the displaced but also for the communities into which they settle, contributing to the expansion and overcrowding of settlements; increased demands for urban services (including water supply, sanitation, and solid waste services); additional pressure on infrastructure and the urban environment; conflicts over land; and increased competition for employment, housing, and social services. These stresses stretch the limited capacity of urban local governments, including municipalities and other service providers. Apart from the large cities such as Ankara, Istanbul and Izmir, many of the cities hosting a high concentration of Syrians are already located in the more vulnerable or disadvantaged provinces in Turkey, which exacerbates the development challenges.

7. **The Government of Turkey spent an estimated €31 billion to meet the needs of refugees and hosting communities from the beginning of the Syrian crisis to 2017.**[3] This includes the provision of free healthcare and education, as well as allowing legal access to the labor market. The international community has also provided over €4 billion since 2016, of which 95 percent is from the European Union (EU).[4] This includes the first tranche of the EU Facility for Refugees in Turkey (FRIT), which is a €3 billion fund launched in 2016, designed to support the Government hosting refugees; €600 million EU support outside FRIT; and over €400 million in bilateral support from EU countries. Other donors, such as United Nations agencies; international, national, and local civil society organizations; and international financial institutions (IFIs), have also been playing an important role in Turkey's refugee response, implementing a diverse range of programs and projects, accounting for over €200 million. These efforts have been geared

[1] Directorate General of Migration Management, 2019. This Project Appraisal Document uses the term refugee regardless of the country of origin, although Syrians are under temporary protection status, and non-Syrians under international protection law. *http://www.goc.gov.tr/icerik6/temporary-protection_915_1024_4748_icerik*.

[2] The terms 'Syrians' and 'refugees' are used in terms of sociological context and widespread daily use and are independent of the legal context in Turkey and Turkish Law. Turkey is a party to the 1951 Refugee Convention and 1967 Protocol. Turkey retains a geographic limitation to its ratification of the 1951 United Nations Convention on the Status of Refugees, which means that only those fleeing as a consequence of 'events occurring in Europe' can be given refugee status. Syrian nationals, as well as stateless persons and refugees from Syria, who came to Turkey due to events in Syria after April 28, 2011, are provided with temporary protection.

[3] European Commission. 2018. *Technical Assistance to the EU Facility for Refugees in Turkey–Needs Assessment Report*. Specific Contract No. 2017/393359/1, October 2018. *https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/updated_needs_assessment.pdf*.

[4] European Commission. 2018. *Technical Assistance to the EU Facility for Refugees in Turkey–Needs Assessment Report*. Specific Contract No. 2017/393359/1, October 2018. *https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/updated_needs_assessment.pdf*.

primarily toward facilitating refugee access to the existing public services while strengthening the capacity and responsiveness of state institutions at the national and local levels.

B. The Sectoral and Institutional Context

8. **The recent worsening of economic and labor market conditions risks exacerbating key structural challenges in the labor market.** Between 2005 and 2018, the economy managed to create 8.7 million jobs owing to sustained growth and the introduction of a wide range of government programs and subsidies aimed at stimulating labor demand. More recently, however, the link between economic growth and job creation, especially formal job creation, has weakened, and the number of formal jobs created was insufficient to absorb all the new cohorts entering the labor market. As a result, the unemployment rate among youth ages 15–24, already one of the highest rates among the countries of the Organisation for Economic Co-operation and Development (OECD), has increased dramatically since the beginning of 2018, reaching almost 25.0 percent, while total unemployment has risen to 13.6 percent.

9. **Creating more and better formal jobs remains a priority because, as a result of the recent economic downturn, the long-term declining trend in informality has slowed substantially.** Informality decreased from 48 percent in 2005 to 33 percent in 2018, but this trend has been stagnating since 2015. Informality gradually decreased until 2015, after which it began to increase slightly, reaching 36 percent in July 2019 (23.2 percent in nonagricultural sectors).[5] Informality reached 42 percent among women in 2018 and 50 percent among people with less than high-school education. Informal employment is more extensive in provinces that have been affected by the Syrian influx, especially the southeastern provinces, reflecting the absorption of Syrians able to work in informal jobs.

10. **The influx of Syrian refugees has added additional pressure on the labor market.** As previously noted, Turkey is the largest refugee-hosting country in the world, with 3.6 million Syrians. Turkey also hosts refugees from other countries (for example, Afghanistan and Iraq). The Syrian inflows to Turkey began in 2011, and the number of Syrian refugees in the country increased dramatically between 2013 and 2016. The surge represented a large labor supply shock to the economy. Many Syrians able to work, mostly low skilled, began taking up informal jobs that paid less than the minimum wage, thereby crowding out native formal workers.

11. **The high unemployment rates in refugee-hosting areas—up to 27 percent—signal the seriousness of the challenges facing local and refugee job seekers.** Most provinces, hosting high numbers of refugees, were already among the most disadvantaged in economic welfare and economic opportunities before the Syrian crisis, including a higher incidence of low-skilled workers, lower labor force participation rates, and high unemployment rates relative to the national average. To prevent further deterioration in labor markets, promoting permanent formal job creation is critical.

12. **The socioeconomic integration of refugees into the economy and improvements in livelihoods in areas with high incidence of Syrians Under Temporary Protection (SuTP) are a major challenge.** The few available data sources point to the substantial participation of working-age refugees in informal jobs. Although most refugees are poor and vulnerable, many can work (around 430,000), but work informally (86 percent) for relatively low wages (TL 1,300 [US$220 equivalent] per month on average) (Livelihoods

[5] The latest official monthly data refer to July 2019.

Survey).[6] Only 2 percent of respondents to a recent survey reported that they were working and had work permits. About 65 percent of the beneficiaries of the Emergency Social Safety Net Program (ESSN), a temporary humanitarian program, report that their main source of income is short-term informal work.[7] This will become a more significant problem once the ESSN comes to an end.

13. **One of the most important contextual factors that limits formal job creation is the poor access to financing among firms.** Credit service provision is less developed in many provinces where refugees live and work. According to the World Bank Enterprise Survey, most respondents (76 percent) in the affected regions assert that access to finance deteriorated loan terms and conditions (interest rates, maturity, and collateral requirements).[8] Poor access to longer-term financing limits enterprises from investing, increasing production capacity, and providing sustainable employment opportunities. After high tax rates, access to finance is perceived as a top constraint on firms, particularly small and medium enterprises (SMEs), seeking to carry out and expand business in Turkey.[9] Limited access to finance can also have a negative impact on labor market outcomes, resulting in higher unemployment, higher workforce informality, and lower employment growth. Limited access to credit is also problematic among large enterprises (LEs) because these have the potential to create more jobs, especially among refugees, including higher-quality formal jobs.[10]

14. **Banks do not usually have adequately structured resources to offer medium- to long-term maturities to most firms, mostly because of the short term of their liability base, thus leaving firms, mostly SMEs, open to severe liquidity and interest rate risk.[11]** Lack of cash flow-based financing and high collateral requirements constrain access to finance among SMEs.[12] After the global financial crisis and strong rebalancing in the economy after August 2018, major banks have significantly cut their exposure to SMEs and LEs. The banking system has limited access to long-term financing. It is funded mostly by relatively stable customer deposits that mature in less than three months, while most of the lending is concentrated in loans for more than three months. The result is a negative liquidity gap, that is, more liquid liabilities than assets, or a liquidity mismatch risk, which peaks in the one- to five-year maturity range. These imbalances are reflected in bank loan portfolios and the liability structure of enterprises. The bank-dominated financial sector thus has only a limited ability to provide the maturity critical to support SMEs and LEs that need to make long-term investments, expand production capacity, and increase employment. In order to address the problems mentioned above, the government introduced some measures to improve SMEs access to finance and their entrepreneurial capacities, that could result effective in the medium to long-term:

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[6] Turkish Red Crescent and World Food Programme. 2019. *Refugees in Turkey. Livelihoods Survey Findings.* Ankara: Turk Kizilay and World Food Programme.
[7] World Bank and World Food Programme. 2019. *Vulnerability and Protection of Refugees in Turkey: Findings from the Rollout of the Largest Humanitarian Cash Assistance Program in the World*. Washington, DC: World Bank and World Food Programme.
[8] Enterprise Surveys (database), International Finance Corporation and World Bank, Washington, DC, https://www.enterprisesurveys.org/.
[9] Enterprise Surveys (database), International Finance Corporation and World Bank, Washington, DC., https://www.enterprisesurveys.org/.
[10] Ayyagari, M., A. Demirgüç-Kunt, and V. Maksimovic. 2011. "Small vs. Young Firms Across the World: Contribution to Employment, Job Creation, and Growth." Policy Research Working Paper 5631, World Bank, Washington, DC.
[11] World Bank. 2014. *Turkey's Transitions: Integration, Inclusion, Institutions*. Report 90509-TR. Washington, DC: World Bank.
[12] World Bank 2014 and 2018 data of the Survey on the Access to Finance of Enterprises (database), European Central Bank, Frankfurt, https://www.ecb.europa.eu/stats/ecb_surveys/safe/html/index.en.html.

- The establishment of an Emerging Companies Market at Borsa Istanbul where the shares of the SMEs are exclusively traded. Since 2011 SMEs have access to the capital markets via this channel.
- Angel investment program has been launched in 2013 to encourage angel investment as a new instrument for SMEs at their early stages.
- Promoting SME financing with the regulations that allows the use of movable assets as collateral.
- The Portfolio Guarantee System has been included into the scope of Treasury-backed guarantee mechanism enabling Credit Guarantee Fund to access more firms and to perform more efficiently.
- State-backed credit insurance has been launched in order to cover the losses of SMEs.

15. **SMEs make more use of internal funds to finance investments and working capital and face higher collateral requirements than their peers in Eastern Europe and Central Asia.**[13] The share of SMEs in total credit declined by 5 percentage points to slightly more than 20 percent in the aftermath of the global crisis in 2008–2009 and peaked at 28 percent in mid-2018 following the economic upturn and the highly utilized credit guarantee scheme. However, it declined to 23 percent, in 2019, despite several state-financed policy stimulus programs. This fluctuation demonstrates how SMEs are among the first and most affected frontiers of the financing cycle.

16. **SMEs account for most firms in Turkey, but they have been facing difficulties in growing and expanding.** Firm composition is highly skewed toward microenterprises and small firms. Firms with fewer than 10 employees represent 84 percent of all firms that have employees; yet, they employ only 20 percent of the workforce. Firms with fewer than 50 employees represent 97 percent of all firms and employ 44 percent of the workforce, while, overall, SMEs (fewer than 250 employees) account for almost all firms (99.5 percent) and employ 66 percent of all formal sector workers. However, 84 percent of all new job creation between 2014 and 2016 was generated by large firms (more than 250 employees); firms with between 50 and 250 employees accounted for 20 percent of job creation, while firms with fewer than 50 employees experienced net employment loss (–4.5 percent). Meanwhile, SMEs are more highly exposed to rising mandatory labor costs, such as the increase in the national minimum wage, which grew by 33 percent in nominal terms between December 2015 and January 2016. Constrained by such costs, SMEs may resort to hiring workers informally or might exit completely from the registered formal sector and continue operations informally.

17. **Another major challenge affecting the capacity of firms to create jobs and expand is the capacity to find skilled workers.** An inadequately educated labor force is perceived to be among the top five constraints to doing business in Turkey. The analysis of data on more than 7 million job postings at the public employment agency (İŞKUR) between 2016 and 2018 and from İŞKUR's Labor Market Needs Assessment Survey and the top nine online job search portals shows that the most critical skills sought by employers across provinces are behavioral, socioemotional, and software-related skills.[14]

[13] Enterprise Surveys (database), International Finance Corporation and World Bank, Washington, DC, https://www.enterprisesurveys.org/.
[14] https://media.İŞKUR.gov.tr/33412/istihdamda-3i-30-sayi-ek1-2019-yili-isgucu-piyasasi-arastirmasi-sonuclari.pdf

18. **The labor market in Turkey is still characterized by substantial gender gaps compared with OECD countries.** The female labor force participation rate, despite a slight increase between 2014 and 2018, remains less than half the rate among males (34 percent versus 73 percent). The gap is substantial at all ages. The participation rate among adult women ages 25–64 is 38 percent versus the OECD average of 64 percent. Since 2009, the gap between the female and the male unemployment rates has been widening steadily, and the unemployment rate reached 14 percent among women in 2018. Women also suffer from higher informality in the labor market, which reaches 42 percent of total female employment versus 29 percent in the case of male employment. Women are twice as likely as men to be unpaid family workers (representing 20 percent of total female employment versus 10 percent among men). There is a higher incidence of young women not in education, employment, or training, which reaches 33 percent of the female population ages 15–24, versus 15 percent among males.

19. **By supporting enterprises in gaining access to longer-term financing, through grants and loans to boost their operational capacity, and on formal job creation that provides decent working conditions in the case of grant recipients, the project will contribute to improving the conditions to increase formal employment[15] opportunities and formalization of workers in selected provinces.** It also contributes to the employability of the beneficiaries through formal on-the-job work experience and skill building. This will directly or indirectly contribute to strengthening the local economy by reducing unemployment and informality and increasing social cohesion.

20. **The proposed project is a part of the World Bank's engagement in Turkey by focusing firm-led job creation among the most vulnerable populations.** It targets communities negatively affected by refugee-related risks associated with the Syrian conflict. It does so by supporting the Government of Turkey's efforts to alleviate certain constraints to access to financing using grants and loans for firms most likely to create formal jobs largely for work-able, low-income, workers. The workers are those who would otherwise be eligible for noncontributory emergency social safety net (income or cash transfers) support in selected provinces with a high number of refugees. These workers are largely ineligible for other interventions supported by the Government of Turkey, the World Bank, or other development agencies.[16]

21. **The project is informed by the frameworks of the World Development Report (WDR) 2013, on jobs, and the WDR 2011 on conflict, security, and development.** The WDR 2013, on jobs, calls for a three-pronged approach to addressing job creation, including (a) ensuring macroeconomic fundamentals, (b) examining labor policies, and, as needed, (c) designing targeted interventions to address structural or systemic exclusion among highly vulnerable populations.[17] Similarly, WDR Report 2011, on conflict, discusses productive employment as a key factor that helps accelerate the shift from fragility-associated welfare risks to greater resilience and social cohesion.[18] The proposed project also seeks to alleviate welfare- and social cohesion-related risks through greater inclusion of vulnerable groups in the formal sector.

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[15] The definition of formal employment used here is "workers registered in the social security system through their main job."

[16] These include ongoing lending operations focusing on strengthening financial sector conditions and access to finance in traditional banking; other proposed FRIT grant-financed interventions supporting active labor market policies, microenterprises, and agricultural cooperatives for low-skilled and high-skilled populations; and World Bank-financed technical assistance on macroeconomic reforms, labor institutions, employment subsidies, and social assistance policies.

[17] World Bank. 2012. *World Development Report 2013: Jobs*. Washington, DC: World Bank

[18] World Bank. 2011. *World Development Report 2011: Conflict, Security, and Development*. Washington, DC: World Bank.

C. The Relevance to Higher-Level Objectives

22. **The proposed project is a part of and aligned with the Turkish Government's and development partners' broader response to the Syrian refugee crises.** The alignments of the proposed actions with key national and multilateral strategies are as follows:

(a) **11th Development Plan (2019–2023).** The project is aligned with the objectives of the development plan to combat informal employment, to enhance the participation of groups requiring special policies in labor force and employment and to encourage (particularly beginning from local level) the participation of women in all levels of economic, social, and cultural life and decision-making mechanisms.

(b) **New Economic Program.** The proposed action is aligned with the key objectives of the New Economic Program in tackling the structural problems of the labor market and combating informal employment.

(c) **Turkey's Syrian Refugees Response Program.** The action will be part of the larger joint response of the Turkish Government, the European Commission (EC), and the World Bank to the Syrian refugee crisis. The proposed action directly responds to two of the four priority areas of the EC's response on socioeconomic support: 'ensuring and increasing formal employment and entrepreneurship' and 'improvement of the labor market cohesion'. Also, it is in line with the Government of Turkey's current response seeking to facilitate integration of refugees into society and economy. The program will complement the Government efforts to create local employment opportunity, reduce regional disparities, and eventually improve social cohesion.

(d) **National ESSN Exit Strategy.** The strategy calls for the graduation of 180,000 SuTP into the labor market making them self-reliant. In this effort, the same number of Turkish citizens shall be supported, adding up to 360,000 beneficiaries. The proposed project takes up the strategy by providing formal employment to work-able Syrians and Turkish citizens alike.

(e) **World Bank Country Partnership Strategy.** The project will seamlessly build on former projects by the World Bank, such as the Inclusive Access to Finance Project (P163225) with the Development and Industrial Development Bank of Turkey (TKYB) and FRIT I-supported projects (Employment Support Project for Syrians Under Temporary Protection and Turkish Citizens [P161670]), Strengthening Economic Opportunities for Syrians under Temporary Protection and Turkish Citizens in Selected Localities Project [P165687], and Development of Businesses and Entrepreneurship for Syrians under Temporary Protection and Turkish Citizens Project [P168731]). The proposed action will build on the knowledge acquired through various employment-related operations in Turkey and elsewhere, especially those that relate to helping refugees integrate in labor markets.

(f) **Complementarity with other initiatives supported by EU. The proposed action is part of the priority area of the EU FRIT on socioeconomic support for Turkish citizens and refugees in enhancing livelihoods and access to employment.** It assumes the FRIT's second tranche's greater emphasis on socioeconomic activities and includes lessons from the second needs assessment and internal assessments. This action will leverage ongoing work financed by the EU, which analyses the economy to identify the economic sectors and firms that have large job creation potential and wage growth (the *Kreditanstalt für Wiederaufbau* [KfW], *Deutsche Gesellschaft für Internationale Zusammenarbeit*, the European Bank for Reconstruction and Development [EBRD], and so on).

23. **The operation is well aligned with the World Bank-Country Partnership Framework (CPF) for Turkey for FY2018–2021 (discussed by the Board on August 29, 2017, Report No. 11096-TR),** specifically Focus Areas I ('Growth') and II ('Inclusion') of the CPF, with the main objectives of enhancing access to finance within underserved markets, improving competitiveness and employment in selected industries, and increasing labor force participation of women and vulnerable groups. To reach these objectives, the operation will support enterprises in gaining access to longer-term financing, improving capital structures of loan recipients, and creating formal jobs for grant recipients. The operation aims at enhancing the employability of beneficiary employees (both Turkish citizens and refugees) through formal work experience and training programs. The operation will support Focus Area II of the CPF by improving labor market cohesion, as well as social cohesion.

II. PROJECT DESCRIPTION

24. **The planned operation will support refugees and Turkish citizens in accessing formal employment opportunities in creditworthy enterprises in provinces with a high incidence of Syrian refugees.** It will offer beneficiary firms in project provinces[19] greater access to financial resources and skills to enhance their capacity to expand business and, ultimately, increase formal employment and decent working conditions,[20] that is, social security and other legally mandated benefits.

25. **The total amount for the proposed interventions is €391.96 million (US$430.85 million equivalent).** The project will be funded by a €316 million loan from the World Bank and a €75.96 million grant from the EU under the FRIT Program constituting a special measure on health, protection, socioeconomic support, and municipal infrastructure. Financing from each source is parallel and thus the respective activities/investments are financed by either one or the other financing source.[21] Still, the project is conceived as a unique operation, and aims at leveraging the mutually beneficial complementarities between the grant and the loan components to achieve greater results in terms of formal job creation in refugees affected areas.

26. **The loan programs will be implemented by the TKYB with the support of participating financial institutions (PFIs).** The program will take advantage of the TKYB's extensive network and loan provision

[19] Project provinces include Istanbul, Sanliurfa, Hatay, Gaziantep, Adana, Mersin, Bursa, Izmir, Kilis, Konya, Mardin, Ankara, Kahramanmaras, Kayseri, Kocaeli, Osmaniye, Diyarbakir, Malatya, Adiyaman, Batman, Manisa, Denizli, Tekirdag, and Sakarya.
[20] The International Labour Organization's decent work involves "opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives, and equality of opportunity and treatment for all women and men."
[21] The EU financing will be available after an Administrative Agreement is signed between the World Bank and EU, followed by a Grant Agreement signed between the World Bank and the recipient/implementing body.

activities. The project will leverage the TKYB's extensive experience in providing access to financial services to LEs and SMEs[22] through intermediaries, such as banks and leasing companies.

A. Project Development Objective

PDO Statement

27. The project objective is to enhance the conditions for formal job creation by firms operating in provinces with high incidence of Syrians under Temporary Protection (SuTP), for the benefit of Turkish citizens and refugees.

28. To reach this objective, the proposed project will support increased (a) access to finance through loans to firms with an already consolidated record of sustained job creation and greater capacity to expand business and generate markets, (b) access to finance through grants conditional on job creation to firms which are with high job creation potential, and (c) access to skills through participation of beneficiary firms and workers in training programs financed by the project.

PDO-level indicators

(a) Ratio of the average maturity of beneficiary firms sub-financing under the project, over the average maturity of borrower's portfolio not financed under the project;

(b) Number of formal jobs created by subgrants (for refugees and ESSN beneficiaries, SMEs, and women) and;

(c) Increased management skills in loan beneficiary firms and increased employee skills in grant beneficiary firms.

B. Project Components

29. **The main components of the project are summarized in the following paragraphs. A detailed description of project components is presented in annex 2.**

[22] SMEs are defined here as firms with less than 250 employees (small enterprises 10–49 and medium enterprises 50–249), while large firms are defined as firms employing equal to or over 250 employees.

30. **The project will not impose a priori categorical restrictions on eligible economic sectors or firms except for the sectors excluded according to World Bank safeguard regulations.**[23]

Component 1: Loans targeting established firms with high potential for job creation (€314.6 million, US$345.8 million equivalent)

31. **This component supports loan financing for financially viable firms (a) through direct lending, and (b) wholesale lending.** The TKYB will be the borrower and implementing agency under the repayment guarantee of the Ministry of Treasury and Finance. The TKYB will provide loans to LEs directly (direct lending) and to SMEs through PFIs (wholesale lending), thereby expanding its geographical and sectoral reach. The TKYB will provide a total of loans up to €125.8 million (US$138.3 million equivalent), corresponding to 40 percent of the total to LEs. PFIs will provide a total of loans up to €188.7 million (US$207.5 million equivalent), corresponding to 60 percent of the total to SMEs.

32. **The TKYB will select PFIs, including banks and/or leasing companies, based on PFIs' financial health and capacity to implement subprojects.** The selection will be based on a two-step procedure: (a) a general limit allocation study (asset quality, return on equity, capital adequacy ratios, and so on) conducted and approved by the TKYB and (b) PFIs' willingness to be part of a specific loan program and their business orientation and operational capacity. The TKYB will assume the credit risk of PFIs and therefore has a strong incentive to assess their financial health and operational capabilities. The PFI selection is also subject to a 'no objection' process by the World Bank team, while subsidiary loan agreement covenants between the TKYB and PFIs require compliance with local regulations.

33. **The TKYB has recently carried out a cross-sectoral market research to assess the potential demand for loans among firms planning to expand business and their workforce with very positive prospects.** The TKYB will use its marketing tools to target and inform potential beneficiary firms and solicit them to apply. A multipurpose targeting mechanism will be used for outreach.

Component 2: Grants targeting firms conditional on job creation (€70 million, US$76.9 million equivalent)

[23] Ineligible sectors and subprojects include commercial activities involving habitats and products prohibited within the framework of the Convention on International Trade in Endangered Species of Wild Fauna and Flora; the release of genetically modified organisms into the wild; the production, distribution, or sale of pesticides that fall under the World Health Organization's Recommended Classification of Pesticides by Hazard Classes 1a (extremely hazardous) and 1b (highly hazardous) or annexes A and B of the Stockholm Convention on Persistent Organic Pollutants or that are restricted by the Government of Turkey, or herbicides; trawl fishing; radioactive products; hazardous waste storage, processing, and disposal; the production of equipment and materials containing chlorofluorocarbons or other substances regulated under the Montreal Protocol on Substances that Deplete the Ozone Layer; the manufacture of electrical equipment containing more than 0.005 percent polychlorinated biphenyls by weight; the manufacture of products containing asbestos; nuclear reactors and parts; processed or unprocessed tobacco and tobacco processing machinery; the significant conversion or degradation of critical natural habitats; significant damage to nonreplicable cultural property; involuntary land acquisition and any activity on land or affecting land over which the ownership, tenure, or user rights is disputed; any land-based activity that is considered dangerous because of security hazards or the presence of unexploded mines or bombs; weapons including (but not limited to), mines, guns, and ammunition; and any activity that supports drug crop production or the processing of such crops.

34. **This component finances grants to targeted firms operating in the project provinces conditional on formal job creation among refugees and Turkish citizens.** The TKYB will be the implementing agency of the grant component. This component targets financially viable firms.

35. **The intended beneficiary firms can apply for a subgrant scheme in which the firms will be asked to submit an employment plan to recruit refugees (including ESSN beneficiaries) together with a viable business plan.** The grant scheme will disburse 20 percent of the total amount to small enterprises (€14 million), 32 percent to medium enterprises (€22.4 million), and 48 percent to LEs (€33.6 million).

36. **Applications will be evaluated by a grant evaluation committee including TKYB experts and independent evaluators.** The committee will be the responsible for preliminary approval of the grants, with the 'no objection' of the World Bank. The grant evaluation committee will evaluate the applicant firms based on employment and business plan. The firms will receive a score depending on several factors, including the number of newly created jobs according to the grant amount awarded and whether the firm is women or refugee inclusive.

Component 3. Technical and institutional support (€6.6 million, US$7.3 million equivalent)

Subcomponent 3.A: Skills building for loan beneficiary firms (€0.50 million, US$0.55 million equivalent)

37. The loan beneficiary firms will be expected to participate in management capacity-building activities, provided by the TKYB and financed by the loan component of the project. This component will finance training for management practices; socioemotional skills (such as leadership, teamwork, and client orientation); and financial literacy.

Subcomponent 3.B: Skills building for grant beneficiary firms (€1.9 million, US$2.1 million equivalent)

38. In addition to submitting their business plans in the request for financing, grant beneficiary firms will be expected to commit to participate in capacity-building activities, provided by the TKYB and financed by the grant component of the project. This component will finance training for employees to build the skills identified in the diagnosis as constraining firms' capacity to increase formal job creation, including technical and analytical skills (for example, software and information technology [IT] knowledge and data analytics).

Subcomponent 3.C: Capacity building for loan implementation (€0.1 million, US$0.2 million equivalent)

39. This subcomponent will finance consultancy services under/by the Project Implementation Unit (PIU) and training activities for the TKYB and PFIs. This subcomponent will be financed by the loan.

Subcomponent 3.D: Capacity building for grant implementation (€4 million, US$4.4 million equivalent)

40. This subcomponent will finance grant governance body, consultancy services under/by the PIU, goods, non-consulting services (including travel), communication, outreach and visibility activities, and operational expenses to implement the grant component. This component will be financed by the grant.

Table 1. Project Costs (€)

Costs	All years Total Cost	Year 1 Total Cost	Year 2 Total Cost	Year 3 Total Cost	Year 4 Total Cost
Component 1	**314,560,000**	**125,824,000**	**141,552,000**	**31,456,000**	**15,728,000**
1.1. Loans to SMEs	188,736,000	75,494,400	84,931,200	18,873,600	9,436,800
1.2. Loans to LEs	125,824,000	50,329,600	56,620,800	12,582,400	6,291,200
Component 2	**70,000,000**	**17,500,000**	**49,000,000**	**3,500,000**	**0**
2.1. Grants to SEs	14,000,000	3,500,000	9,800,000	700,000	0
2.1. Grants to MEs	22,400,000	5,600,000	15,680,000	1,120,000	0
2.2. Grants to LEs	33,600,000	8,400,000	23,520,000	1,680,000	0
Component 3	**6,611,538**	**2,364,000**	**3,649,500**	**427,038**	**171,000**
3.A. Skills building for loan beneficiaries	503,000	251,500	251,500	0	0
3.B. Skills building for grant beneficiaries	1,937,000	968,500	968,500	0	0
3.C. Capacity Building for loan implementation	147,000	80,500	45,500	21,000	0
3.C.1. Individual Consultants (Loan)	52,500	10,500	21,000	21,000	0
3.C.2 Training Programs (training for loan officers - Loan)	94,500	70,000	24,500	0	0
3.D. Capacity Building for grant implementation	4,024,538	1,063,500	2,384,000	406,038	171,000
3.D.1. Individual Consultants (Grant)	587,500	88,500	189,000	169,000	141,000
3.D.2. Goods, and non-consulting services (including travel, Grant)	215,000	75,000	75,000	35,000	30,000
3.D.3. Communication and Visibility (Grant)	422,038	200,000	160,000	62,038	0
3.D.5. Operating Expenses (TKYB+PFI, Grant)	2,800,000	700,000	1,960,000	140,000	0
Project Budget	**391,171,538**	**145,688,000**	**194,201,500**	**35,383,038**	**15,899,000**
Front end Fee (Loan)	790,000				
Direct operational cost of the Bank (Grant)	1,000,000	450,000	200,000	175,000	175,000
Indirect Costs and Remuneration Costs (Grant)	3,038,462	3,038,462	0	0	0
Total (Loan)	*316,000,000*	*126,156,000*	*141,849,000*	*31,477,000*	*15,728,000*
Total (Grant)	*80,000,000*	*23,020,462*	*52,552,500*	*4,081,038*	*346,000*
Grand Total	**395,210,000**	**149,176,462**	**194,401,500**	**35,558,038**	**16,074,000**

Note: The World Bank-executed activities and the World Bank's fees are presented below the project's budget total line.

C. Project Beneficiaries

41. **Firms eligible for loan or grant financing will be the direct beneficiaries of the project.** The planned action will also benefit three groups of stakeholders indirectly: (a) work-able trained refugees and Turkish citizens and their families who will enjoy an improvement in their living standards, (b) financial institutions (TKYB and PFIs), and (c) their loan officers; and the local economy through the increase of formalization and new opportunities for economic interaction.

Direct Beneficiaries

42. **Private enterprises in selected provinces.** An estimated number of 859 (88 loan beneficiaries and 771 grant beneficiaries)[24] enterprises operating in project provinces will be direct beneficiaries of the program. The TKYB and financial sector intermediaries will be identifying, through broad outreach activities, eligible borrowers and grant recipients in line with financial soundness conditions and willingness to abide by the conditionality criteria. These enterprises will benefit by accessing resources that will allow them to realize their long-term investment plans and obtain working capital. Financial resources (grants and loans) will enable firms to undertake new investments, expand production, and improve their business performance and ultimately their productivity. The grant will support additional investments of eligible firms and will incentivize job creation and reward compliance for long-term retention of workers.

[24] This reflects the minimum numbers with the assumption that every beneficiary will get the upper limit of the loans and grants.

Indirect Beneficiaries

43. **Refugees and ESSN beneficiaries.** Refugees residing in the 24 target provinces and those work-able refugees who exit from the ESSN, willing and able to find formal employment could directly benefit from the program. Refugees acknowledge that finding better employment opportunities is of utmost importance for them. The increase in demand for refugee labor could incentivize refugees to seek skills training and subsequently seek formal employment opportunities.

44. **Turkish citizens.** Turkish citizens, currently unemployed or entering the labor market and seeking work, would have formal employment opportunities. Because of the conditionality to be imposed on firms accessing grant financing, employment will be formal in nature. Such jobs are likely to directly improve the livelihood of beneficiaries and their families. The increase in demand for labor could incentivize people to obtain industry-relevant skills to fulfil the employment requirements of beneficiary enterprises.

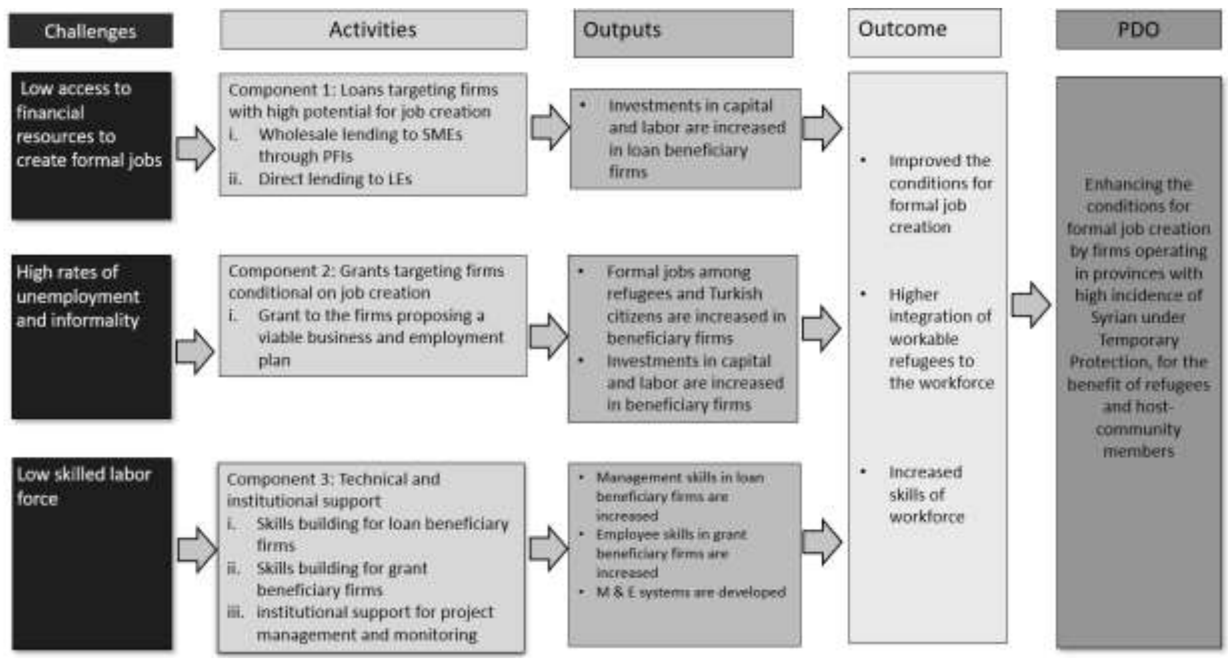
45. **TKYB and PFIs (intermediaries).** The proposed project will also directly support the TKYB and various intermediaries through technical assistance and training of loan officers. For instance, loan officers will be sensitized to service broader client markets (foreign firms). They will also be trained to assess the viability of employment plans and on how to guide applicant enterprises to find suitable workers from institutions such as İŞKUR and others. The TKYB will be supported to draft and sign a memorandum of understanding with the Ministry of Family, Labor, and Social Services to work directly with the Social Security Institution (SGK) and with İŞKUR for distinct functions that relate to the conditionality. The staff involved in project implementation will also be trained on the enforcement of the conditionality, including report drafting, the verification and validation process, sanctions process, and data exchange with SGK. These capacities will be kept by the PIU staff and the mechanism and learning can be used for future projects with similar objectives.

46. **The local economy, including the refugee community, will also enjoy the injection of economic resources that a large influx of available financing (both grant and loan) makes possible.** All the institutions involved will benefit from capacity training and improvements in their overall services to clients through the provision of more integrated services.

D. Results Chain

47. **The proposed project aims at enhancing the conditions conducive to greater formal job creation and long-term employability of refugees and Turkish citizens.** The challenges the project aims to deal with are as follows: (a) low access to finance to create formal jobs, (b) high rates of informality and unemployment, and (c) low skilled labor force. Figure 1 describes the expected theory of change, from access to inputs (finance and skilled labor) to the utilization of those inputs to improve firms' capacity to expand business, create job opportunities, and improve workplace conditions, thereby contributing to the longer-term intended impact on formal job creation. Other outcomes will be higher integration of work-able refugees to the workforce and increased skills of the workforce.

Figure 1. Theory of Change



E. Rationale for World Bank Involvement and the Role of Partners

48. **The project will leverage the World Bank's experience with line of credit interventions in Turkey with a strong inclusion focus.** The project design builds on recent lines of credit operations supporting Turkish exporters, SMEs, and energy efficiency investments, all rated Highly Satisfactory or Satisfactory by the World Bank Independent Evaluation Group. The TKYB has experience working with the World Bank and is willing to explore opportunities to expand formal job creation through its existing and future client base and draw lessons for future activities.

49. **Improved access to finance can lead to significant positive effects on employment growth among private and formal firms in Turkey.** The empirical evidence shows that firms with greater access to finance markets, are more likely to experience higher employment growth. Access to finance constraint has a significant negative effect on employment growth for small firms (5–49 employees) and large firms (250+ employees). The effect is stronger for the large firms (see annex 4). When considering specific forms of finance interventions, lines of credit targeted to SMEs show comparatively greater potential to spur employment growth. Out of 15 studies investigating the impact of lines of credit (see annex 5), 10 had a specific focus on job creation. All 10 studies reported that lines of credit had positive and significant effects on employment generation. For instance, a World Bank-financed onlending program targeted at SMEs resulted in the creation of 7,000 jobs and the preservation of 35,000 jobs among beneficiary firms in Turkey. Also, compared with nonbeneficiary firms, beneficiary firms created more jobs. Employment effects persisted after three years from disbursement.[25]

[25] World Bank. 2016. *Second Turkey Access to Finance for Small and Medium Enterprises Project. Implementation Completion Report Review* ICRR 14918. Washington, DC: World Bank.

50. **Since early 2018, the World Bank team, in collaboration with the Ministry of Family, Labor, and Social Services, İŞKUR, and the Small and Medium Enterprises Development Organization, has designed and implemented an EU FRIT Employment Support and Small Grants Project for Refugees and Turkish Citizens.** The project aims at improving entrepreneurship and employment outcomes for refugees and Turkish Citizens in select localities which have been affected by the refugee influx. These activities have provided insight to the design and will provide insight into the implementation of this project. Another EU FRIT Project (Strengthening Economic Opportunities for refugees and Turkish Citizens in Selected Localities) will also provide lessons on the occupations and demanded skills in provinces with high incidence of refugees.

51. **The knowledge the World Bank gained through these programs will be used for the planned action.** Moreover, the proposed action will also leverage previous experience from other EU- and World Bank-financed projects that aimed to improve the institutional capacity of the Government to implement conditional grant-loan programs and provide beneficiary enterprises more integrated services that encourage them to become more inclusive of foreign workers.

52. **The proposed action is also complementary to other employment generating activities being submitted by the World Bank under FRIT II.** For instance, the proposed project with IŞKUR and Turkish Red Crescent aims to make refugees and Turkish workers more employable and readier to be placed into jobs.[26] This project will have a direct link to that project to ensure that enterprises accessing financing have a direct connection to IŞKUR to hire their trained beneficiaries for immediate placement. A memorandum of understanding will be signed between the TKYB and İŞKUR to ensure such a direct link is actualized on the ground. This project will also establish links with the World Bank's ongoing assessment with Ministry of National Education (MoNE) to ensure that technical and vocational graduates trained have a smooth school to work transition into employment by providing graduates with more plentiful employment opportunities.[27] Still, with its unique design and innovative approach, the actions in this project proposal maximize complementary with and avoids duplication of existing programs.

F. Lessons Learned and Reflected in the Project Design

53. **The project will leverage the World Bank's comparative advantage in offering competitively priced long-term funds and builds on and expands the successful experience with implementing line of credit interventions in Turkey.** The key lessons learned include the need for a: (a) capable borrower or implementing agency; (b) simple and flexible design, allowing for easy operational adjustments if needed; (c) clear definition of target beneficiary enterprises, with minimum overlap between wholesale and direct lending components; (d) intensive monitoring of key indicators that measure the quality of the loan portfolio; (e) use of quantitative eligibility criteria for PFI selection; and (f) availability and use of sound analysis and data on the financial performance of PFIs, along with external audits for verification. Furthermore, the project seeks to enhance the development effectiveness of the World Bank's financial intermediation operations in Turkey by targeting specific segments of the economy that experience particularly severe access to finance constraints. The innovative design also reflects lessons learned from

[26] Support for Transition to Labor Market for People under Temporary and International Protection and Turkish Citizens Project (P171471).
[27] Turkey's Quality Learning and Inclusion Roadmap (P172472).

other World Bank credit lines in other regions (for instance, Africa), as well as from recent credit lines by the International Finance Corporation and the EBRD in Turkey.

54. **The project design will reflect the lessons from a series of recent line of credit and FRIT operations supporting Turkish exporters, SMEs, and energy efficiency investments,** including Export Finance Intermediation Loan (EFIL) I (P065188), EFIL II (P082801), EFIL III (P093568), SME I (P082822), EFIL IV (P096858), and Inclusive Access to Finance Project (P163225). Further, the project design will learn from both implementation and political economy challenges, especially related to the difficulties associated to the employability of refugees, from several FRIT I projects, such as Employment Support Project (P161670), Strengthening Economic Opportunities for Syrians under Temporary Protection and Turkish Citizens in Selected Localities Project (P165687), and Development of Businesses and Entrepreneurship for Syrians under Temporary Protection and Turkish Citizens Project (P168731).

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

55. **The TKYB will be responsible for the implementation of the project and was selected based on its demonstrated strong capacity to design and implement complex, innovative projects**. The TKYB has experience in implementing financial intermediation loans funded by the World Bank and other IFIs, including both direct lending and on-lending through PFIs. The TKYB has undergone a demand assessment during project preparation, including on the willingness of the firms to fulfill the job creation objectives, that shows encouraging results. Additional criteria for selecting the TKYB include the bank's financial soundness, quality of credit portfolio, and its performance as the Borrower in previous World Bank Projects. The proposed project is being processed under Bank Policy: Investment Project Financing paragraph 12, referring to projects in situations of urgent need of assistance or capacity constraints. The project design will be based on principles to be determined in the Project Operations Manuals (POMs) and derived from a mix of the TKYB's current and planned implementation modalities. Annex 3 provides background information on the TKYB, and a summary evaluation of the TKYB against the World Bank's standard criteria for financial intermediaries listed in OP/BP 10.

56. **A PIU will be established under the TKYB, which will coordinate and facilitate relevant project activities and have fiduciary responsibility.** The PIU will be staffed with individual consultants with safeguards, fiduciary, monitoring and evaluation (M&E) and technical experience, as well as the TKYB staff from different units. The PIU responsibilities will include (a) selecting and onlending to PFIs; (b) monitoring of PFIs to ensure compliance with project criteria including PFIs' application of the TKYB's Environmental and Social Management System (ESMS), where needed (projects with moderate risk will require application of the TKYB's ESMS whereas subprojects with low risk can be conducted based on the environmental and social [E&S] risk assessment procedures of PFIs); (c) coordinating the TKYB's direct lending to large firms eligible for loans; (d) coordinating extending grants to eligible firms and monitoring their compliance with grant agreements; (e) adhering to all fiduciary and safeguard requirements of the World Bank for final borrowers; (f) providing financial management arrangements for the project; (g) all procurement implementation under Component 3 and overseeing all beneficiary procurement under Component 2; and (h) ensuring M&E based on agreed results indicators.

57. **PFIs will be selected by the TKYB based on their financial health.** PFIs will onlend to SMEs under the loan component, thereby increasing the reach of the TKYB to areas and sectors where it currently has no presence. The TKYB will take the credit risk of PFIs and therefore has a strong incentive to carefully assess their financial health and operational capabilities. The PFI selection is also subject to a 'no objection' process by the World Bank, while Subsidiary Finance Agreement covenants between the TKYB and PFIs require compliance with standard prudential regulations thereby ensuring the financial health of PFIs.

58. **SGK will provide the official employment records to monitor compliance with job creation and retention.** To assess the compliance of grant-recipient firms with the formal employment creation and retention targets specified in the business plan at the moment of application, the PIU at the TKYB will receive regular employment and wage records for beneficiary firms from SGK at grant allocation, every six months thereafter, and periodically following requests for disbursements and claims of conditionality compliance by beneficiary firms.

59. **İŞKUR will participate as public provider of skills and skills-building capacity for prospective employees of beneficiary firms.** The TKYB staff will guide beneficiary firms in the identification and recruitment of job seekers. This will include the development of guidelines and materials to support loan officers in assisting beneficiary firms in recruiting personnel through various employability programs supported by the Government or the EU, such as İŞKUR, Red Crescent, and the Association for Solidarity with Asylum Seekers and Migrants. Formal links between the TKYB, and various employment or training institutions will be established to ensure that appropriate referrals lead to recruitment.

60. **A FRIT Project Steering Committee will be established for the overall implementation under Component 2 of the project.** The TKYB will convene and ensure the appropriate functioning of the Steering Committee, consisting of relevant stakeholders (i.e. İŞKUR, SGK), to carry out a semiannual review of implementation progress. The TKYB PIU will carry out the secretariat role of the Steering Committee.

61. **Two POMs which detail the responsibilities of all stakeholders and institutions at the central and local levels for implementation of the project components will be developed and finalized before effectiveness.** The POMs will be shared with all stakeholders to ensure full understanding of project content and implementation.

62. **The PIU will report implementation progress to the World Bank.** There will be semi-annual implementation reports presenting the progress and status of expenditures under each component separately; and quarterly reports presenting the progress with the key indicators in the Results Framework.

B. Results Monitoring and Evaluation Arrangements

63. **The PIU will report on progress on the PDO and intermediate indicators (including core indicators for World Bank-wide monitoring and gender-related indicators) on a semiannual and annual basis.** The PIU will prepare semiannual project progress reports to be shared with the World Bank, by taking into account different reporting requirements under the grant and loan components. The TKYB is accustomed to collecting such information from PFIs and beneficiary enterprises for previous World Bank

projects. A midterm and end line citizen engagement survey will be conducted by the TKYB to seek feedback from beneficiary firms on their satisfaction with the project. The PIU will discuss the survey results with PFIs and the results will inform project implementation, as appropriate. The financial performance of the TKYB will be monitored through independent auditors' reports and separate management letters confirming adherence to prudential norms. Monitoring of core intermediate result indicators at the PFI level will enable the TKYB and the World Bank team to take action in case of a significant deviation for a specific PFI, which may affect the progress toward the PDO. Though, it is not included in the Results Framework, the PIU will also report the statistics on formal employment creation in the loan beneficiary firms.

C. Sustainability

64. **The project is expected to facilitate greater intermediation by the financial sector in the currently underserved market segments.** Although the World Bank loan amount is small relative to the potential demand for such loans in project provinces, the multiplication effect will be achieved through the TKYB's channeling of any subfinance repayments to other eligible firms both through PFIs and directly for the same purpose. More broadly, the World Banks's financing support under the project will go hand-in-hand with strengthening the capacity of the TKYB and other PFIs to serve the specific needs of beneficiary firms.

65. **To avoid market distortions, the TKYB and PFIs will follow their respective pricing policy according to market conditions.** The cost of onlending subsidiary financing through PFIs will include, at a minimum, the cost of World Bank funds to the TKYB, plus an onlending margin reflecting the TKYB's administrative costs, a credit risk margin (or risk markup) associated with the PFI, and fees to the Ministry of Treasury and Finance for the guarantee provision. Ultimate beneficiary costs will add, at a minimum, the PFI's administrative costs and a credit risk margin (or risk markup) associated with the beneficiary enterprise. The only significant market advantage from the World Bank funds is in terms of maturity, facilitating the provision of long-term finance to enterprises without taking on a significant maturity mismatch. TKYB with the support of the World Bank will also ensure that the grant allocation process is non-distortionary and transparent

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic, and Financial Analysis (if applicable)

66. **Economic estimates on the impact of the project components on formal job creation in the short and medium run show substantial employment effects across different types of firms.** Under the main scenario related to the costs associated to workers' wages, it is estimated that the project will generate approximately 9,000 new formal jobs through the grant.

67. **The parameters used to assess the potential job creation effects of the grant component are in line with labor market characteristics and employment composition by type of firms in project provinces.** Potential beneficiary firms are divided into three main groups depending on firm size, which is a very strong predictor of job creation in Turkey: small firms (below 50 employees); medium firms (between 50 and 250 employees); and large firms: above 250 employees, which account for 30.4, 22.6,

and 47 percent of total employment in project provinces, respectively. The expected employment growth assumed for large firms is in line with the trend observed between 2010 and 2016: this has been discounted by a penalty factor to account for the fact that grant beneficiary firms might not necessarily be top performing firms, given their financial constraints. The expected growth rate in employment for SMEs reflects the expected effect of the grant on job creation: in fact, SMEs employment yearly growth rate between 2010 and 2016 has been negative, but the findings from the economic literature (see annex 5) suggest that SMEs tend to benefit more than proportionally compared to other type of firms from the alleviation of financial constraints. Another working assumption is that the distribution of the grant across firm types should be consistent with the distribution of employment. Given these conditions, the expected number of jobs to be created for the 'average' firm in each group are estimated, and then the total number of potentially beneficiary firms in each group is obtained. In summary, the table shows that around 9,000 jobs are expected to be created under the grant component, of which over 4,500 are in SMEs, by reaching out to approximately 771 beneficiary firms in project provinces (table 2A, scenario 1).

Table 2A. Parameters Choice for Estimating the Job Creation Effect of the Grant Component (Scenario 1)

Firm size	Expected average beneficiary firm size	Expected jobs to be created by average firm	Expected employment (%) increase for average firm	Expected number of beneficiary firms	Expected job creation (total)	Expected Employment % composition	Total grant amount (million euro)	Expected average grant per firm (euro)
[below 50)	30	4	13.3	453	1,812	20	14	31,000
[50-250)	150	14	9.3	204	2,856	32	22	108,000
[250+)	300	38	12.7	114	4,332	48	34	295,000
Total				771	9,000	100	70	90,000

Table 2B. Parameters Choice for Estimating the Job Creation Effect of the Grant Component (Scenario 2)

Firm size	Expected average beneficiary firm size	Expected jobs to be created by average firm	Expected employment (%) increase for average firm	Expected number of beneficiary firms	Expected job creation (total)	Expected Employment % composition	Total grant amount (million euro)	Expected average grant per firm (euro)
[below 50)	30	2	6.7	969	1,938	22	19	19,600
[50-250)	150	10	6.7	367	3,667	41	22	60,000
[250+)	300	24	8.0	141	3,395	38	29	205,000
Total				1477	9,000	100	70	47,000

Table 3. Comparison of parameters choice to assess the cost effectiveness of the grant under different scenarios.

Firm size	Scenario 1: Cost per job (euro) [1]	Scenario 2: Cost per job (euro) [2]	Scenario 1: Cost per job per month (euro) [3]	Scenario 2: Cost per job per month (euro) [4]
[below 50)	7780	9803	432	545
[50-250)	7780	6000	432	333
[250+)	7780	8542	432	475
Total	7780	8115	432	451

68. **Cost effectiveness analysis of the grant allocation across firms under different scenarios shows that the preferred parameters choice ensures more cost-effective results in terms of job creation.** We compare the cost-effectiveness results of the grant allocation across firms in terms of jobs creation using the parameters described in the previous paragraph, with an alternative scenario in which the grant amount per firm is lower (table 2B, Scenario 2). A lower grant per firm allocation under Scenario 2, however, has several less desirable implications. First, it lowers the number of expected jobs created per firm. Second, grant beneficiary firms can find more challenging to meet the conditionality criteria of 18 months of workers retention, since they have less resources to ensure sustainability. Third, there are less resources per beneficiary firm to be used for capital investments, which limit the possibility to further enhance job creation exploiting the complementarities between capital and labor. Fourth, in order to achieve the same expected outcome of jobs created with smaller grants-per-firm, it will be necessary to outreach to a much larger number of firms (almost double), which will increase the transaction costs and the management burden on the project. Table 3 shows that under the preferred parameters (table 2A, scenario 1), the grant allocation is more cost effective than in the alternative scenario based on smaller grant amounts per firm (and particularly so for small and large firms), with an average difference of 335 euro per worker (column 1 vs. column 2 in table 3).

Table 4. Estimates of the IRR of the Grant Component at 10 Years since the Beginning of the Project

IRR (internal rate of return) at 10 years (%)					
Discount rate = 4%; Firm survival rate: 100%					
Skill composition of new hires (%)			New hires duration in employment (%)		
			[1]	[2]	[3]
low	medium	high	100%	80%	60%
75	20	5	17.8	10.5	2.7
low	medium	high	100%	80%	60%
55	30	15	21.7	13.8	5.5
Discount rate = 4%; Firm survival rate: 100% for first 5 years, 90% after 5 years					
Skill composition of new hires (%)			New hires duration in employment (%)		
low	medium	high	100%	80%	60%
75	20	5	16.2	9	1.2
low	medium	high	100%	80%	60%
55	30	15	20.1	12.3	4

69. **Cost-benefits analysis of the economic returns of the grant components shows that the project is expected to yield positive rates of return at year 10 (starting to produce positive returns around year 5-7 since the beginning), depending on the assumptions on the employment duration of new hired workers, the extent of firms' survival, and skills composition of the newly hired labor force.** Costs-benefits analysis has been carried out to assess the economic returns associated to greater tax revenues from formal work, lower social assistance spending, and greater revenues from corporate income taxes, assuming also an expansion in profits spurred by the grant allocation (table 4). The results depend largely on the skills composition of the new hires, on the expected employment duration, and on beneficiary firm's survival rates. Under the assumptions implied by the intermediate (and more realistic) scenario under column [2] in Table 4, we can expect substantial returns to the grant component, varying between 9 and 14 percent. These estimations will be regularly updated during implementation, to provide valuable information on the project's internal rate of return as soon as real data become available.

70. **The above estimates of both job creation and internal rate of return, should be considered as realistic but conservative estimates for the purpose of assessing the total job creation potential of the whole project.** In fact, the figures do not include the number of jobs potentially created under the loan component. Further, the above estimates do not take into account yet possible multiplier effects, deriving by the linkages and the interaction between loan and grant beneficiary firms operating in the same markets. Finally, the effects of Component 3 of the project, might help making the project more sustainable, for instance by reducing the risk for workers in beneficiary firms of dropping out from formal employment, and by this token increasing the internal rate of return of the project as a whole.

71. **Estimates of the potential employment generation capacity of loan beneficiary firms, show that the joint impact of both project components in terms of formal job creation can be much larger than the effect estimated under the grant component alone.** In fact, when estimating the potential number of jobs created by loan beneficiary firms throughout the duration of the project, and still under conservative assumptions on their annual employment growth rate, we obtain that up to 3400 jobs could be created under the loan component (table 5). Therefore, the total job creation impact of the project can be estimated in over 12400 jobs. Further, when considering spillovers effects generated by the linkages between loan and grant receiving firms (estimated in around 10 percent for both components), we obtain even higher figures, and we estimate that the project as a whole could lead to the creation of over 13600 formal jobs (table 6). These estimates yield to a cost-per job for the total project ranging between 16000 and 17700 euros (table 7). These results suggest that the project as whole can be significantly cost-effective, if we compare these figures with the average cost-per-job for the largest subsidy program for Small Businesses in the USA (between 12500 and 15000 USD, see Annex 5), and other comparable programs financed by the EU to stimulate job creation and business expansion form SMEs through enhanced access to finance and lending[28]

[28] See Annex 5, the reference to Bertoni et al. (2019), and Asdrubali & Signore (2015), showing employment growth ranging between 14and 18 percent for loan beneficiary SME firms, respectively in Central Eastern European and Western European countries, under the EU-financed Multi-Annual Program for Enterprise & Entrepreneurship (MAP) for SME under EU SME Guarantee Facility (SMEG).

Table 5. Estimates of job creation among loan beneficiary firms

Loan beneficiary firm expected average size		Expected yearly employment growth	Expected Jobs created during the project per firm	Expected number of beneficiary firms	Expected Jobs created during the project (total)
Direct lending	300	3.5%	44	60	2655
Lending through PFI	150	3.0%	19	40	753
All firms				100	3408

Table 6. Estimates of total job creation among loan and grant beneficiary firms.

Total Jobs created	Loan beneficiary firms	Grant beneficiary firms	Total
without "linkages" effects	3408	9000	12408
with "linkages" effects	3749	9900	13649

Table 7. Cost effectiveness estimates for the overall project.

Cost per job	Loan beneficiary firms	Grant beneficiary firms	Total
without "linkages" effects	44008	7778	17730
with "linkages" effects	40007	7071	16118

Multiplier Effects

72. **The effects of the implementation of sub-loans and subgrants will be measured by the World Bank both at the firm level and at the regional and sectoral level, including spillover effects.** Potential spillovers of the program will be measured through the project-run firm survey (including also firms that are not direct beneficiaries) and by leveraging the richness of the Enterprise Information System (the database of all Turkish firms available at the Ministry of Industry and Technology), including information on the business networks of loan beneficiary firms, and the type and number of subsidiary firms.

73. **The selection of loan beneficiary firms will take into account potential links and spillover effects in terms of job creation between loan beneficiary firms and grant beneficiary firms.** The project will aim to strengthen the links between loan beneficiary firms and grant beneficiary firms and maximize the spillover effects that enhanced conditions for job creation for loan beneficiary firms can have on grant beneficiary firms. With this objective, the TKYB will take into account, among the criteria for the selection of loan beneficiary firms, the value chain generated by the business activities of loan applicants, the ecosystem in which they operate and their business network, and the number of their subsidiary or intermediary firms which potentially could be grant beneficiary firms. Further, successful grant beneficiary firms with high record of job creation, could “graduate” and potentially become loan beneficiary firms.

Methodology and Implementation Approach

74. **The implementation support strategy is developed considering the risks and mitigation measures related to the operation and targets the provision of flexible and efficient implementation support for the TKYB and other stakeholders.**

Methods of Implementation

75. **The project will offer enterprises an option of accessing grant versus loan financial resources to undertake investments in existing businesses.** This project combines resources from an EU grant and a World Bank loan to the TKYB, guaranteed by the Government of Turkey, to increase access to financial resources to enterprises located in provinces affected by a large influx of refugees to expand their production and/or service capacity and as a result increase the workforce needed. Enterprises will be able to access a 'loan only' option or a grant option. The project also includes a subcomponent to strengthen the implementation capacity of the staff and the institutional capacity of the TKYB and PFIs. The grant approval process will have a separate governing body to ensure transparency of implementation and enterprise (beneficiary) selection. The project will set up a compliance mechanism which will rely on a partnership between the TKYB and SGK. The project will include activities that focus on training the staff, as well as the PFIs and their staff, to apply and monitor project compliance and ensure the overall achievement of results.

76. **The project will include an M&E function, to be performed by the World Bank, to ensure that the implementation process is on the right track and impact evaluations are carried out to document results.** Because the selection criteria for grant beneficiary firms will be based on a scoring system, in the presence of a sufficiently large number of applicants and eligible firms, it will be possible to identify the final pool of beneficiary firms by selecting randomly among eligible firms with identical scores and similar characteristics. This approach will allow to build comparable 'treatment' and 'control' groups and will enable the TKYB to assess the effectiveness of the intervention by monitoring the performance (in terms of employment creation) of beneficiaries versus non-beneficiary firms. Finally, the World Bank team will inform the EU about the list of identified grant beneficiary firms under its no-objection.

Organizational Structure

77. **The TKYB will implement the program within its existing organizational structure.** It will integrate the project in its systems and use its own staff for the overall management of the project. Alongside the PIU, the TKYB staff in various departments (loan evaluation, loan marketing, intelligence and financial analysis, and IT) will manage and implement the project as part of their regular routine. The staff assigned to work on the project are highly qualified and experienced. There is a clear separation of duties between the staff with respect to evaluation of applications, review of documents and approvals, and accounting and reporting. The TKYB will document work flows specific to the project in the POMs. To facilitate coordination, experts from technical departments can be assigned to the PIU. The TKYB will ensure that a full-time dedicated team of experts for the implementation of projects' E&S impacts as well as stakeholder engagement activities and grievance management are assigned before project effectiveness.

Role and Participation of the Stakeholders

78. **The main groups of stakeholders are—as explained in previous sections—refugees, Turkish citizens, private enterprises of all sizes, and the TKYB and its intermediaries.** The project assumes that all stakeholders will be supportive in project implementation. The broader development agenda in Turkey and the FRIT Program is supported by a wide range of partners, including United Nations agencies, the EBRD, KfW, *Gesellschaft für Internationale Zusammenarbeit*, *Agence Française de Développement*, and other national and international financial institutions. The project design will benefit from consultations with these partners. The project will also interact with other stakeholders like local authorities, nongovernmental organizations working in the field, and other civil society organizations. These stakeholders are expected to be supportive or at least neutral to the implementation. To improve the quality of communication, and collaboration, these stakeholders will be targeted during the outreach activities.

79. **The project's dual options, grant versus loan financing, aims at maximizing the impact regarding employment generation and outreach.** Placing an emphasis on SMEs and, to a certain extent, on LEs as final beneficiaries, the project aims to spur investments and generate good-quality employment by enhancing access to longer-term finance and better training opportunities for underserved segments that might not have secured loans with similar conditions in the absence of the project. Focus on beneficiaries of different sizes (SMEs and LEs) calls for a variety of intermediary institutions and models that complement each other. Therefore, the project's dual option modality intends to facilitate the outreach to all targeted segments and achievement of the operation's broader impact.

B. Fiduciary

(i) Financial Management

80. **The PIU will be responsible for the financial management of all parts of the project.** They will maintain the two Designated Accounts that will be opened for the project (one for the loan and one for the grant). The PIU will ensure that accounting for the project is maintained in the TKYB's own system and the semi-annual reports are generated automatically through the system. The internal controls for all components of the project will be detailed in the POMs and the acceptance of the POMs will be an effectiveness condition for the Loan and Grant. The PIU will prepare semi-annual interim unaudited financial reports for the project and ensure that the project financial statements are audited on an annual basis by auditors acceptable to the World Bank. The audit reports will be submitted to the World Bank within six months following the end of the year.

(ii) Procurement

81. **The World Bank Procurement Regulations for IPF Borrowers dated July 2016 revised in November 2017 and August 2018 ('Procurement Regulations') will apply to Components 2 and 3 of the proposed project.** The TKYB will assume full credit risk in onlending the financings to private sector borrowers under Component 1 of the project and therefore the Procurement Regulations do not apply to the procurement of goods, works, non-consulting services, and consulting services under Component 1 of the project (refer to paragraph 2.2 (b) of the Procurement Regulations). The World Bank's Guidelines on 'Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and

Grants', dated October 15, 2006 and revised in January 2011 and as of July 1, 2016 ('Anti-Corruption Guidelines') will also apply to the proposed project. A General Procurement Notice will be published on the World Bank's external website and United Nations Development Business online.

82. **A Project Procurement Strategy for Development (PPSD) has been prepared by the TKYB as required by the Procurement Regulations to determine the optimum procurement approach to deliver the right procurement result under the proposed project.** The PPSD proposed that all procurements under Component 3 of the project be conducted by the TKYB PIU. It is envisaged that the sizes of the procurements in this component are generally small and their risks are also low. The procurements under Component 2 of the project will be performed by the relevant beneficiaries in accordance with the well-established commercial practices of the private sector enterprises as stipulated in the POM and/or agreed Procurement Plans. The TKYB will oversee the procurements done by the beneficiaries.

83. **The procurement capacity assessment concluded that the TKYB has adequate resources and capacity for implementing the credit line operations of the project through their current credit line PIU established under the ongoing Geothermal Development Project (P151739).** The PIU also developed experience in the selection of consultants in accordance with the World Bank's procurement procedures under the same project. However, some experienced staff left the PIU when the TKYB headquarters moved from Ankara to Istanbul in 2018. Hence, the TKYB/PIU will be supported with an external procurement specialist for the procurement of goods, technical services, and consultants' services under Component 3 of the project.

84. **More details on the findings of the procurement assessment, the proposed procurement supervision arrangements, risks, and relevant mitigation measures to address them are provided in annex 2.**

C. Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

D. Environmental and Social

85. **Project activities are not expected to have large-scale, significant, and/or irreversible E&S impacts.** On the contrary, the project's aim to improve conditions for formal job creation and increase the managerial capacity of grant and loan beneficiary firms is expected to have positive social impacts. Although there are no restrictions on sectoral basis, except the exclusion list of the World Bank and TKYB, potential sectors that were surveyed during design phase and are likely to be supported under this project, are expected to be manufacturing, motor vehicle repair and maintenance, food processing, education, construction, and real estate. Subprojects of substantial and/or high risk will not be included in project financing; however, due to the complexity and unknown subprojects, there may be risks associated with generation of hazardous wastes from the use, storage, or transportation of hazardous materials. Also, there may be labor risks related to working at heights/confined spaces in these sectors and inherent social cohesion risks stemming from competition in job opportunities within the refugee context. Subprojects

that are likely to have significant impacts on sensitive areas (for example, nationally and internationally protected areas, cultural values, and so on) or ones that may require land acquisition will not be eligible for financing.

86. **It is anticipated that subprojects to be supported under Components 1 and 2 will be mainly activities of beneficiary firms, not involving large-scale construction works**. The anticipated construction-related impacts might include habitat disturbance, air and noise emissions, community health and safety (including traffic management-related risks and gender-based violence risks) and occupational health and safety risks, and so on. The operational phase impacts will depend on the investment sector of the beneficiary and will be determined after the subprojects are defined during project implementation. Workplace adaptation trainings incorporated into the project design will reinforce social cohesion between Turkish citizens and refugees. In informal employment circumstances, there is a risk for Syrian refugees to be engaged in informal, low wage work and child labor. These labor risks will be mitigated by formal employment creation, which will be verified by the SGK, requiring SMEs and LEs to implement age verification procedures, and by the requirements to all interested SMEs/LEs to ensure that their business plans are in compliance with national labor and occupational health and safety laws. The TKYB and PFIs will screen SMEs/LEs on a range of labor issues and will have the supervision role through their ESMS to ensure that the business plans are implemented in line with national laws and relevant requirements of Environmental and Social Standards (ESS)2.

87. **The final corporate ESMS of the TKYB was adopted by the TKYB Executive Board on January 17, 2020, and its Environmental and Social Policy together with Exclusion List and summary of ES procedures were disclosed on TKYB's website[29] on February 12 and 28, 2020, respectively.** The World Bank reviewed the TKYB's ESMS and concluded that it contains all necessary elements as required by respective Environmental and Social Framework (ESF) and ESSs, and thus, can be used for the assessment and management of E&S risks of subprojects. The ESMS provides screening of all subproject applications and assigning risk ratings and identification and preparation of appropriate site-specific environmental and social assessment (ESA) instruments, such as Environmental and Social Management Plans, to address site-specific impacts as well as impacts of associated facilities (if any). Site-specific ESAs will duly incorporate and comply with the provisions of national legislation, World Bank Group Environmental Health and Safety General and Industry Specific Guidelines, (and Good International Industry Practices as well as relevant sectoral guidelines will be used. The capacity of the TKYB's PIU will be enhanced by assigning/hiring additional full-time staff to support implementation and monitoring of project activities, as defined in the respective E&S documents, and to ensure compliance with the World Bank's ESF. The World Bank will conduct ESF training and capacity building for the financial intermediary (TKYB) before implementation. The World Bank will monitor the financial intermediary and the financial intermediary will monitor the PFIs to successfully screen subprojects, and the World Bank will conduct prior review for an initial set of subprojects of the TKYB and from then after conducting post-review of selected subprojects, as part of regular project supervision. Potential risks and impacts related to labor and working conditions are expected to be managed through the project design and the TKYB's ESMS. The TKYB has prepared a labor management procedure (LMP), which will apply to direct and contracted workers. The LMP also includes a screening questionnaire of loan and grant recipients, on labor and working conditions,

[29] Environment and Social Policy of the TKYB, accessed on February 6, 2020, at https://english.kalkinma.com.tr/environmental-and-social-policy.aspx.

and age verification procedures. The TKYB will also apply a corporate-level Human Resource Policy (dated April 2019), which is in line with national regulations and ESS2 requirements.

88. **In line with ESS9, the TKYB will apply relevant requirements of ESS2 to subprojects and SME and LE loan and grant recipients.** Grants will be provided conditional on the commitment of firms to formally employ Turkish citizens and refugees in project provinces and sustain the newly created jobs throughout the duration of the grant. The jobs will be formal and will providing decent working conditions consistent with ESS2 requirements, social security, and other legally mandated benefits. SMEs and LEs will adhere to the labor code provisions. These requirements will be included in the legal agreements between the TKYB/PFIs and loan and grant beneficiary firms. To verify formality and duration of employment, the TKYB will receive regular employment and wage records for beneficiary firms from SGK.

89. **The TKYB has prepared, disclosed, and consulted its Stakeholder Engagement Plan (SEP) where direct stakeholders include potential SMEs and LEs, unemployed work-able Syrian refugees and Turkish citizens in targeted provinces, and PFIs.** The SEP has also identified indirect stakeholders (project-affected parties and other interested parties) including IŞKUR, SGK, local nongovernmental organizations/civil society organizations, community leaders, and local government representatives residing or working in the project areas.

90. **The TKYB will establish a good communications strategy to be implemented throughout the lifetime of the project.** In disseminating project-related information to potential SME and LE beneficiaries, the TKYB and PFIs will employ experienced loan officers to engage with the direct target group (potential beneficiary firms). In addition, both the TKYB and PFIs will hire individual consultants who will be able to use various engagement tools specified in the project's SEP. According to ESS10, public consultation meetings will be required for both Turkish citizens and refugees to introduce project information and E&S documents, once the subprojects are known. To mitigate potential risks and address received grievances, the TKYB and PFIs will establish a project-specific grievance redress mechanism (GRM) to address inquiries or concerns in line with project SEP. The project-specific GRM will also benefit from the national-level GRM through Cumhurbaşkanlığı İletişim Merkezi (CIMER) and Yabancılar İletişim Merkezi (YİMER) as defined in the SEP.

E. Citizen Engagement, Gender, and Climate Co-Benefits

91. **Citizen engagement activities will be carried out to involve project beneficiaries in two-way engagement processes.** The project will develop and adopt a set of participatory tools for engaging beneficiaries, tailored to suit firms and employees of beneficiary firms. The project will obtain feedback from (a) loan beneficiary firms (SMEs and LEs) under the loan component, (b) grant beneficiary firms (SMEs and LEs) under the grant component, and (c) employees (refugees and Turkish citizens) of beneficiary firms under the grant component.

(a) The loan component of the project will adopt a set of tools to obtain feedback continuously through the project. Building on the TKYB survey of 600 firms conducted during preparation, beneficiary firms will be involved in the following sequence of activities:

(i) **Participatory needs assessments and decision making over training needs and the design of training programs.** The TKYB, in collaboration with PFIs, will conduct participatory needs assessments with loan beneficiary firms to establish their trainings needs at the application stage.

(ii) **Post-training assessments.** The TKYB will conduct a post-training assessment to measure the satisfaction and impact of the trainings, with the results being used by training providers to revise and improve the process in subsequent assessments.

(iii) **Satisfaction surveys.** The TKYB, in collaboration with PFIs, will conduct satisfaction surveys in the midterm and end term with the loan beneficiary firms regarding the subfinance received in terms of their needs.[30]

(iv) **Biannual beneficiary workshops, roundtables, and focus group discussions** (targeting different beneficiaries: employers, civil society and end beneficiaries) will be held to discuss the survey results with a view to developing measures that improve the project design (such as the selection criteria of loans beneficiary firms, loan utilization, and choice of training activities). This activity will draw from the World Bank team's recent experience in carrying out validation workshops in the context of the FRIT I - Strengthening Economic Opportunities for Syrians under Temporary Protection and Turkish Citizens in Selected Localities Project (P165687). To ensure that the feedback of beneficiaries is effectively used, the project will establish a review committee tasked with consideration of the findings of each tool and its integration in subsequent activities.

(b) The grant component will engage with the target beneficiary firms, Turkish citizens, refugees and ESSN beneficiaries through the following activities:

(i) **Consultations.** Meetings will be held in four project provinces during the calls for grant applications to provide an open platform for interested firms, and other stakeholders to raise questions/comments regarding the project design (for example, selection criteria for beneficiary firms, grant utilization, strictness of employment conditionalities, and impact on Turkish citizens and refugee communities).

(ii) **Participatory needs assessments, post-training assessments, and satisfaction surveys** will also be conducted by the TKYB as described above, and the TKYB will use the same review committee to ensure that the findings and feedback from grant beneficiaries are adopted in subsequent years.

(c) In addition, a GRM will be established and managed by the TKYB PIU as a channel for beneficiary firms and workers to register their complaints. The GRM, which will build on the lessons of the FRIT I Project, will be advertised in the TKYB's website and will ensure that the beneficiaries receive a response within a stipulated time period.

(d) The project will measure whether the subfinance, training, and employment processes meet the needs of the beneficiaries. The results will be gender disaggregated, presented, and

[30] The survey will not include satisfaction with the decisions of the TKYB and PFIs related to the size, terms, and conditions of the loan that need to be market based.

discussed by the review committee to bring about improvement in the targeting and effectiveness of project activities.

92. **The project mainly addresses three specific gender gaps.** First, despite the rising levels of educational attainment among women in Turkey, high rates of low-skilled, informal, unpaid family workers prevail among women. The female labor force participation rate for people ages 15–64 is significantly lower than the OECD average in 2018 (64.6 percent for OECD; 38.3 percent for Turkey). Second, the lack of skills is one of the main obstacles to low-skilled women's participation in the labor market in Turkey. Evidence shows that training programs can be effective in boosting female employment and earnings. Job and business training programs can fill the skill gap for people who are out of the education system. Third, according to the gender analysis of the United Nations, only 15 percent of refugee women are engaged in income-generating jobs.[31] The same assessment indicated that only a small number of women (7 percent) have taken part in vocational training, and, when they do take part, the most popular areas of study are hairdressing (30 percent) and needlework (27 percent), which are closely related to traditional gender roles and provide limited opportunity for formal employment.

93. **The project proposes several actions to improve gender outcomes.** First, the project will encourage and prioritize both refugee and Turkish women to participate in the labor force. Second, the project will specifically encourage adequate women's representation at the participatory activities implemented under the project components. Also, the project will ensure that women have equal opportunities in accessing trainings to increase their skills. These actions will be measured through the following indicators: (a) number of formal jobs created for women and (b) number of women-inclusive firms receiving grants.

94. **The potential environmental impacts of the project are anticipated to be predictable and expected to be temporary and/or reversible, low in magnitude. and site specific.** However, there are no restrictions on sectoral basis, except the exclusion list of the World Bank and TKYB, most of the potential subprojects are expected to be in manufacturing, motor vehicle repair and maintenance, food processing, and construction, which might be associated with the generation of hazardous wastes from the use, storage, or transportation of hazardous materials. Therefore, while the high and substantial risk subprojects will be screened out, given the scale of the overall project and the potential need to handle hazardous materials and address the risk of the generation of hazardous wastes, the proposed environmental risk rating for the project is determined as Substantial.

95. **Climate change is further exacerbating Turkey's already observed vulnerabilities and environmental risks.** While the country has no detailed climate change assessments that reflect conditions at the municipal level, it faces the risk of climate-related impacts resulting from the interaction of climate-related hazards with the vulnerability and exposure of human and natural systems and their ability to adapt. The project intends to mitigate climate events by promoting national preparedness and capacity to avoid the adverse impacts of climate change identified in Turkey's Climate Change Action Plan (2011–2023). Specifically, the project will:

[31] United Nations Women and the Association for Solidarity with Asylum Seekers and Migrants. 2018. *Needs Assessment of Syrian Women and Girls under Temporary Protection Status in Turkey*. Ankara: UN Women.

- Under Components 2 and 3, prioritize financing in sectors (such as energy and water) that can have the most impact in mitigating the impact of climate change on beneficiaries;

- Ensure that those types of projects, when selected, are designed and informed by climate change best practices; and

- Under Component 3, provide trainings for loan officers that will include information on best practices to mitigate climate change and sensitize beneficiaries on the need for incorporating them into projects and lifestyles. Such topics could include energy efficiency, sustainable procurement, and recycling, among other things.

V. GRIEVANCE REDRESS SERVICES

96. Communities and individuals who believe that they are adversely affected by a World Bank supported project may submit complaints to existing project-level grievance redress mechanisms or the World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VI. KEY RISKS

97. The overall risk of the operation is **Substantial** based on the aggregated risk ratings in the categories discussed below.

98. **Macroeconomic risk is rated as Substantial.** The Turkish economy experienced instability between 2018-2019, following a period of growing macro imbalances and economic overheating in 2017-2018. The economy has stabilized more recently thanks to important external adjustments: a reversal in current account imbalances, declining external debt of banks, and a gradual recovery in forex reserves. These have contributed to currency stability. There are a priori three possible macroeconomic risks to the project. The first is currency risk for municipalities. Though the Lira has been more stable recently, uncertainty in global markets, including from the recent Coronavirus outbreak pose risks for all emerging markets. Some of the risk could be offset by trade diversion from China that benefits Turkey. The second relates to the authorities' fiscal consolidation path, which assumes a sharp decrease in capital expenditure. This may or may not affect public investment plans under the project as some of this risk may be mitigated by external project financing. Thirdly, the construction sector is among the most severely hit in the current downturn – leverage and exposure to forex debt will affect construction companies' ability to respond to an increase in specialized construction investment under the project.

Some of this risk may be mitigated by the availability of spare capacity in the construction sector, that may allow construction companies to respond quickly.

99. **The technical design of the project is rated Substantial.** While the TKYB has implemented several projects funded by the World Bank in the past, based on a similar design, the complexities inherent in working in regions under a crisis context, the blended financing, and the monitoring and enforcement of conditionalities pose additional challenges. The new mandate of the TKYB (as defined in the amended establishment Law 7147, dated October 11, 2018) underlines the importance of providing support to reduce regional development differences and promote economic and social development in the regions affected by domestic and regional migration. The implementation of the proposed operation will be managed by the Loan Department of the TKYB, in close collaboration with other relevant TKYB departments. The TKYB has strong business relations with the potential financial intermediaries. The project relies on the TKYB's existing organization structure, which is critical for its sustainability. To complement this structure, a governance body for the allocation of grants will be established. The monitoring and enforcement of the compliance with the conditionalities will rely on official records provided by SGK and a formal coordination agreement will be signed between the TKYB, SGK, and intermediaries. The World Bank team will closely monitor the compliance mechanisms to mitigate the risks and implement timely corrective action as needed.

100. **Institutional capacity for implementation and sustainability is rated Substantial.** While the institutional capacity risk is rated Moderate the risk to sustainability is rated Substantial. The TKYB has significant experience in managing similar interventions; however, the mixed approach and the context of the targeted areas require substantial technical, financial, managerial, safeguards, and fiduciary capacity to fully carry out its mandate under the project. Reaching SMEs for the grant component would present an additional challenge, given the TKYB's limited presence in the target areas. The enforcement of the conditionality for the grant component and the delivery of the core training program requires significant efforts. The enforcement of the PIU with experts in these areas and employing additional full-time human resources for the implementation and monitoring of E&S issues, including stakeholder engagement and GRM, should help mitigate this risk. Regarding sustainability, training programs for employees of beneficiary firms should help in their increased marketability and the participation on core training by management and employees should contribute to increase their productivity in the long term.

101. **Environmental and social risks are rated Substantial**. The structure of the project is based on providing loans and grants to SMEs and LEs for working capital and investment purposes through the TKYB and selected PFIs. While the project is expected to have positive outcomes on improving access to employment opportunities for refugees and Turkish citizens, there are contextual risks related to the inherent social risks associated with the potential competition for job opportunities among the Syrian and Turkish citizens. The project design included measures to improve social cohesion both through training activities and capacity-building activities for beneficiary firms, employees, and the TKYB staff under Component 3 in addition to the project's SEP. Although there are no restrictions on sectoral basis, except

the exclusion list of the World Bank[32] and the TKYB, potential subprojects are expected to be in sectors like manufacturing, motor vehicle repair and maintenance, food processing, and construction. While the high and substantial risk subprojects will be screened out, given the scale of the overall project and the potential need to handle hazardous materials and address the risk of the generation of hazardous wastes, moderate labor risks related to working in heights and confined spaces, working with hazardous wastes and chemicals, and so on, the proposed E&S risk rating for the project is determined as Substantial. Furthermore, because the grant operations related to a refugee context is not a usual business and new for the TKYB, additional capacity building for the TKYB and employers will be required to ensure that the grants are used in line with its objectives. Subprojects that are likely to have significant impacts on the sensitive areas (for example, nationally and internationally protected areas, cultural values, and so on) and that will require involuntary resettlement and land acquisition will not be eligible for financing. The project will support women-inclusive enterprises. Potential risks and impacts related to labor and working conditions will be managed with measures included in the project design through workplace adaptation trainings and capacity-building activities under Component 3, periodic labor audits, and in the TKYB's ESMS and LMP. Additionally, workplace-related issues and grievances (including sexual harassment and abuse) will be handled through project's GRM and a worker's GRM as defined in the SEP and LMP, respectively. The TKYB will screen SME and LE recipients of loans and grants to ensure consistency with ESS2 and adherence with labor and occupational health and safety laws.

102. **Other risks rated Substantial pertain to the time frame for loan and the grant approval and associated financing gap.** The signing of the Administrative Agreement between the World Bank and the EU for the grant is subject to finalization of an amendment to the broader EU Framework Agreement with the World Bank, which is under discussion by the parties. As such, the grant financing is reflected as a financing gap in the Project Appraisal Document, even though the EC approved grant financing for the entire program to be administered by the World Bank under the second tranche of the FRIT and authorized the team to negotiate the details for the project design with the EU. To mitigate the risk of a potential delay in finalizing the Framework Agreement amendment, thereby precluding timely signing of the Administrative Agreement, negotiations for the IBRD loan will proceed with Technical Discussions for the Grant. The Technical Discussions would involve a full discussion and agreement between TKYB and the World Bank on the terms and conditions of the Grant Agreement. Conclusion of the negotiations, based on the Technical Discussions for the Grant, will be done after signing of the Administrative Agreement. Once the Administrative Agreement has been signed, a formal Grant Funding request will be processed for the project. TKYB has indicated its preference to sign the loan and grant agreements with

[32] Ineligible subprojects: commercial activities involving habitats and products prohibited within the framework of the Convention on International Trade in Endangered Species of Wild Fauna and Flora; the release of genetically modified organisms into the wild; the production, distribution, or sale of pesticides that fall under the World Health Organization's Recommended Classification of Pesticides by Hazard Classes 1a (extremely hazardous) and 1b (highly hazardous) or annexes A and B of the Stockholm Convention on Persistent Organic Pollutants or that are restricted by the government of Turkey, or herbicides; trawl fishing; radioactive products; hazardous waste storage, processing, and disposal; the production of equipment and materials containing chlorofluorocarbons or other substances regulated under the Montreal Protocol on Substances that Deplete the Ozone Layer; the manufacture of electrical equipment containing more than 0.005 percent polychlorinated biphenyls by weight; the manufacture of products containing asbestos; nuclear reactors and parts; processed or unprocessed tobacco and tobacco processing machinery; the significant conversion or degradation of critical natural habitats; significant damage to nonreplicable cultural property; involuntary land acquisition and any activity on land or affecting land over which the ownership, tenure, or user rights is disputed; any land-based activity that is considered dangerous because of security hazards or the presence of unexploded mines or bombs; weapons including (but not limited to), mines, guns, and ammunition; and any activity that supports drug crop production or the processing of such crops.

the World Bank at the same time. However, should there be a significant delay in signing the grant, the TKYB would be able to sign the loan agreement and access IBRD funds before accessing the grant. Moreover, activities within the project would be separately financed fully from either source under a parallel financed arrangement. The Procurement Plan has been structured accordingly, and it would allow for activities financed from the loan to proceed in the event of a delay in grant effectiveness, should this situation arise.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY: Turkey
Formal Employment Creation Project

Project Development Objectives(s)

The project objective is to enhance the conditions for formal job creation by firms operating in provinces with high incidence of Syrians under Temporary Protection (SuTP), for the benefit of Turkish citizens and refugees.

Project Development Objective Indicators

Indicator Name	DLI	Baseline	Intermediate Targets			End Target
			1	2	3	
To increase access to finance in loan beneficiary firms						
Ratio of the average maturity of beneficiary firms sub-financing under the project, over the average maturity of borrower's portfolio not financed under the project (Text)		1.00	>1	>1	>1	>1
To increase formal job creation in grant beneficiary firms						
Number of formal jobs created by Grants (disaggregated by gender) (Number)		0.00	3,000.00	6,000.00	9,000.00	9,000.00
Number of formal jobs created in SMEs (disaggregated by gender) (Number)		0.00	1,800.00	3,600.00	4,500.00	4,500.00

Indicator Name	DLI	Baseline	Intermediate Targets			End Target
			1	2	3	
Number of formal jobs created for women (Number)		0.00	900.00	1,800.00	2,700.00	2,700.00
To enhance skills in beneficiary firms						
Increased management skills in loan beneficiary firms (Text)		1.00	1.00	>1	>1	>1
Increased employee skills in grant beneficiary firms (Text)		1.00	1.00	>1	>1	>1

Intermediate Results Indicators by Components

Indicator Name	DLI	Baseline	Intermediate Targets			End Target
			1	2	3	
Loans targeting firms with high potential for job creation						
Capital Stock of loan beneficiary firms (Text)		1.00	>1	>1	>1	>1
Grants targeting firms conditional on job creation						
Number of firms receiving grants (Number)		0.00	300.00	600.00	770.00	770.00
Number of women-inclusive firms receiving grants (Number)		0.00	100.00	200.00	255.00	255.00
Strengthening capacity of beneficiary firms, TKYB, and PFIs						
Monitoring and Evaluation system developed (TKYB and SGK) (Yes/No)		No				Yes
Training provided to loan officers (in TKYB and PFIs) (Number)		0.00	10.00	20.00	25.00	25.00

Indicator Name	DLI	Baseline	Intermediate Targets			End Target
			1	2	3	
Number of employers completing training (Number)		0.00	0.00	60.00	90.00	120.00
Number of employees completing training (Number)		0.00	0.00	1,500.00	3,000.00	4,500.00
Citizen engagement: Loan beneficiaries report that project sub-finance reflected their needs (Percentage)		0.00	70.00	75.00	80.00	80.00
Citizen engagement: Grant beneficiaries report that project sub-finance reflected their needs (Percentage)		0.00	70.00	75.00	80.00	80.00
Citizen engagement: Workers in grant beneficiary firms reporting that training and employment processes met their needs (disaggregated by gender) (Percentage)		0.00	75.00	80.00	85.00	85.00

Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Ratio of the average maturity of beneficiary firms sub-financing under the project, over the average maturity of borrower's portfolio not financed under		Annual	Project reports	Firm surveys	TKYB and PFIs

the project					
Number of formal jobs created by Grants (disaggregated by gender)		Annual	Progress reports	Declaration of firms verified by SGK	TKYB
Number of formal jobs created in SMEs (disaggregated by gender)		Annual	Progress reports	Firm declaration verified by SGK	TKYB
Number of formal jobs created for women					
Increased management skills in loan beneficiary firms		Annual	Progress reports	Skills measurement surveys	TKYB and PFIs
Increased employee skills in grant beneficiary firms		Annual	Progress reports	Skills measurement surveys	TKYB

Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Capital Stock of loan beneficiary firms	Capital-output ratio will be calculated per firm (and cell-based)	Annual	Progress reports	Firm survey	TKYB and PFIs
Number of firms receiving grants		Annual	Progress reports	TKYB administrative data	TKYB
Number of women-inclusive firms receiving grants		Annual	Progress reports	TKYB administrative data	TKYB

Monitoring and Evaluation system developed (TKYB and SGK)		One time	Progress reports	Agreement between TKYB and SGK	TKYB
Training provided to loan officers (in TKYB and PFIs)		Annual	Progress reports		TKYB and PFIs
Number of employers completing training		Annual	Progress reports		TKYB
Number of employees completing training		Annual	Progress reports		TKYB
Citizen engagement: Loan beneficiaries report that project sub-finance reflected their needs	Measures feedback from firms - review committees tasked with utilizing feedback.	Annual	Progress reports	Satisfaction surveys	TKYB
Citizen engagement: Grant beneficiaries report that project sub-finance reflected their needs	Measures feedback from firms - review committees tasked with utilizing feedback.	Annual	Progress reports	Satisfaction surveys	TKYB
Citizen engagement: Workers in grant beneficiary firms reporting that training and employment processes met their needs (disaggregated by gender)	Measures feedback from end beneficiaries – review committees tasked with utilizing feedback.	Annual	Progress reports	Satisfaction surveys	TKYB

ANNEX 1: Implementation Arrangements and Support Plan

Implementation Arrangements

1. The Government of Turkey, represented by the Ministry of Treasury and Finance, is the Guarantor of the loan.

2. The TKYB is the implementing entity of the project. Implementation of the loan part of the project will also involve intermediaries (such as banks, leasing companies) where the TKYB will lend to larger enterprises directly and liaise with intermediaries in lending to SMEs. The grant-funded part of the project will be assigned centrally by the TKYB through the PIU.

3. A PIU will be established at the TKYB. The PIU will be responsible for coordinating implementation of the project in the TKYB and coordinating with PFIs. The PIU will also have the fiduciary responsibility for the project. The PIU will be staffed with consultants (if required) and the TKYB's technical staff from different units will be assigned to the project. The individual consultants will have expertise in the areas of procurement, financial management, and M&E and will also provide technical support under the project and ensure compliance with World Bank requirements for procurement, reporting, auditing, and monitoring.

4. The PIU will have dedicated personnel who will be assigned with in depth knowledge of the TKYB`s procedures and preferably also those of the World Bank. Under the current Geothermal Development Project, the TKYB has staff assigned for the project with satisfactory experience and skills. The experience of these staff will be leveraged for implementation of this project. In addition to the TKYB's staff from different units, the PIU will be supported by individual consultants possessing specialized skills explained in annex 2.

5. The World Bank, as the Trust Fund administrator, and IBRD lender, will be responsible for monitoring the implementation of project activities and will ensure compliance with the former`s procedures and guidelines. World Bank's fiduciary arrangements, including its procurement and FM procedures, as well as its Environmental and Social Framework will apply. Detailed fiduciary and safeguards arrangements will be agreed with the TKYB and will be reflected in the POM.

Financial Management

6. The financial management of the project will be fully integrated into the TKYB's system which facilitates follow-up of loans extended to the companies from the initial application to the approval and monitoring stages. The system has adequate security levels. The system will be tailored to facilitate follow-up on PFI basis and firm basis.

7. The TKYB will sign the grant and loan agreements with the beneficiary enterprises for which it is directly extending loans or grants. Beneficiary enterprises will provide supporting documentation for expenses incurred and the TKYB will control and ensure that the expenditures incurred comply with the business plans originally submitted and with the conditions of the loan/grant agreements. They will also reconcile the reported expenditures to the supporting documentation that will be submitted by the

beneficiary enterprises. For the loans extended through PFIs, this responsibility will belong to the PFIs and the TKYB will supervise the whole process. These will be reflected in the PFI agreements to be made between the TKYB and PFIs and loan agreements that will be made between the PFI and the beneficiary enterprise. The loan processes and the internal controls that will be conducted by the TKYB and PFIs will be detailed in the relevant POMs that will be prepared before effectiveness.

8. The TKYB has well established credit application procedures which might be minimally altered for the purposes of the current project. In the TKYB's current procedures, companies wanting to finance their investments or working capital needs from a loan from the TKYB will apply to its Corporate Banking and Project Finance Department. The Corporate Banking and Project Finance and Financial Analysis Departments review the application and the feasibility of the proposed project, conduct the eligibility screening, and prepare a term sheet for loan proposal. Then, the Engineering Departments assess the project and the company from technical, financial, and economical perspectives. The Corporate Banking and Project Finance Department together with Loan Allocation Department will review collateral conditions. The Loan Allocation Department submits the loan proposals to the Credit Committee and the Board of Directors. Upon approval of the Board of Directors, the loan agreement is signed with the beneficiary enterprise. The contract entitles the firm to receive disbursements from its allocated loan account. The invoices are received and entered into the system by the Engineering Department, which will be responsible for the project in coordination with the Corporate Banking and Project Finance Department in coordination with the Development Finance Institutions Department. The Engineering Department, which is responsible of the verification of the receipt of the goods and services outlined in the invoice, usually prepares a progress report after visiting the project site if needed. The Loan Allocation Department reviews the financials related to the project progress in coordination with Engineering Department and executes the control mechanism, wherever deemed necessary. Procedures for the working capital loans and the documentation are like those required by investment loans. The procedures outlined earlier could be adopted for the investment loans for the projects that will be financed directly by the TKYB.

9. The procedures followed for lending through PFIs will be similar to those adopted by investment loans, with the difference that the Customer Value Management and Business Development Department will be the responsible business unit as the PIU. This information will be detailed in the relevant POMs that will be prepared by effectiveness. PFIs will be selected according to selection criteria explained in annex 1, section A and the loan allocation will be approved by the Credit Committee and Board of Directors. Disbursements will be processed by the Customer Value Management and Business Development Department in coordination with other departments. PFIs will be asked a pipeline of 25 percent of first disbursement and they will be provided access to the TKYB's online monitoring tool for submitting information about subfinances for the TKYB control and approval. The online monitoring tool will also be used for reporting purposes. The internal control requirements for PFIs will also form a part of the relevant POM for the project.

10. Procedures for the working capital loans and the documents, required systems at the PFIs, and documentary flow will be detailed in the relevant POM that will be prepared by effectiveness. The internal control requirements for the PFIs will also form a part of the relevant POM.

11. The TKYB will be responsible for monitoring the compliance of the firms with the grant agreement conditions. Additionally, disbursements to beneficiary enterprises will depend on the compliance of these

companies with the grant conditions. Accordingly, the roles and responsibilities of different departments within the TKYB will be detailed in the POM for implementation of subgrants. The acceptance of this POM by the World Bank will be an effectiveness condition for the Grant. The TKYB could hire the services of an audit company to monitor on-site compliance of the beneficiary enterprises with the grant agreement conditions and these services could be financed by Component 3 of the project.

12. **Internal and external audits.** The TKYB has a department responsible for auditing its business processes. The transactions under the project will also be subject to the internal audit in compliance with the audit program of the department**.** Annual project financial statements (integrating both sources of financing) for the project and the TKYB's financial statements will be subject to an independent audit by auditors that are acceptable to the World Bank. The TKYB has been submitting audited entity and project financial statements to the World Bank as a part of its obligations under another World Bank-financed project. The TKYB's financial statements prepared in accordance with International Financial Reporting Standards have been audited by private sector auditors in accordance with International Auditing Standards. The entity audited financial statements had unqualified (clean) audit opinions for the last three years. The TKYB additionally prepares financial statements for the projects it is implementing, and these financial statements are also audited by independent auditors.

13. Under the project, the TKYB will be required to submit its audited entity financial statements prepared in accordance with Turkish Accounting Standards (which are fully compatible with International Financial Reporting Standards) and project financial statements to the World Bank within six months following the end of year. The project financial statements are required to be made publicly available in accordance with the World Bank guidelines. Table 1.1 identifies the audit reports and their due dates.

Table 1.1. Audit Reports and Due Dates

Audit Report	Due Date
Entity financial statements prepared in accordance with Turkish Accounting Standards or International Financial Reporting Standards (IFRS)	Within six months after the end of each calendar year and at the closing of the project.
Project financial statements for the loan financed part of the project, including Statement of Expenditures and the Designated Accounts	Within six months after the end of each calendar year and at the closing of the project.
Project financial statements for the grant financed part of the Project, including Statement of Expenditures and the Designated Accounts	Within six months after the end of each calendar year and at the closing of the project.

14. The TKYB will also receive annual audited financial statements from the PFIs. This requirement will be reflected in the agreements that will be signed between the TKYB and PFIs and will be monitored by the TKYB.

15. **Reporting and monitoring.** The TKYB will prepare and submit IFRs for the project on a semiannual basis. There will be two sets of interim financial reports; one for the loan and one for the grant. The TKYB will also ensure that the reports with financial content are automatically generated from its system.

16. **Disbursement arrangements.** The project will be disbursing on the traditional disbursement techniques. Two Designated Accounts will be created for the project (one for the EU grant and one for the

World Bank loan). Two authorized signatories will sign the withdrawal applications. The minimum application size for payments directly from the loan account for the issuance of special commitments, as well as the Statement of Expenditure limits, will be described in the disbursement letters. Full documentation in support of Statement of Expenditures, including completion reports and certificates, will be retained by the TKYB for at least two years after the World Bank has received the audit report for the fiscal year in which the last withdrawal from the loan account was made. This information will be made available for review during supervision visits by World Bank staff and for annual audits. Disbursements for expenditures above the Statement of Expenditure thresholds will be made against presentation of full documentation of the expenditures.

Procurement

17. **Applicable regulations.** The World Bank Procurement Regulations for IPF Borrowers dated July 2016 and revised in November 2017 and August 2018 ('Procurement Regulations') will apply to Components 2 and 3 of the project. A General Procurement Notice will be published on the World Bank's external website and United Nations Development Business online immediately after the negotiations.

18. **Anticorruption Guidelines.** The World Bank's 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', dated October 15, 2006, and revised in January 2011 and as of July 1, 2016 (Anticorruption Guidelines)' will apply to the proposed project.

19. **PPSD.** The Procurement Regulations requires the borrower to develop a PPSD for the project. Because the TKYB and targeted beneficiaries are considered to be in urgent need of assistance as described under Bank Policy: Investment Project Financing paragraph 12, referring to projects in situations of urgent need of assistance or capacity constraints, a simplified PPSD was prepared by the TKYB. The draft PPSD describes how procurement activities will support project operations under Components 2 and 3 for the achievement of the PDOs and deliver value for money. The PPSD is linked to the overall project implementation strategy by ensuring proper sequencing of procurement activities. It provides information on institutional arrangements for procurement, roles and responsibilities, appropriate procurement methods, procurement due diligence, and other requirements needed for carrying out procurement. The PPSD also includes a detailed description of the procurement capacity needed by the executing agencies for carrying out procurement with specific focus on managing contract implementation, governance structure, and accountability framework. In addition, the PPSD is supported with market research, and analysis assesses market-related risks and opportunities that will affect the preferred procurement approach to market strategy.

20. The PPSD confirmed that the sizes of the procurements in Component 3 are generally small and their risks are also low. The goods, consulting services, and non-consulting services under this component will be procured by the TKYB PIU and the selection methods will be simple and follow streamlined procedures. A market sounding concluded that there are adequate number of suppliers operating in the national market for the envisaged procurement packages. So, the procurements under this component are located as 'tactical acquisition' in the supply positioning matrix. The durations of the contracts are expected to be limited with the completion of the logistical arrangements, delivery of goods, and training or visibility materials, and not multiyear. Few consultants' contracts to support the TKYB for project management purposes most likely will be longer than a year. The market sounding concluded that the

potential suppliers will see the TKYB as a good customer to develop business in their respective field of expertise.

21. The PPSD confirmed that commercial procurement practices of small firms, group of people, or individuals in Turkey follow the general rule that they procure the least-cost goods, works, and services consistent with acceptable quality requirements. In the case of goods, the local practice is to prepare the technical specifications and solicit quotations from the local and/or international market. In the case of medium and large works, the technical specifications are usually prepared by consultant companies and bids are collected from qualified contractors. Minor works are generally tendered on a lump-sum basis by collecting bids from a number of local contractors. In the recent years, the purchasers commonly visit shopping sites in the Internet to find the optimum price for specific goods and seek availability of after sale services from the manufacturers. When equipment and machinery are needed for expansion of the existing facilities, the purchasers usually prefer proprietary goods from a single source for the sake of standardization and minimization of the operation and maintenance cost.

22. The Turkish commercial code provides a modern 'constitution' for private sector commercial activity and entrepreneurship, grounded in financial transparency and strengthened corporate governance, and regulates the reporting requirements for intergroup transactions among group companies. In this context, the communique on 'minimum content for the annual activity report' requires the group companies to report on the group transactions, which will eventually strengthen arms-length arrangements between them. The World Bank provided finance to various credit line operations in Turkey in which the end users were private sector firms or individuals. All such World Bank-financed credit line projects confirmed that the funds were used by the beneficiaries for the intended purposes in consideration with economy and efficiency. So, the procurement to be done by the beneficiaries under Component 2 of the project will be done in accordance with well-established commercial practices as stipulated in the relevant POM and confirmed by the TKYB that these practices are consistent with the World Bank's Core Procurement Principles of value for money, economy, integrity, fit for purpose, efficiency, transparency, and fairness.

23. The PPSD proposed to hire the individual experts required for the TKYB PIU in accordance with the individual consultant selection procedures as specified in the Procurement Regulations. These include, but are not limited to, a procurement specialist, a training coordinator, an M&E expert, and a financial management specialist.

24. **Procurement Plan and procurement tracking.** The Procurement Regulations require the borrower to use the World Bank's Systematic Tracking of Exchanges in Procurement (STEP), an online procurement tracking tool to prepare, clear, and update its Procurement Plans and conduct all procurement transactions. The TKYB will create the Procurement Plan through STEP before initiating any procurement activity. The PPSD and the underlying Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs. All the procurement-related complaints will be recorded in the STEP complaint module by the TKYB.

25. A list of procurements performed by the beneficiaries under Component 2 will be recorded in a format agreed by the World Bank and specified in the relevant POM and these records will be uploaded into STEP by the TKYB at least annually but not later than closing date of the project. The contracts agreed by the World Bank for financing and included in the approved procurement plan are listed in table 1.2.

Table 1.2. Contracts Agreed by the World Bank

Activity Description	Reference No.	Procurement Category	Procurement Method	Market Approach	Estimated Amount including VAT for the Loan (€)	Funding Source	Review Method	Estimated Contract Signing Date	Estimated Contract Completion Date
Selection of a consultant firm to provide online and/or face-to face trainings for loan beneficiaries (multiple contracts)	CS-CQS-3A.L – 01, 02..	CS	CQS	National	192,000	IBRD Loan	Post	February 1, 2021	January 30, 2022
Selection of individual consultant/s to provide training (multiple contracts)	CS-INDV-3A.L – 01, 02..	CS	INDV	National	8,000	IBRD Loan	Post	April 15, 2021	January 30, 2022
Organizational and logistical services for face-to-face trainings for loan beneficiaries (multiple contracts)	NCS-RFQ-3A.L-01,02….	NCS	RFQ	National	300,000	IBRD Loan	Post	April 15, 2021	January 30, 2022
Printing/publishing documents	NCS-RFQ-3A.L-…….	NCS	RFQ	National	3,000	IBRD Loan	Post	January 15, 2021	March 15, 2021
Selection of a consultant firm to provide online and/or face-to-face trainings for grant beneficiaries (multiple contracts)	CS-CQS-3B.G – 01, 02..	CS	CQS	National	1,080,000	EU Grant	Post	April 15, 2021	March 1, 2022
Selection of individual consultant/s to	CS-INDV-3B.G – 01, 02..	CS	INDV	National	32,000	EU Grant	Post	June 15, 2021	March 1, 2022

Activity Description	Reference No.	Procurement Category	Procurement Method	Market Approach	Estimated Amount including VAT for the Loan (€)	Funding Source	Review Method	Estimated Contract Signing Date	Estimated Contract Completion Date
provide training (multiple contracts)									
Organizational and logistical services for face-to-face trainings for grant beneficiaries (multiple contracts)	NCS-RFQ-3B.G-01,02….	NCS	RFQ	National	780,000	EU Grant	Post	June 15, 2021	March 1, 2022
Printing/publishing documents	NCS-RFQ-3B.G-…….	NCS	RFQ	National	45,000	EU Grant	Post	-March 15, 2021	May 15, 2021
Selection of a part-time procurement specialist	CS-INDV-3C.L - 01	CS	INDV	National	52,500	IBRD Loan	Post	July 1,2020	December 29, 2023
Organizational and logistical services for capacity building trainings to loan officers (multiple contracts)	NCS – RFQ- 3C.L-01, 02….	NCS	RFQ	National	94,500	IBRD Loan	Post	June 1,2020	March 30, 2021
Selection of a part-time procurement specialist	CS-INDV-3D.G - 01	CS	INDV	National	73,500	EU Grant	Post	July 1,2020	December 29, 2023
Selection of a financial management specialist	CS-INDV-3D.G - 02	CS	INDV	National	126,000	EU Grant	Post	July 1,2020	December 29, 2023
Selection of a M&E specialist	CS-INDV-3D.G - 03	CS	INDV	National	105,000	EU Grant	Post	July 1,2020	December 29, 2023
Selection of a training coordinator	CS-INDV-3D.G - 04	CS	INDV	National	55,000	EU Grant	Post	July 1,2020	December 29, 2022

Activity Description	Reference No.	Procurement Category	Procurement Method	Market Approach	Estimated Amount including VAT for the Loan (€)	Funding Source	Review Method	Estimated Contract Signing Date	Estimated Contract Completion Date
Selection of labor auditor 1	CS-INDV-3D.G - 05	CS	INDV	National	51,000	EU Grant	Post	September 1,2020	December 29, 2023
Selection of labor auditor 2	CS-INDV-3D.G – 06	CS	INDV	National	51,000	EU Grant	Post	September 1,2020	December 29, 2023
Selection of individual consultants for grant implementation; i.e. communication expert (multiple contracts)	CS-INDV-3D.G - 07………	CS	INDV	National	126,000	EU Grant	Post	July 1, 2020	December 29, 2023
Selection of a part-time individual consultant for translation services	CS-INDV-3D.G – 08	CS	INDV	National	27,500	EU Grant	Post	October 1,2020	November 1, 2020
Selection of independent assessors for grant evaluation purposes (1- 4 persons - multiple contracts)	CS-INDV-3D.G – 09, 10….	CS	INDV	National	40,000	EU Grant	Post	March 1,2021	December 29, 2021
Selection of a consultant firm for on-site compliance audit, including procurement practices	CS-CQS-3D. G – 01	CS	CQS	National	250,000	EU Grant	Post	September 1, - 2021	December 31, 2024
Selection of a consultant firm for the design of visibility and	CS-CQS-3D. G – 02	CS	CQS	National	50,000	EU Grant	Post	August 1, 2020	March 30, 2021

Activity Description	Reference No.	Procurement Category	Procurement Method	Market Approach	Estimated Amount including VAT for the Loan (€)	Funding Source	Review Method	Estimated Contract Signing Date	Estimated Contract Completion Date
communication materials									
Production of visibility and communication materials	NCS – RFQ-3D.G-01	NCS	RFQ	National	30,000	EU Grant	Post	November 1, 2020	December 31, 2020
Organizational and logistical services for visibility and communication activities (event organization/s and so on) (multiple contracts)	NCS – RFQ-3D.G-02, 03….	NCS	RFQ	National	140,000	EU Grant	Post	January 1, 2021	December 15, 2023
Organizational & logistical services for consultations-meetings during the calls for grant applications (multiple contracts)	NCS – RFQ-3D.G-......	NCS	RFQ	National	100,000	EU Grant	Post	November 15, 2020	January 15, 2021

Notes: CS = Consulting Services; NCS = Non-consulting Services; CQS: Consultant's Qualifications-based Selection; RFQ = Request for Quotations as a selection method; INDV = Selection of Individual Consultant/s.

26. **Advance procurement.** Procurement Regulations Paragraphs 5.1 and 5.2 (Advance Contracting and Retroactive Financing) permits that the borrower may wish to proceed with the procurement process before signing of the Legal Agreement. In such cases, if the eventual contracts are to be eligible for World Bank financing the procurement procedures, including advertising, shall be consistent with Sections I, II, and III of the Procurement Regulations which cover the World Bank's Core Procurement Principles of economy, efficiency, transparency, fairness, fit-for purpose, value for money, and integrity. With this understanding, the TKYB will initiate the selection of the PIU consultants immediately after project negotiations upon publication of the General Procurement Notice in the United Nations Development Business online.

27. **Procurement methods and standard procurement documents.** While comprehensive selection methods and use of the World Bank's standard procurement documents will be applicable, due to the emergency response nature of the project, flexible, streamlined, and fit-for-purpose arrangements will also be used in the project procurements. Higher thresholds will be used for the simple selection procedures as specified in the approved Procurement plan. When approaching the national market, as agreed in the Procurement Plan, bidding documents agreed by the World Bank in Turkish language will be used. Determined thresholds and selection methods will be reviewed by the World Bank during the project supervisions and/or when the World Bank decides and will be updated as appropriate.

28. **Procurement risk assessment.** The World Bank has conducted a procurement assessment for the project, with a focus on the TKYB in terms of (a) procurement regulatory framework and management capability, (b) integrity and oversight, (c) procurement process and market readiness, and (d) procurement complexity. While the Procurement Regulations will apply in the proposed project, the assessment concludes that (a) applicable procurement policies and the regulatory system are designed broadly to meet Core Procurement Principles of value for money, economy, efficiency, effectiveness, integrity, transparency and fairness, and accountability; (b) the TKYB has a clear system of accountability with clearly defined responsibilities and delegation of authority on who has control of procurement decisions; (c) there is a clear identified target market for all procurements; and (d) the TKYB effectively manages contracts to ensure delivery according to the contract conditions. The assessment was recorded in the Procurement Risk Assessment and Management System of the World Bank.

29. The TKYB will undertake the overall responsibility of the project implementation and coordination through its PIU that was established under the Private Sector Renewable Energy and Energy Efficiency Projects and continued to operate under the Geothermal Development Project. The procurement capacity assessment concluded that the TKYB has adequate resources and capacity for implementing the credit line operations of the project through its current PIU.

30. The TKYB PIU also developed experience in the selection of consultants in accordance with the World Bank's procurement procedures under the Geothermal Development Project. However, some experienced staff separated from the PIU when the TKYB headquarters moved from Ankara to Istanbul in 2018. In addition, the TKYB does not have experience with the World Bank's Procurement Regulations. Hence, the TKYB/PIU will be supported by an external procurement specialist for the procurement of goods, non-consulting services, and consultants' services under Component 3 of the project.

31. Given the emergency nature of the project and limited implementation time and taking into account that the TKYB will implement the first project under the Procurement Regulations, the overall

procurement risk for the project is assessed as 'Moderate'. The risk rating can be lowered to 'Low' when the agreed actions No. (1) and (2) in table 1.3 have been put in place.

Table 1.3. Identified Risks and Agreed Action Plan

Action No.	Identified Risk	Mitigation Measure	Responsible Party	Time Frame
1	The TKYB has been implementing the World Bank-financed Geothermal Development Project simultaneously, and staff assigned to the PIU have their regular work. The PIU may not be able to meet the procurement deadlines. The TKYB does not have experience to work under the Procurement Regulations.	A dedicated procurement specialist will be employed by the TKYB in the PIU.	TKYB	Terms of references will be prepared by the TKYB and the selection will be completed in advance before the earliest of loan or grant effectiveness. Contracts will be signed within the first month after Loan and Grant effectiveness, respectively.
2	Unclear procurement procedures may create unnecessary questions from the procurement stakeholders.	Develop a POM for grant and loan separately.	TKYB	Before Loan and Grant effectiveness, respectively.
3	Incomplete E&S assessment studies may delay commencement of the contract implementation.	If applicable, all E&S assessment studies will be completed before signing of the contracts.	TKYB/PIU	Throughout the project.
4	Misinterpretation of the Procurement Regulations and terms and conditions of the contracts. It may cause noncompliance and also time and cost overruns in the contract implementation.	Work closely with World Bank procurement specialist.	TKYB	Throughout the project.

32. **Procurement supervision frequency.** The World Bank will review the procurement arrangements performed by the TKYB, including contract packaging, applicable procedures, and the scheduling of the procurement processes, for their conformity with the Legal Agreement. Those procurements that did not have ex ante due diligence by the World Bank will be subject to ex post due diligence on a sampling basis in accordance with the procedures set forth in Paragraph 4 of the Annex II to the Procurement Regulations. A post review of the procurement documents will normally be undertaken annually and/or during the World Bank's supervision mission, or the World Bank may request to review any contracts at any time. In such cases, the PIU shall provide the World Bank the relevant documentation for its review.

33. Review procedures for the procurements done by beneficiaries under Component 2 will be detailed in the relevant POM. The procurements and physical review of the procured goods, works, and

services will be conducted by an independent procurement audit firm annually, and the resulting report will be shared with the World Bank for its review.

34. **Complaint review.** The procurement complaints, other than covered under Annex III of the Procurement Regulations, are to be handled by the TKYB in accordance with the procedures agreed by the World Bank and stipulated in the relevant POMs. Immediately upon receipt, the complaints will be recorded in the STEP complaint module by the PIU. The TKYB will not proceed with the next stage/phase of the procurement process, including with awarding a contract without satisfactory resolution of the complaint(s).

35. Operational costs will not be considered under procurement implementation, which could be the incremental expenses, including office supplies, vehicles operation and maintenance cost, maintenance of equipment, communication costs, rental expenses, utilities expenses, consumables, transport and accommodation, per diem, cost for procurement advertisements, honorarium for the independent grant evaluation committee members, and salaries of locally contracted support staff.

Monitoring and Evaluation

36. **Reporting progress.** The PIU will report on progress on the PDO and intermediate indicators (including core indicators for World Bank-wide monitoring and gender-related indicators) on a semiannual and annual basis. The PIU will prepare semiannual project progress reports to be shared with the World Bank, by taking into account different reporting requirements under the grant and loan components. The TKYB is accustomed to collecting such information from PFIs and beneficiary enterprises for previous World Bank projects. A midterm and end line citizen engagement survey will be conducted by the TKYB to seek feedback from beneficiary firms on their satisfaction with the project. The PIU will discuss the survey results with PFIs and the results will inform project implementation, as appropriate. The financial performance of the TKYB will be monitored through independent auditors' reports and separate management letters confirming adherence to prudential norms. Monitoring of core intermediate result indicators at the PFI level will enable the TKYB and the World Bank team to take action in case of a significant deviation for a specific PFI which may affect the progress toward the PDO. Though, it is not included in the Results Framework, the PIU will also report the statistics on formal employment creation in the loan beneficiary firms.

Environmental and Social

37. The grant and loan programs will be implemented by the TKYB with the support of local PFIs. The project will leverage the TKYB's extensive experience in providing access to finance services to LEs and, through intermediaries (such as banks and leasing companies), to SMEs. As far as grants are concerned, the TKYB will manage the assignment of grants centrally through the PIU, a team of technical experts, and with the technical assistance of the World Bank.

38. The TKYB will undertake the overall responsibility of the project implementation and coordination through its PIU that was established under the Private Sector Renewable Energy and Energy Efficiency Projects and continued to operate under the Geothermal Development Project. However, the capacity of the former PIU established to administer World Bank projects will be increased by assigning/hiring

additional full-time staff to support implementation and monitoring of the E&S documents and to ensure compliance with the World Bank's ESF.

39. The corporate ESMS, recently adopted by the TKYB Executive Board on January 17, 2020, found acceptable to the World Bank, will be implemented by the designated E&S focal points in the PIU. The Environmental and Social Policy, including the E&S exclusion list, will be applicable to all the TKYB operations and financial services, and the ESMS will also be applicable to subprojects which are directly financed by the TKYB. The same focal points will be responsible for carrying out the procedure on E&S risk evaluation in credit processes, risk categorization, E&S management of risks defined, and the E&S training process under the capacity-building activities.

40. Similar to the E&S focal points under the PIU, PFIs will have designated staff to implement and monitor low category E&S risks of the subprojects they finance.

41. The TKYB's communication approach and grievance system will be in the responsibility of another full-time focal point designated to plan, organize, supervise, and monitor the stakeholder engagement activities that will be carried out both by the TKYB and PFIs. This focal point will oversee the implementation of the project's SEP and the grievance mechanism established for the project. The focal point will ensure that regular progress reports prepared for subprojects financed both by the TKYB and PFIs include progress and actions carried out for engagement activities are in line with the project's SEP and that grievances related to both internal and external stakeholders (project workers and all other stakeholders) are recorded, addressed on time, and closed and reported according to the World Bank requirements, particularly with ESS10 and ESS2.

World Bank Project Implementation Support Plan

42. The Implementation Support Plan (ISP) is tailored to the specific context and characteristics of the project, and existing capacity of the implementing agency and arrangements. The ISP will be reviewed periodically to ensure that it remains fit for purpose and responsive to the project's implementation support needs over its lifetime.

43. **Project Launch Workshop**. A project launch workshop will be held soon after project approval. It will bring all project stakeholders together to ensure that the project scope, design, process and responsibilities are understood.

44. **Implementation support missions**. The project would be supervised at least twice a year and the recommendations of such supervisions would be presented to the TKYB and recorded in an Aide Memoire. The World Bank would be represented by a task team leader, supported by a team of experts with various skills as needed, including fiduciary (Procurement and financial management), safeguards (Social and environmental), monitoring and evaluation, and technical specialists.

45. The semiannual supervision missions and short/ follow-up technical missions as needed in specific areas, will focus on the following areas: Strategic support, technical support, fiduciary support, and safeguards support.

ANNEX 2: Detailed Description of the Project

A. Detailed Description of Implementation of Sub-loans

1. **The TKYB will be the borrower and implementing agency under the repayment guarantee of the Ministry of Treasury and Finance.** The TKYB will provide loans to LEs directly, and to SMEs through PFIs, thereby expanding its geographical and sectoral reach. The TKYB will provide a total of loans to LEs directly, and to SMEs through PFIs using subsidiary financing agreements. Although the IBRD loan will be provided in foreign currency, the PFIs and TKYB will be able to provide loans to beneficiary enterprises in local currency, if required, by making use of country's well-developed currency swap market. The TKYB and PFIs will make use of the loan in accordance with the Council of Minister's Decree Number 32, which regulates the foreign exchange lending provisions.

2. **The selection of PFIs and all subsidiary financing agreements are subject to prior review and acceptance by the World Bank.** Before the final selection of PFIs, the TKYB will submit to the World Bank the evaluation report, including financials of the proposed PFIs, together with a request to include the PFIs in the project. The World Bank will review and clear the TKYB's assessment by conveying a 'no objection' for each PFI's participation. The 'no objection' will be based on the criteria included in this section. The TKYB will send the financials of the proposed PFIs to the World Bank every year, within the first six months of each calendar year, to ensure that the selected PFIs continue to meet the required criteria until full repayment of the subfinancing. The 'no objection' is not required for the continued participation of the selected PFIs.

3. **The TKYB will rely on its Loan Policy document approved by the Board of Directors to identify PFIs**. The Loan Policy document, which regulates all loan processes for cash and noncash loan products, states that the credit risk limits are determined using a quantitative methodology for rating the banks and financial leasing companies separately and allocates credit risk limits for both groups. The methodology considers six main criteria: (a) capital adequacy, (b) asset quality, (c) liquidity, (d) profitability, (e) income and expenditure structure, and (f) loan capacity. Further, the methodology analyzes capital structure, credit risk level, operational risk level, market risk level, and market share of each financial institution. The risk limit allocations are monitored continuously and revised annually by the Loan Allocation Department according to year-end independently audited financial statements disclosed by the banks and financial leasing companies. In addition to the quantitative model, financial leasing companies must also have net profits in two of the last three years and their controlling shareholders must be banks. The PFI selection for any program starts with the TKYB's own risk limit allocation screening and then the eligibility criteria for specific program and/or IFIs are applied.

4. **PFIs will be selected based on their expression of interest in participating in the project, implementation capacity, capacity to present timely reports on project indicators, and on acceptance by the TKYB of their credit risk, as well as the following eligibility criteria:**

- For banks, unless agreed otherwise by the World Bank, the following eligibility criteria will apply:

- Total assets during the last two fiscal years to exceed a minimum of €1 billion equivalent on average
- Compliance with all prudential norms of the Banking Regulation and Supervision Agency
- General compliance with legal and regulatory requirements applicable to the banking industry, including, but not limited to, such prudential regulations as minimum capital adequacy ratio, maximum foreign currency exposure limits, maximum large exposure to single and connected clients and maximum insider lending limits, and so on, duly certified by the banks' auditors every year and confirmed by the management as of June 30 every year; in such cases where the year-end audits have already been completed, the bank shall submit a management letter confirming its compliance with prudential norms
- Audited interim financial reports according to the requirements of the Banking Regulation and Supervision Agency
- Adequate organization, management, staff, and other resources necessary for its efficient operation
- Application of their own E&S assessment procedures for screening, monitoring, and reporting as per TKYB ESMS acceptable to TKYB and the World Bank

- For leasing companies, unless agreed otherwise by the World Bank, the following eligibility criteria will apply:
  - Total lease receivables during the last two fiscal years to exceed a minimum of €50 million equivalent on average
  - New lease volume during the last two fiscal years to exceed a minimum of €50 million equivalent on average
  - The leasing company should have been profitable for at least two out of the last three years of operations
  - Compliance with all prudential norms of the Banking Regulation and Supervision Agency
  - General compliance with legal and regulatory requirements applicable to the leasing industry, including, but not limited to, such regulations as minimum equity capital, the total sum of lease exposures, and the total sum of exposures to related parties, duly certified by the leasing companies' external auditors every year and confirmed by management as of June 30 every year; in such cases where the year-end audits have already been completed, the leasing company shall submit a management letter confirming its compliance with prudential norms

  - Audited financial statements according to the requirements of the Banking Regulation and Supervision Agency

  - Adequate organization, management, staff, and other resources necessary for its efficient operation

  - Application of their own E&S assessment procedures for screening, monitoring, and reporting as per TKYB ESMS acceptable to TKYB and the World Bank

- **PFIs will be responsible from the following:**

  - PFIs must start and remain in compliance with the eligibility criteria for PFIs and the Environmental and Social Assessment procedures as defined in the Environmental and Social Commitment Plan.

  - PFIs will be responsible for ensuring that subbeneficiaries comply with the applicable Turkish environmental legislation and regulations and the World Bank ESF.

  - PFIs will provide the TKYB with a set of documentation for all subfinance to enable it to maintain all project records and make them available for ex post review by the World Bank or by external auditors as necessary.

  - PFIs will be required to provide reasonable information for the purpose of monitoring and impact assessment for five years after the project closing date or as may be otherwise requested by the World Bank or the borrower.

5. **If a PFI repays at least €20 million of the World Bank funds, the TKYB will onlend or finance the reflows to PFIs within one year to be used for a purpose consistent with the PDO.** Total reflows to be onlent or financed for at least one financing cycle will be an amount equal to the aggregate of the subsidiary financing, and the selection of PFIs under the reflows will be independent of earlier commitments. Similarly, the TKYB will use the repayments under the direct lending component for new loans for formal job creation for firms operating in provinces with high incidence of refugees through improved access to finance and skills, for at least one financing cycle.

6. **If PFIs do not effectively implement the project, their allocation can be reallocated to other PFIs.** In addition to demonstrating solid financial standing, each prospective PFI will commit to participate in training organized jointly by the TKYB and the World Bank to strengthen their capacity to assess the formal job creation potential of the proposals of viable enterprises operating in areas where refugees are concentrated.

7. **The TKYB will have exposure only to the selected PFIs and will assume the credit risk for onlending funds to PFIs**. PFIs will assume the credit risk of the subbeneficiaries who will be selected based on an agreed upon eligibility criteria.

8. **Maturity of funds from the TKYB to PFIs and leasing companies will be at a minimum of six years. The funds available to PFIs will depend upon the availability of funds to the TKYB from the World Bank.**

9. **Eligibility criteria for beneficiaries of sub-loans, unless agreed otherwise by the World Bank, will include the following:** final beneficiaries of the loan will be selected based on clearly defined eligibility criteria in 24 provinces including (i) firms that are financially viable, and (ii) firms with a consolidated record of job creation. TKYB will encourage women-inclusive enterprises[33] and enterprises in less developed sub-regions affected by SuTP influx to expand its pool of potential beneficiaries. The loans should be allocated with a longer maturity than the maturity of TKYB's and PFI's representative lending portfolio. The firms will be selected on a first come, first served basis. The criteria above will be implemented according to the loan application evaluation procedure as defined in annex 2.

10. **Terms and conditions of subfinance between the TKYB and LEs, unless agreed otherwise by the World Bank, include the following:**

- Subfinance will be evaluated in accordance with the TKYB's normal project and finance evaluation guidelines. The TKYB will ascertain the eligibility of the subfinance to ensure that they meet the project requirements.
- The cost of the targeted direct financing to LEs by the TKYB will include (a) the cost of World Bank funds going to the TKYB, (b) an onlending margin reflecting the TKYB's administrative costs, (c) a credit risk margin associated with the enterprises, and (d) fees for the Treasury's guarantee provision.
- The amount of an individual subfinance will not exceed €5 million equivalent for LEs except as the World Bank shall otherwise agree. Total exposure, the aggregate amount of outstanding subfinance to any one LE, shall not exceed €15 million equivalent.
- Subfinance to LEs may be made for working capital and investment purposes. Total working capital subfinance extended directly by the TKYB shall not amount to more than 20 percent of Component 1 proceeds.
- All subfinance to LEs must have at least two-year maturity for working capital loans and at least five-year maturity for investment loans and those maturities expected to exceed the TKYB's representative loan portfolio maturity.
- For all subfinance above €1 million equivalent, subbeneficiaries must submit a cash flow statement following a format agreed with the TKYB.
- For subfinance above €1 million equivalent, subbeneficiaries must have a financial debt/equity ratio of not more than 85:15 after the receipt of the subfinance, unless agreed otherwise by the World Bank.
- For subfinance above €1 million equivalent, subbeneficiaries should, after the receipt of the subfinance, be projected to maintain a financial debt service coverage ratio of at least 1.1:1

and calculated on an average basis over the subfinance life, unless agreed otherwise by the World Bank.

- The first subfinance by the TKYB, irrespective of size, will be subject to prior review by the World Bank. Subfinance to be provided to a large enterprise, exceeding €3 million equivalent, will require prior approval by the World Bank.

- All subfinance not subject to prior review may be subject to ex post review by the World Bank to verify compliance with the terms and conditions.

- The relevant authorities must certify that the LEs (subbeneficiaries) and subprojects meet environmental laws and standards in force in Turkey. The World Bank policy on environmental assessment will also be complied with.

- Subprojects classified with a risk rating of High and Substantial according to the World Bank's ESF will not be financed.

- Subprojects that trigger ESS5 (Land Acquisition, Restrictions on Land Use, and Involuntary Resettlement) and goods, works, non-consulting services, and consultant services on the World Bank's negative list will not be eligible for financing;

- Subprojects having significant impacts on sensitive areas and cultural heritage will not be eligible for financing within the scope of the project.

- Contracts from subbeneficiaries, where the contracted firms are on the World Bank's lists of debarred or suspended firms, will not be eligible for financing.

- LEs will be required to keep copies of invoices for all expenses financed with working capital and investment finance received under the project. LEs will be required to send invoices and other documentation for subfinance to the borrower, except in the case of working capital expenditures. For working capital expenses, which will be financed by working capital loans, LEs will send a list of working capital expenses financed through the working capital loan to the borrower or, based on a due diligence undertaken by the World Bank, borrower's calculations on the working capital gap will be accepted as documentation on working capital expenditures. Ultimately the invoices and documentation for all expenses will be kept by the subbeneficiary and made available to the borrower and the World Bank if requested.

- Subbeneficiaries are required to comply with the World Bank's Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants (revision of July 1, 2016) (Anticorruption Guidelines) as part of its general obligations relating to the receipt and use of such proceeds of the loan. The Turkish translation of the anticorruption guidelines is available on the World Bank website in Turkey (http://www.worldbank.org.tr). The English language version will apply in case of any inconsistency between the Turkish and the English versions of the guidelines.

11. The eligibility criteria for lending may be different under direct lending to larger enterprises and lending through PFIs, to reflect the differences in operating models between the TKYB (as a development bank) and commercial banks. Implementation guidelines will be included in the relevant POM.

12. **Terms and conditions of subfinance between PFIs and SMEs, unless agreed otherwise by the World Bank, include the following:**

- Subfinance will be evaluated in accordance with PFIs' normal project and finance evaluation guidelines. The TKYB will ascertain the eligibility of the subfinance provided by PFIs to ensure that they meet the project requirements but will not conduct its own evaluation of subfinance.

- The cost of subfinance by PFIs to SMEs will include, at a minimum, the cost of the project funds to PFIs plus an onlending margin reflecting (a) PFI's administrative costs and (b) a risk premium.

- The amount of an individual subfinance will not exceed €3 million equivalent for SMEs, except as the World Bank shall otherwise agree. Total exposure, the aggregate amount of outstanding subfinance to any one SME, shall not exceed €6 million equivalent.

- Subfinance to SMEs may be made for working capital and investment purposes.

- For bank PFIs all subfinance to SMEs must have at least two-year maturity for the working capital loans and at least five-year maturity on investment loans, and those maturities are expected to exceed the respective loan portfolio maturities of the TKYB and PFIs. For leasing PFIs, subfinance to SMEs must have at least two-year maturity for working capital loans and three-year maturity for investment loans, and those maturities are expected to exceed the respective loan portfolio maturities of those leasing PFIs.

- For all subfinance above €1 million equivalent, subbeneficiaries must submit a cash flow statement following a format agreed upon with the TKYB.

- For subfinance above €1 million equivalent, subbeneficiaries must have a financial debt/equity ratio of not more than 85:15 after the receipt of the subfinance, unless agreed otherwise by the World Bank.

- For subfinance above €1 million equivalent, subbeneficiaries should, after the receipt of the subfinance, be projected to maintain a financial debt service coverage ratio of at least 1.1:1 and calculated on an average basis over the subfinance life, unless agreed otherwise by the World Bank.

- The first subfinance by each PFI, irrespective of size, will be subject to prior review by the World Bank. Subfinance exceeding €2.5 million equivalent to be provided to an SME will require prior approval by the World Bank.

- All subfinance not subject to prior review may be subject to ex post review by the TKYB and/or by the World Bank to verify compliance with the terms and conditions.

- The relevant authorities must certify that the SMEs (subbeneficiaries) and subprojects meet environmental laws and standards in force in Turkey. The World Bank's ESF will be complied with.

- Subprojects classified as Low risk according to the TKYB's ESMS and World Bank's ESF will be financed by PFIs.

- Subprojects involving dams and international waterways will not be financed.

- Subprojects that trigger ESS5 (Land Acquisition, Restrictions on Land Use and Involuntary Resettlement) and goods, works, non-consulting services, and consultant services on the World Bank's negative list will not be eligible for financing.

- Subprojects having significant impacts on cultural heritage will not be eligible for financing within the scope of the project.

- Contracts from subbeneficiaries where the contracted firms are on the World Bank lists of debarred or suspended firms will not be eligible for financing;

- SMEs will be required to keep copies of invoices for all expenses financed with working capital and investment finance received under the project. SMEs will be required to send, to their respective PFIs, invoices and other documentation for subfinance, except in the case of working capital expenditures. For working capital expenses, which will be financed by working capital loans, SMEs will send a list of working capital expenses financed through a working capital loan to the PFIs or, based on due diligence undertaken by the World Bank, eligible financial institution calculations on a working capital gap will be accepted as documentation on working capital expenditures. Ultimately the invoices and documentation for all expenses will be kept by SMEs and made available to PFIs, the TKYB, and the World Bank if requested.

- Subbeneficiaries will be required to provide reasonable information for the purpose of monitoring and impact assessment for five years after the project closing date, or as may be requested by the World Bank or the borrower.

- Subbeneficiaries are required to comply with the World Bank's Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants (revision of July 1, 2016) (Anticorruption Guidelines) as part of its general obligations relating to the receipt and use of such proceeds of the loan. The Turkish translation of the anticorruption guidelines is available on the World Bank website in Turkey (http://www.worldbank.org.tr). The English language version will apply in case of any inconsistency between the Turkish and the English versions of the guidelines.

B. Detailed Description of Implementation of Subgrants

13. **TKYB will be the implementing agency of the grant component.**[34]

14. **The intended beneficiary firms can apply for a subgrant scheme in which the firms will be asked to submit an employment plan to recruit new employees together with a viable business plan.** The grant scheme will disburse 20 percent to small enterprises, 32 percent to medium enterprises, and 48 percent to LEs.

15. **Applications will be evaluated by a Grant Evaluation Committee including the TKYB experts and independent evaluators.** The committee will be responsible for preliminary approval of the grants, with the 'no objection' of the World Bank.

16. **Firms applying for a grant are required to submit a business plan, also including job creation targets for the new employees during the period covered by the grant.** Applicant firms will be evaluated under each grant scheme by the grant evaluation committee based on the evaluation grid presented in box 2.1.

17. **The grant amount can vary between EUR 15,000 and EUR 45,000 for SEs, EUR 25,000 and EUR 125,000 for MEs, and EUR 40,000 and EUR 300,000 for LEs.** It is expected – on average across beneficiary firms - the grant to cover up to 70 of the estimated gross median wage[35] of workers for 18 months (EUR 7.780), conditional to hiring at least 2, 3, 5 new employees in SEs, ME, and LEs respectively. The average grant amount per firm is calculated as EUR 31,000, EUR 108,000, and EUR 295.000 for SEs, ME, and LEs respectively

Table 1. Estimated Grant Amounts

	Estimated total Grant Amount by firm type (Million EUR)	Estimated total Grant Amount by firm type (%)	Estimated average grant amount per firm (EUR)	Estimated number of grant beneficiary firms	Estimated new jobs created per firm	Estimated Total Jobs Created by firm type	Total Cost per new job in EUR (for 18 months)
Small (Below 50)	14	20%	31,000	453	4	1,812	7,780
Medium (50-250)	22	31%	108,000	204	14	2,856	7,780
Large (250+)	34	49%	295,000	114	38	4,332	7,780
All firms	70	100%	90,000	771		9,000	7,780

[34] The TKYB already has grant management experience in implementing several grant programs. Most notably Economic and Commercial Cooperation of Organization of Islamic Countries (COMCEC) Project Funding in which the TKYB partners with the Standing Committee for COMCEC for an internationally implemented grant program since 2014. The TKYB is responsible for financing and M&E of this grant program and acts as a contracting entity. The grant program finances institutional capacity-building projects of member countries in cooperation areas of agriculture, financial cooperation, poverty alleviation, tourism, trade and transport, and communications (http://www.comcec.org/en/pcm).

[35] This corresponds on average to EUR 432.2 per month, an amount very close to the national Minimum Wage. According to the OECD, the national Minimum Wages in Turkey equals to 70 percent of the median wage (see OECD.stat: https://stats.oecd.org/Index.aspx?DataSetCode=MIN2AVE).

Box 2.1. Evaluation Grid for the Grant Scheme

Scoring

The evaluation criteria are divided into sections and subsections. Each subsection must be given a score between 1 and 5 in accordance with the following guidelines: 1 = very poor, 2 = poor, 3 = adequate, 4 = good, 5 = very good. The applications with the highest scores will be given priority when grants are awarded.

Note on Section 3. Methodology (employment)

If the total score lower than 'good; 20 points' in section 3, the proposal will not be evaluated. Also, proposals with a total score below 50 will not be evaluated.

If a score for subsection 3.2, 3.3, 3.4, and 3.5 is 1 (very poor), the multiplier will be applied as 'zero' (5 x 0)

The awarding criteria evaluates the quality of the applications in relation to the objectives and priorities set forth in the guidelines and awards grants to projects which maximise the overall effectiveness of the call for proposals. The criteria will help select applications which the contracting authority can be confident will comply with its objectives and priorities, cover the relevance of the action, and be consistent with the objectives of the call for proposals, quality, expected impact, sustainability, and cost-effectiveness.

Provisional selection. After evaluation, the applications will be ranked according to their score. The highest scoring applications will be provisionally selected until the available budget for this call for proposals is reached. In addition, a reserve list will be drawn up following the same criteria. This list will be used if more funds become available during the validity period of the reserve list.

Grant Evaluation Grid		
Enterprise size of the applicant firm (small/medium/large)	Small/Medium/Large	
Section	**Maximum Score**	
1. Relevance		**10**
1.2. How relevant is the proposal to the objectives (formal employment of target groups) and one or more of the priorities of the call for proposals? Have the needs of the target groups proposed and the final beneficiaries been clearly defined and does the proposal address them appropriately?	5	
1.3. Does the proposal contain specific elements of added value, such as innovative approaches, models for good practice, promotion of refugee employment, gender equality and equal opportunities, environmental protection? (refugee- and women-inclusive firms will be given higher points).	5	
2. Financial and Operational Capacity		**15**
2.1. Does the applicant have operational capacity sufficient technical expertise, management capacity and financial capacity? (notably knowledge of the issues to be addressed.)	7.5	
2.2. Is the proposed business plan appropriate, clear and feasible, and consistent with the objectives and expected results?	7.5	
3. Methodology (Formal Employment)		**45**
3.1. How coherent is the overall design of the action? (5 X 2)	7.5	
(in particular, does it reflect the analysis of the problems involved, take into account external factors, competition, market trends and create employment according to program objectives?)		
3.2. Does the proposal include sufficient number of additional employments of ESSN beneficiaries? (5 X 2)	7.5	

% of additional employment;		
very poor (1): none / poor (2): <10% / adequate (3): <30% / good (4): <50% / very good (5): ≥50%		
3.3. Does the proposal include additional employment of any male refugees? (5 X 2)	7.5	
% of additional employment;		
very poor (1): none / poor (2): <10% / adequate (3): <30% / good (4): <50% / very good (5): ≥50%		
3.4. Does the proposal include employment of any female refugees? (5 X 3)	10	
% of additional employment;		
very poor (1): none / poor (2): <10% / adequate (3): <30% / good (4): <50% / very good (5): ≥50%		
3.5. Does the proposal include any female Turkish citizen employment? (5 X 2)	7.5	
% of additional employment;		
very poor (1): none / poor (2): <10% / adequate (3): <30% / good (4): <50% / very good (5): ≥50%		
3.6. Does the proposal include male Turkish citizen employment? (5 X 1)	5	
% of additional employment;		
very poor (1): none / poor (2): <10% / adequate (3): <30% / good (4): <50% / very good (5): ≥50%		
4. Cost-effectiveness		**15**
4.1. Is the ratio between the estimated costs and the expected results satisfactory?	7.5	
(*) employment numbers will be proportionated with the total grand amount (new employment over grant amount		
4.2 Are the proposed activities (investment and/or working capital) appropriately reflected in the budget?	7.5	
5. Sustainability		**15**
5.1. Is the action likely to have a tangible impact on its target groups and sustainable (financially, institutionally, and environmentally)	7.5	
- Financially (how will the activities be financed after the EU funding ends?)		
- Institutionally (will structures allowing the activities to continue be in place at the end of the action?		
- Environmentally (if applicable) (is the action environmentally sustainable)		
5.2. Is the proposal likely to have multiplier effects? (including scope for replication and extension of the outcome of the action and dissemination of information.)	7.5	
Maximum total score		**100**

18. **The PIU will serve as the secretariat of the Grant Evaluation Committee and administer the grant financing tool together with the relevant departments in the TKYB (such as Customer Value Management and Business Development Departments).**

19. **There will be one grant application call happening in all 24 provinces at the same time, possibly followed by a second round in case of insufficient demand.** Grant applications will be received online through the TKYB website, where related implementation and submission guidelines will also be available. Applications will be evaluated by a grant evaluation committee including TKYB experts as well as one to four independent evaluators. The committee will be the responsible for preliminary approval of the grants, with the ‘no objection’ of the World Bank. After approval, a grant agreement will be prepared together with the World Bank and will be signed by the beneficiary firm and the TKYB. The grant agreement will include financial, operational, and reporting requirements for the grant. The details of the

format of the grant evaluation committee meetings and assessment criteria, as well as the rules, duties, and responsibilities of that committee, will be defined in the relevant POM.

20. **The grant disbursement will be done in three tranches, based on the firm's continual compliance with the employment creation and retention conditionalities under the grant scheme.**[36] The PIU will consider a cutoff baseline date (for example, three months before the grant award date) to assess the firms' progress toward complying with the proposed employment targets, depending on the latest official data sources available on the firm's formal employment. Grant beneficiary firms will have six months to hire new employees from the date of grant award. The first tranche will be disbursed only when the TKYB verifies the existence of new hires using SGK administrative data. The tranche will be weighted by the share of the actual new hires to the total new hires proposed in the business plan (for example, if a beneficiary firm reports that it will hire six new employees but hires three of them within first couple of months, then the firm will be awarded 50 percent of the grant amount). This grant amount will be treated as a subgrant for the firm, and the following subgrants will be awarded once the remaining employment conditions are met at every nine-month interval). The second employment conditionality check will take place nine months after the first tranche disbursement for the beneficiaries under the grant scheme. The second tranche will be disbursed only after the second conditionality check is met and will be weighted again by the proportion of new employees (on the total employment target) hired for at least nine months at the date of the second conditionality check for beneficiaries. The third employment conditionality check will happen nine months after the second tranche disbursement for the beneficiaries under the scheme. The third tranche will be disbursed proportional to the number of new employees hired for at least 18 months for the scheme beneficiaries. If some of the firms fail to fulfill the employment conditions, the TKYB will provide an additional period (up to six months) for compliance. The Bank will support TKYB to develop a case management system. The next conditionality check will be conducted once the employment condition is met. If some firms cannot fulfill the conditions or leave the grant program, then the remaining resources will be used to finance new firms.

21. **Monitoring compliance with the conditionalities.** Monitoring of compliance with the conditionalities will rely on official employment data from SGK. To assess the compliance of grant-beneficiary firms with the formal employment creation and retention targets specified in the business plan at the moment of application (including the consent of the employers and employees to be taken in line with the requirements of the Law on Protection of Personal Data, Law no. 6698), the PIU at the TKYB will receive regular employment and wage records for beneficiary firms from SGK at grant allocation, every six months thereafter, and periodically following requests for disbursements and claims of conditionality compliance by beneficiary firms. The PIU will also monitor the compliance of working conditions of the employees in accordance with labor law and labor and working conditions defined in ESS2 of ESF of the

[36] The three tranches will be cumulative 20 percent, cumulative 60 percent, and cumulative 100 percent of the awarded grant amount.

World Bank.[37] For reporting and evaluation purposes, the World Bank team will regularly monitor creation of employment and retention of employees in grant beneficiary firms even after the expiration of the grant.

22. **Communication and visibility.** As the grant component is funded through an EU-funded trust fund, the EU's support shall be visible to all direct beneficiaries. All communications and visibility actions executed under the grant component will comply with the Communication and Visibility Manual for EU External Actions[38] and the FRIT Facility Visibility Guidelines.[39] The EU-Turkey cooperation logo will appear on all visibility materials and at all events, accompanied by the following text: 'This project is funded by the EU'.

23. The objectives of communication activities to be carried out under the grant component are to facilitate outreach and engagement of firms operating in provinces with high incidence of SuTPs accessing financial resources provided by the grant component and to inform and communicate to beneficiaries and stakeholders about the project's objectives by sharing results and impacts of project interventions.

24. The goods, services, and operational expenditures to implement a communication and outreach strategy across various geographical locations and economic sectors will be funded by the grant.

25. A detailed communication and visibility plan will be drafted by the PIU, containing overall and specific communication objectives, clearly identified target groups, main communication activities and tools, indicators of achievement, and information on human and financial resources required to implement the grant component.

C. Detailed Description of the Capacity Building Component

26. **Skills building for loan beneficiary firms.** The loan beneficiary firms will be expected to participate in management capacity-building activities provided by the TKYB and financed by the loan component of the project. The coverage and scope of the training activities will be determined by the TKYB by conducting surveys of the participating firms. The training activities will be designed under a general framework and will include face-to-face and distant learning modules. At least 60 firms are expected to use loans under the project. The World Bank team expects that all the firms will participate in the training activities. The participants (around 120) will attend five days of face-to-face programs, followed by 80 hours of distant learning activities. Face-to-face programs will be held in one province (that is, Istanbul), and the travel

[37] In August 2016, the World Bank's Board of Executive Directors approved the ESF, which came into effect in 2018 and progressively replaced the World Bank's Safeguards. The ESF protects people and the environment from potential adverse impacts that could arise from World Bank-financed projects and promotes sustainable development. Within the ESF, 10 ESSs set out responsibilities for borrowers. The standards are designed to help borrowers manage project risks and impacts as well as improve E&S performance, consistent with good international practice and national and international obligations. The Environmental and Social Standard on Labor and Working Conditions (ESS2), requires that employers (a) promote safety and health at work; (b) promote the fair treatment, nondiscrimination, and equal opportunity of project workers; (c) protect project workers, with emphasis on vulnerable workers; (d) prevent the use of all forms of forced labor and child labor; (e) support the principles of freedom of association and collective bargaining of project workers in a manner consistent with national law; and (f) provide project workers with accessible means to raise workplace concerns.

[38] European Union. 2018. *Communication and Visibility in EU -Financed External Actions: Requirements for Implementing Partners (Projects). https://ec.europa.eu/international-partnerships/comm-visibility-requirements_en*

[39] Communication concerning the European Union's External Action and Visibility Manual Appendix EU Aid for Refugees in Turkey. *visibilityguidelines_may2017_frıt_en_20170605_final_tr.docx*

and accommodation costs of the participants will be covered under the loan component. The World Bank team will help the TKYB to prepare the terms of references of the individual consultants and/or training providers.[40] The training providers will be selected through the Selection based on the Consultants' Qualifications (CQS) method based on their experiences, technical capabilities, and coverage of the existing training programs (including distant learning modules). Surveys will be developed to assess the effectiveness of the training activities with the technical support of the World Bank team.

27. **Skills building for grant beneficiary firms.** The grant beneficiary firms are expected to let the newly hired employees under the grant scheme participate in capacity-building activities, provided by the TKYB and financed by the grant component. Training activities will focus on building new (or improving the existing) skills of the employees, such as computer literacy, basic accounting bookkeeping, data compiling, and so on. The coverage and scope of the training activities will be determined by the TKYB by conducting surveys of the participating firms. The training activities will be designed under a general framework and will include face-to-face and distant learning modules. A total of 4,500 new employees are expected to be recruited under the grant scheme. The World Bank team expects that one-third of the new hires will participate in two days of face-to-face programs, and all the new hires will participate in 80 hours of distant learning activities. The face-to-face programs will be held in one province (that is, Istanbul), and the travel and accommodation costs of the participants will be covered under the project. The World Bank team has examined the training programs of several training providers and will help the TKYB prepare the terms of references of the individual consultants and training provider firms. Surveys will be developed to assess the effectiveness of the training activities with the technical support of the World Bank team. The project will also seek opportunities to engage with IŞKUR, the MoNE, and other institutions to use the existing training programs.

28. **Capacity building for implementation of sub-loans.** Capacity-building activities will finance consultancy services under/by the PIU and training activities for the TKYB and PFIs.

29. **Project management**. As a first step, a PIU will be established to ensure that the appropriate skills mix is available (including E&S safeguards and fiduciary experts) and build capacity to monitor compliance with the job creation conditionality, provide implementation support to PFIs, and measure project results. The PIU will be composed of TKYB personnel and individual consultants. The PIU will be staffed with adequate capacity to ensure that all World Bank procedures are followed during project implementation. A procurement specialist will be hired under part contracts funded by the loan and grant separately and will provide required services for loan and grant implementation. TYKB will assign appropriate staff for financial management, M&E and Training services for Loan implementation. A financial management specialist an M&E specialist, and a training coordinator will be hired under Grant to provide required services for grant implementation. The World Bank team will also conduct a process evaluation during the project implementation and an impact evaluation at the end of the project. The terms of references of the individual consultants will be presented in the POMs. The cost of goods, equipment, travel, and operating expenses of the PIU will be financed by the grant. The PIU, with support from the World Bank, will create an implementation and compliance toolkit for the grant implementation to ensure that all

[40] International Education Center and Counseling Center, Aydin Academy, Etkin Academy, Global Career, TOBB University of Economics and Technology, Turkiye Girisim, Gelisim ve Teknolojileri Dernegi, Baskent University Training and Counselling Services Center, Business Management Institute, Ankara University Training Center, Deloitte Academy, PWC Business School, AB Academy, KOSGEB e-Academy, and Kadir Has University Life Long Learning Center.

relevant documents are collected on-time, the employment conditionality is properly applied and monitored, and tranche disbursements are properly carried out. Details on the toolkit, including implementation guidelines, will be included in the POMs. The PIU will also be responsible for the regular reporting to the World Bank and other stakeholders.

30. **Capacity building in PFIs.** Each prospective PFI will be supported in conducting a survey of loan officers after the signature of a subsidiary finance agreement with the TKYB, based on a standard methodology agreed with the World Bank, to identify capacity deficiencies among staff. The capacity building in PFIs is necessary to guide interested firms in filling out employment plans, reviewing eligibility of applications, and assessing firms' potential beyond their financial capacities. PFIs will commit to participating in the series of training events during project implementation (organized jointly by the TKYB and the World Bank) to improve the capacity for lending to prospective beneficiaries and borrowers. The TKYB loan officers will also benefit from these services. These activities will be financed by the loan component.

31. **Capacity building for grant implementation.** Capacity-building activities will finance the services of individual consultants and/or consultancy firms to be recruited under/by the PIU, grant governance body, goods, non-consulting services (including travel), communication, outreach and visibility activities, and operational expenses to implement the grant component.

32. **Project management.** In addition to the individual consultants, that is, a financial management specialist, an M&E specialist, and a training coordinator to be hired for implementation of subgrants, a procurement specialist will be hired under part time contracts funded by the loan and grant separately. One or more individual consultants will be recruited to conduct labor audits in the grant beneficiary firms under the grant component.

33. **Facilitation services for the grant beneficiary firms.** This will include assisting beneficiary firms in recruiting personnel through various employability programs supported by the Government or the EU, such as İŞKUR, Red Crescent, and the Association for Solidarity with Asylum Seekers and Migrants. Formal links between the TKYB and various employment or training institutions will be established to ensure that appropriate referrals lead to recruitment. The staff involved in the project implementation will be trained on the enforcement of the conditionality, including report drafting, the verification and validation process, the sanctions process, and data exchange with SGK. These capacities will be maintained by the PIU staff and the mechanism and learning can be used for future projects with similar objectives.

34. **Conducting communications and outreach services.** The goods, services, and operational expenditures to implement a communication and outreach strategy across various geographical locations, economic sectors, and implementing institutions will be funded by the grant. Materials will be created to reach out to eligible firms (and potential workers, if needed), including information on the application process, eligibility criteria, time line, and options to get support for the preparation of applications. Communications materials in a format appropriate for targeted firms and beneficiaries will be included.

35. **Enhancing job creation conditions in the ecosystem in which loan and grant beneficiary firms operate.** This will be done by maximizing the links and spillovers between the loan and grant beneficiary firms. This will be achieved on the one hand by prioritizing, among loan beneficiary firms, firms with larger networks of intermediary and subsidiary SMEs (potential grant beneficiaries). On the other hand, in the

initial stages of the project, the TKYB will facilitate, owing to its extended business network and with the technical support of the World Bank team, outreaching events, in the form of 'job fairs', where potential loan and grant beneficiaries will be convened to incentivize the formation of business networks and links.

ANNEX 3: Financial Intermediary Assessment

1. **An assessment of the TKYB took place at the reappraisal stage based on eligibility criteria in accordance with Bank Policy: Investment Project Financing paragraph 12, referring to projects in situations of urgent need of assistance or capacity constraints.** Eligibility criteria included the following:

(a) The bank must be duly licensed and have been in operation for at least two years.

(b) The bank's owners and managers must be considered 'fit and proper'. It must have qualified and experienced management and adequate organization and institutional capacity for its specific risk profile.

(c) The bank must be in 'good standing' with its supervisory authority (that is, it should meet all pertinent prudential and other applicable laws and regulations) and remain in compliance at all times.

(d) The bank must maintain capital adequacy prescribed by prudential regulations.

(e) The bank must have adequate liquidity.

(f) The bank must have positive profitability and acceptable risk profile. It must maintain the value of its capital.

(g) The bank must have well-defined policies and written procedures for management of all types of financial risks (liquidity, credit, currency, interest rate, and market risk, and risks associated with balance sheet and income statement structures) and operational risk.

(h) The bank must classify its assets and off-balance-sheet credit risk exposures (at least four times per year) and make adequate provisions. It must have adequate portfolio quality. The bank should not have more than 10 percent of criticized assets (that is, classified as doubtful and loss).

(i) The bank must have adequate internal audits and controls.

(j) The bank must have adequate management information systems.

2. **A detailed confidential appraisal report has been internally filed with summary results presented in the table 3.1.** The appraisal is based on the following sources of information: (a) audited financial statements as of September 30, 2019, (b) written information provided by the TKYB, and (c) interviews with senior TKYB management.

Table 3.1. Summary of the TKYB Appraisal

Criterion	Comments/Actions
1. License	Criterion met
2. Owners/managers 'fit and proper' and governance quality	Criterion met
3. Good standing with Bankacılık Düzenleme ve Denetleme Kurumu (BRSA)	Criterion met
4. Capital adequacy	Criterion met
5. Liquidity	Criterion met

Criterion	Comments/Actions
6. Profitability	Criterion met
7. Policies and risk management functions	Criterion met
8. Asset quality and provisions	Criterion met
9. Internal audit and controls	Criterion met
10. Adequate management information systems	Criterion met

Background of the TKYB

3. **The TKYB is a state-owned development bank (99 percent of the shares owned by Turkish Treasury) which was established in 1975 with the goal of channeling the remittances of Turkish expatriate workers to finance private sector development in Turkey.** Over the years, the mandate of the TKYB was broadened to support the development of joint stock companies in various sectors, provide technical assistance to investors, and promote the development of capital markets.

4. **Since its establishment in 1975, the TKYB has been providing investment and working capital loans to private companies operating mainly, in industry, tourism, and energy sectors, in accordance with the development needs of Turkey.** However, as an additional product, wholesale banking (apex) loans have been introduced in 2008 to better serve small and medium companies who are the driving force of growth and employment. For this project, the TKYB will provide direct lending to viable LEs.

5. **The TKYB's asset size is TL 18.8 billion (0.46 percent of the banking system in terms of asset size) as of Q3 2019.** It has 315 employees and its head office recently has been moved in Istanbul. The TKYB's funding structure is 91 percent medium and long-term liabilities, mostly funding from the IFIs. While loans/total asset ratio is 78 percent, its gross nonperforming loan (NPL) ratio is below 1 percent, it operates with 2.7 percent return on assets (ROA) ratio, and capital adequacy ratio (CAR) is 22.4 as of Q3 2019. The TKYB's net foreign exchange position is balanced. The TKYB's sectoral loan engagements include energy and commodities (48 percent), manufacturing (12.8 percent), tourism (11 percent), leasing-factoring (9 percent), construction and real estate (0.13 percent), retail (0.05 percent), and others (19.8 percent).

6. **To meet financing needs of SMEs more effectively, apex loans provided through lending intermediary financial institutions with extensive branch networks are preferred by the TKYB in recent years.** As for apex loan programs developed in line with its mission, the TKYB also identifies the needs of the target market segments and matches appropriate resources borrowed from IFIs, mostly obtained with the guarantee of the Turkish Government, and channels funds through lending commercial banks and leasing companies. The main objectives for apex projects are identified as contributing to job creation and increasing the competitiveness of SMEs in Turkey.

Background on World Bank Projects with the TKYB

7. **The TKYB is the recipient of one active and three closed lines of credit from the World Bank in the last decade.** The TKYB has reached 62 percent disbursement rate as of December 2019 under the Turkey Geothermal Development Project (P151739), expecting full disbursement by the closing date in December 2022. Some recent World Bank engagements include Second Turkey Access to Finance for Small and Medium Enterprises Project (P118308 - US$100 million, onlending, closed in 2012), Private Sector

Renewable Energy and Energy Efficiency Project (P112578 - US$1 billion, also with Türkiye Sınai Kalkınma Bankası (TSKB) and TKYB, closed in 2010); and Renewable Energy Project (P072480 - US$201 million, also with TSKB and TKYB, closed in 2009).

Table 3.2. Simplified Consolidated Balance Sheet and Income Statement for the TKYB

(TL, millions)	December 31, 2018			December 31, 2019		
	TL	Foreign Currency	Total	TL	Foreign Currency	Total
Cash and banks	102	319	**421**	1,596	741	**2,337**
Securities	133	135	**268**	494	1,349	**1,843**
Loans	427	13,214	**13,642**	244	14,661	**14,905**
Subsidiaries	15	58	**73**	16	0	**16**
Others	1,028	284	**1,311**	178	97	**275**
Total	**1,705**	**14,009**	**15,715**	**2,528**	**16,848**	**19,376**
Short term funds	0	0	**0**	0	0	**0**
Long term funds	17	13,571	**13,588**	18	1,5364	**15,382**
Repo*	1	0	**1**	50	0	**50**
Other	317	392	**709**	122	1,465	**1,587**
Equity	1,406	11	**1,417**	2,353	4	**2,357**
Total	**1,740**	**13,975**	**15,715**	**2,543**	**16,833**	**19,376**

Table 3.3. Simplified Income Statement for the TKYB

(TL, millions)	January 1– December 31, 2018	January 1– December 31, 2019	Change (%)
Net interest income	**457**	**708**	**55**
Net fees + commissions	26	14	-46
Dividend income	2	5	150
Net trading income	-5	35	-800
Other operating income	16	23	44
Total operating income	496	785	58
Provisions (+/-)	155	72	-54
Other operating expenses	96	127	32
Net operating income	**245**	**586**	**139**
Profit before tax	245	586	139
Tax provisions	85	139	64
Net profit	**160**	**47**	**179**

Table 3.4. TKYB's Key Financial Ratios on Consolidated Basis

(Percentage)	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
CAR	12.79	14.18	13.95	21.32	22.36	**22.29**
NPL	0.86	0.90	0.82	0.79	0.81	**0.82**
ROE	3.02	12.40	29.67	24.63	24.68	**22.9**
ROA	0.33	1.27	2.89	2.67	2.72	**2.49**
Cost to income	0.94	0.79	0.58	0.61	0.60	**0.64**

ANNEX 4: Additional Sectoral Background

1. The World Bank's enterprise surveys have been collected to understand what firms experience in the private sector. It follows a global methodology and provides a wide range of business environment topics including access to finance indicators.

2. To estimate the effects of access to finance constraints on firms' employment growth, both subjective and objective measures of the investment climate (that is, access to finance) were used. The regression results are presented in tables 4.1 to 4.4 based on the models where employment growth is the dependent variable and the independent variables are those measuring access to finance constraints (such as industry, sector, firm's ownership and firm's age).

3. The primary variable of interest is having access to finance obstacle, which is the access to finance constraint perceived by the firms as the top obstacle for business environment. If the access to finance is the top obstacle by the firms for employment growth, it will have a negative sign. The results presented in tables 4.1 and 4.2 show that the access to finance constraint has a significant negative effect on employment growth for small firms (5–49 employees) and large firms (more than 250 employees). The effect is stronger for the large firms.

Table 4.1. Effect of Access to Finance on Employment Growth, Using Subjective Measure of Access to Finance

Dependent variable: Average growth in employment	Pooled cross sections: 2008, 2013-14 and 2015-16				
VARIABLES	All firms	Firm size: Less than 5 employees	Firm size: 5-49 employees	Firm size: 50-249 employees	Firm size: 250+ employees
Biggest Business Environment Obstacle is: Access to Finance	-0.0076*	0.0042	-0.0205***	0.0152	-0.1343**
	(0.004)	(0.003)	(0.007)	(0.010)	(0.059)
Constant	0.1110***	0.0473*	0.1328***	0.1612***	0.3617***
	(0.011)	(0.026)	(0.014)	(0.022)	(0.124)
Observations	6,562	2,185	2,530	1,220	627
R-squared	0.109	0.045	0.133	0.101	0.519

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Source: Enterprise Survey, 2008, 2013–14, and 2015–16.
Note: Explanatory variables include firm size and age, firm's ownership status, industry, region, and year.

Table 4.2. Effect of Access to Finance on Employment Growth, Using Subjective Measure of Access to Finance

Dependent variable: Growth in employment	Pooled cross sections: 2008, 2013-14 and 2015-16				
VARIABLES	All firms	Firm size: Less than 5 employees	Firm size: 5-49 employees	Firm size: 50-249 employees	Firm size: 250+ employees
Biggest Business Environment Obstacle is: Access to Finance	-0.1279	0.0192	-0.0977***	0.0694	-4.5589***
	(0.087)	(0.012)	(0.034)	(0.053)	(1.762)
Constant	1.3017***	0.2374**	0.6930***	0.8355***	6.4888*
	(0.224)	(0.098)	(0.063)	(0.118)	(3.715)
Observations	6,562	2,185	2,530	1,220	627
R-squared	0.056	0.041	0.143	0.091	0.491

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Source: Enterprise Survey, 2008, 2013–14, and 2015–16.
Note: Explanatory variables include firm size and age, firm's ownership status, industry, region, and year.

4. The objective measure of access to finance uses the definition of credit constrained status of Kunchev et al. (2013).[41] The variable has the following four categories: (a) fully credit constrained (FCC),[42] (b) partially credit constrained (PCC),[43] (c) likely credit constrained (LCC),[44] and (d) non-credit constrained (NCC). The regression results reveal that credit constraint status has a significant positive effect on employment growth among private and formal firms in Turkey. If a firm has greater access to finance markets, it will experience higher employment growth. Experiencing a credit constraint is a more serious problem for microenterprises and SMEs compared to large firms.

Table 4.3. Effect of Access to Finance on Employment Growth, Using Objective Measure of Credit Constraint Status

Dependent variable: Average growth in employment	Pooled cross sections: 2008, 2013-14 and 2015-16				
	All firms	Firm size: Less than 5 employees	Firm size: 5-49 employees	Firm size: 50-249 employees	Firm size: 250+ employees
Partially Credit Constrained (PCC)	0.0114*	0.0051	0.0263**	0.0160	0.1771
	(0.006)	(0.005)	(0.011)	(0.017)	(0.135)
Likely Credit Constrained (LCC)	0.0160***	0.0128***	0.0182*	0.0558***	0.1158
	(0.006)	(0.005)	(0.010)	(0.010)	(0.096)
Not Credit Constrained (NCC)	0.0134***	0.0061*	0.0240***	0.0168*	0.0196
	(0.004)	(0.003)	(0.008)	(0.010)	(0.082)
Constant	0.1032***	0.1067***	0.0729***	0.1007***	0.7243***
	(0.012)	(0.033)	(0.015)	(0.021)	(0.160)
Observations	5,984	2,412	2,046	992	534
R-squared	0.085	0.038	0.072	0.123	0.568

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Source: Enterprise Survey, 2008, 2013–14, and 2015–16
Note: Explanatory variables include firm size and age, firm's ownership status, industry, region, and year. Control group for credit constraint status is FCC.

[41] Kuntchev, V., Ramalho, R., Rodriguez-Meza, J., Yang, J.S., 2013. What have we learned from the Enterprise Surveys regarding access to finance by SMEs? Policy Research Working Paper 6670. World Bank, Washington D.C.
[42] The firms in the FCC group applied for a loan and were rejected and do not have any type of external finance. Firms in the FCC group meet all the following conditions simultaneously: (a) did not use external sources of finance for both working capital and investments during the previous year, (b) applied for a loan during the previous year, and (c) do not have a loan outstanding at the time of the survey that was disbursed during the last fiscal year or later.
[43] The firms in the partially credit constrained group meet the following conditions: (a) used external sources of finance for working capital or investments during the previous fiscal year or have a loan outstanding at the time of the survey; (b) did not apply for a loan during the previous fiscal year and the reason for not applying for a loan was other than having enough capital for the firm's needs; some of the reasons may indicate that firms self-select out of the credit market because of prevailing terms and conditions; thus some degree of rationing is assumed; or (c) applied for a loan but was rejected.
[44] The firms in the LCC group have had access to external finance and there is evidence of them having bank finance and the LCC group includes firms that (a) used external sources of finance for working capital or investments during the previous fiscal year or have a loan outstanding at the time of the survey or (b) applied for a loan during the previous fiscal year.

Table 4.4. Effect of Access to Finance on Employment Growth, Using Objective Measure of Credit Constraint Status

Dependent variable: Growth in employment	Pooled cross sections: 2008, 2013-14 and 2015-16				
	All firms	Firm size: Less than 5 employees	Firm size: 5-49 employees	Firm size: 50-249 employees	Firm size: 250+ employees
Partially Credit Constrained (PCC)	0.0865	0.0199	0.1157**	0.0703	5.9283
	(0.134)	(0.018)	(0.050)	(0.073)	(4.044)
Likely Credit Constrained (LCC)	0.0816	0.0639***	0.0866*	0.2174***	3.4668
	(0.130)	(0.018)	(0.045)	(0.045)	(2.869)
Not Credit Constrained (NCC)	0.1264	0.0226*	0.0963***	0.0645	0.0900
	(0.097)	(0.013)	(0.036)	(0.042)	(2.441)
Constant	1.9124***	0.4297***	0.4076***	0.5504***	16.8318***
	(0.264)	(0.129)	(0.067)	(0.090)	(4.765)
Observations	5,984	2,412	2,046	992	534
R-squared	0.062	0.036	0.071	0.113	0.546

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Source: Enterprise Survey, 2008, 2013–14, and 2015–16
Note: Explanatory variables include firm size and age, firm’s ownership status, industry, region, and year. Control group for credit constraint status is FCC.

ANNEX 5: Review of the Literature and Relevant Projects

1. This section presents a summary of the existing evidence on the effectiveness of finance interventions (both World Bank and non-World Bank) aimed at improving access to credit and employment generation among microenterprises and SMEs. The analysis reviewed 38 impact evaluation studies covering four main types of finance interventions: (a) lines of credit, (b) microcredit, (c) cash and in-kind grants and transfers, and (d) formalization interventions. A total of 17 studies focused on lines of credit, 7 studies focused on microcredit, 6 studies covered cash and in-kind grants, while 4 studies centered on formalization interventions. Four studies investigated 'access to credit' but without specifying the type of credit product.

2. **Overall, improving access to finance appears to have a positive and significant impact on employment generation**. Out of 22 interventions targeted at employment generation, 20 show positive and statistically significant impacts, while the remaining 2 report no effects. A cross-country analysis reviewed shows that, when provided with access to credit, microenterprises and SMEs are found to experience 1 percent to 4 percent increase in employment.[45] Expanding financing helps microenterprises and SMEs expand their operations, grow in size, and also preserve existing jobs, especially in periods of economic and financial downturn. Evidence from the cases under review, however, reveals that the impact of access to credit is not homogenous, as it varies with specific firm characteristics as well as the form of finance interventions.

3. **Firm size and age stand as the major demand-side constraints to access to credit**. Smaller and younger firms appear to be more in need of credit but also more financially constrained than larger and older firms. In Turkey, the probability of accessing credit is 1.8 times higher for medium than micro firms, and 2.8 times higher for large than micro firms.[46] This is consistent with the findings from China, where large firms may have a 52 percent to 65 percent higher probability of investing relative to only 19 percent to 35 percent of small firms. This suggests a positive association between size and access to credit.[47]

4. **Despite their credit needs, however, younger and smaller enterprises are also more likely to hold off from applying for loans**. Reticence seems to be associated with fear of rejection, perception of unfavorable collateral requirements and high interest rates; management inexperience may also account as a possible reason for failing to apply.[48] This implies that combining finance interventions with business development services or entrepreneurship training may have a greater and more positive impact on employment generation.

[45] Ayyagari, Juarros, Martinez Peria, and Singh. 2016. "Access to Credit and Job Growth: Firm-Level Evidence across Developing Countries." Policy Research Working Paper 7604, World Bank, Washington, DC.
[46] Mutluer, K., and S. Tiryaki. 2016. "How Credit-Constrained Are Firms in Turkey? A Survey-Based Analysis." *Applied Economics Letters* 23 (6): 420–423.
[47] Regis, Paolo Jose. 2018. "Access to Credit and Investment Decisions of Small- and Medium-Sized Enterprises in China." *Review of Development Economics* 22: 766–786.
[48] Cole, R., and A. Dietrich. 2014. "SME Credit Availability Around the World: Evidence from the World Bank's Enterprise Survey." World Bank, Washington, DC.

5. **The implication is that access to credit has a greater impact on expanding credit availability and spurring employment generation for younger and smaller firms than for older and larger firms**.[49] When provided with adequate capital, 'gazelle' firms and young firms show a higher job growth potential than larger and older counterparts. Based on a cross-country analysis included in this review, access to credit generated a 6 percent to 24 percent increase in employment among microenterprises and SMEs compared with large firms (Ayyagari, Peria, and Singh 2016). Only one study in the United States found that large firms generate a greater number of jobs than smaller firms. In particular, a loan of US$1 million was found to generate 2.2 jobs in small firms, 3.0 jobs in medium firms, 4.0 jobs in large firms, and 5.9 jobs in the largest firms. However, the study also highlighted that start-ups created 5.3 jobs because of the loan and that large firms were the least financially constrained. Therefore, the marginal impact of credit was greater for start-ups and small firms.[50] In line with these results, evidence grants awarded to Nigeria high-growth entrepreneurs in a business plan competition generated a 23 percent increase in the probability for new winning firms of employing more than 10 workers after 18 months from grant reception and a 20.8 percent increase in the same probability for existing firms.[51]

6. **Ceteris paribus, women-owned firms appear to face more severe financial constraints than their men-owned counterparts**. They also tend to have lower incentives to find external sources of funding, as 'discouraged firms' as well as denied firms are found to be more likely to be run by women rather than by men (Cole and Dietrich 2014). As a result, women-owned firms seem less likely to invest than men-owned firms. In Uganda, capital drops in the form of microloans failed to generate business profits for women-owned microenterprises, while microloans were associated with 50 percent increase in business profits for men-owned businesses. Women also tend to suffer more from limited access to credit. Credit constraints for Nigerian men-owned microenterprises and SMEs translated into a 16.4 percent to 24 percent lower output per worker, 17 percent to 23 percent lower capital per worker, and a 28 percent to 30 percent lower investment in fixed assets. However, results were much larger for women-owned firms: respectively, 64.7 percent, 60.0 percent, and 48.4 percent (Nwosu and Orji 2017). This suggests not only that women tend to be more credit constrained than men, but also that credit-constrained women face other limitations than just credit in their ability to invest in their businesses.

7. **When considering specific forms of finance interventions, lines of credit targeted to SMEs show comparatively greater potential to spur employment growth**. Out of 15 studies investigating the impact of lines of credit, 10 had a specific employment focus. All 10 studies reported that lines of credit had positive and significant effects on employment generation. For instance, a World Bank-financed onlending program targeted at SMEs resulted in the creation of 7,000 jobs and the preservation of 35,000 jobs among beneficiary firms in Turkey. Also, compared with nonbeneficiary firms, beneficiary firms created more jobs. Employment effects persisted after three years from disbursement (World Bank 2016). Similarly, in the United States, the Small Business Investment Company (SBIC) program generated nearly 3 million jobs and preserved roughly 7 million jobs among beneficiaries.[52]

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[49] Paniagua, G., and A. Denisova. 2012. "Meta-Evaluation on Job Creation Effects of Private Sector Interventions." World Bank Working Paper 82000: 1-42, World Bank, Washington, DC.

[50] Brown, D., J. Earle, and Y. Morgulis. 2015. "Job Creation, Small vs. Large vs. Young, and the SBA." IZA DP No. 9489.

[51] Nwosu, E., and A. Orji. 2017. "Addressing Poverty and Gender Inequality through Access to Formal Credit and Enhanced Enterprise Performance in Nigeria: An Empirical Investigation." *African Development Review* 29 (S1): 56-72.

[52] Paglia, J., and D. Robinson. 2017. "Measuring the Role of the SBIC Program in Small Business Job Creation." Library of Congress, Washington, DC.

8. **Among different credit line products, public credit guarantee schemes tend to be more systematically associated with improved firm performance, particularly job growth**. Importantly, such growth appears to be sustained over time, even several years upon obtaining the loan. In Colombia, the positive employment effects of access to a credit line were found to be increasing from the year of disbursement through the following two years (respectively, 3.7 percent, 5.5 percent, and 6.6 percent).[53] In another study in Brazil, the average increase by 24 employees among firms with access to a line of credit from the Brazilian Development Bank was sustained for six years after the disbursement of the credit.[54] Across Central, Eastern and South Eastern Europe, the EU MAP (Multi-Annual Program) targeted to SMEs led to a 14 percent to 18 percent increase in employment at the aggregate level, with effects sustained over the first five years after the signature date.[55] The same program was found to have positive and significant impacts also in Italy, the Benelux, and the Scandinavian countries. Particularly, it was reflected in a 16.9 percent increase in employment among beneficiary SMEs relative to nonbeneficiary SMEs. Moreover, beneficiary firms saw a 19.6 percent increase in assets, a 14.8 percent increase in sales, a 1.0 percent increase in innovation, and a 30.0 percent decrease in the probability of default. Stronger program effects were observed for smaller and younger firms.[56] Finally, a government-backed guarantee scheme in Malaysia generated an average net increase of 103 jobs across beneficiary SMEs.[57]

9. **Loans channeled through state-owned banks or financial intermediary institutions tend to include better credit conditions than loans from other institutions**. In the case of Colombia's Bancoldex, loans from this institution to micro, small, and medium enterprises and LEs resulted in an improved credit structure and increased access to credit for beneficiaries, in the form of 24.4 percent and 18.2 percent increases in loan size in the year of disbursement and in the following year, respectively.[58] Positive and significant results were also observed for employment creation and other business outcomes. Specifically, beneficiaries registered a 11 percent increase in employment, a 24 percent increase in output, a 70 percent increase in investment, and a 10 percent increase in productivity. Such increases in output, investment, and productivity tended to be associated with longer-term loans (more than five years) than shorter-term loans (less than five years) and were seen to persist up to four years after disbursement.[59]

10. **While further work is needed to understand why state-owned banks may offer better credit conditions, existing evidence suggests that those loans do not simply substitute credit that private institutions would be willing to offer under similar conditions**. The second-tier design, however, implies that the intermediaries take on the risk of default. As a result, they face greater incentive to screen

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[53] Arráiz, I., M. Meléndez, and R. Stucchi. 2012. "Partial Credit Guarantees and Firm Performance: Evidence from the Colombian National Guarantee Fund." IDB Publications (Working Papers) 4089, Inter-American Development Bank.
[54] De Negri, J., A. Maffioli, A. Rodríguez, and C. Gonzalo. 2012. "The Impact of Public Credit Programs on Brazilian Firms." IDB Publications (Working Papers) 3826, Inter-American Development Bank.
[55] Asdrubali, P., and S. Signore. 2015. "The Economic Impact of EU Guarantees on Credit to SMEs Evidence from CESEE Countries," European Economy - Discussion Papers 2015 - 002, Directorate General Economic and Financial Affairs (DG ECFIN), European Commission.
[56] Bertoni, F., J. Brault, M. Colombo, A. Quas, and S. Signore. 2019. "Econometric Study on the Impact of EU Loan Guarantee Financial Instruments on Growth and Jobs of SMEs," EIF Working Paper Series 2019/54.
[57] Boocock, G., and M. Shariff. 2005. "Measuring the Effectiveness of Credit Guarantee Schemes. Evidence from Malaysia." *International Small Business Journal* 23, no. 4: 427-453.
[58] Eslava, M., A. Maffioli, and M. Melendez. 2012. "Second-tier Government Banks and Access to Credit: Micro-Evidence from Colombia." IDB Working Papers, Series No. IDB-WP-308.
[59] Eslava, M., A. Maffioli, and M. Melendez. 2012. "Second-tier Government Banks and Firm Performance. Micro-Evidence from Colombia." IDB Working Papers, Series No. IDB-WP-294.

profitable from unprofitable businesses to minimize risks. The implication is that funds can be mostly provided to sounder or higher-potential enterprises which are not necessarily the most credit constrained, rather than those firms that face higher obstacles to accessing credit and which, as mentioned above, tend to benefit the most from accessing credit in terms of higher employment growth.

11. **This raises the question of whether funds may be most effective in generating a positive impact on performance if they are directed at firms that face the severest difficulties in accessing credit**. Targeting the most promising and higher-potential firms carries undeniable benefits. However, this strategy could be integrated with an effort to target firms that are the most credit constrained, such as young firms that lack a credit history or collateral requirements, but which are entering promising lines of business, to maximize the impact of the access to credit.

12. **High-income countries provide a more mixed evidence on the effectiveness of public credit guarantee schemes in generating jobs**. In high-income countries, employment growth may benefit from measures targeted at improving relationship banking and to ease procyclicality, especially in economies where SMEs constitute the bulk of economic and productive activity. Across 11 OECD countries, neither direct government loans nor government-backed loans were found to have an impact on employment. Rather, reinforcement of relationship banking and financial stability steps to ease procyclicality were observed to be more successful, generating a 12.8 percent to 18.2 percent increase and a 15.0 percent increase in employment, respectively.[60] Government-backed credit guarantees may be associated with greater risk-taking behavior and moral hazards by lending institutions. Nevertheless, they also seem to be associated with a larger size of loans as well as less stringent standards and lower cost of borrowing. As several studies reviewed here show that higher-value loans also tend to have greater and more positive impacts on employment generation, the success of public credit guarantee program may depend on finding the right balance between employment and financial stability goals.[61]

13. **Public credit guarantee schemes seem to have no impact on labor productivity**. In Brazil, loans from Brazilian Development Bank from micro, small, and medium enterprises and LEs were shown to have no significant impact on productivity, with the latter measured as real wages (De Negri et al. 2012). While this result may depend upon how productivity is measured, it proves consistent across the reviewed cases in both developed and developing countries. This suggests that borrowing firms employ extra capital mainly as working capital (when this is allowed by the lender’s criteria), rather than investing it in capital stock.

14. **Albeit popular, microloans are found to hardly increase employment and profits**. Only three microloan programs reviewed were specifically targeted at employment generation. Two of these programs, implemented in Bosnia and Herzegovina, increased the likelihood for beneficiaries of being self-employed and owning a business by 6 percent. However, effects were not observed beyond 14 months from disbursement. Moreover, the effects of microloans were heterogeneous, depending upon the characteristics of the borrowers at baseline. In particular, the impact on self-employment and business creation was mainly driven by highly educated beneficiaries, who tend to open their business in urban

[60] Seo, Ji-Yong. 2017. "A Study of Effective Financial Support for SMEs to Improve Economic and Employment Conditions: Evidence from OECD Countries." *Managerial and Decision Economics* 38 (3): 432-442.
[61] Gropp, Reint, et al. 2014. “The Impact of Public Guarantees on Bank Risk-Taking: Evidence from a Natural Experiment.” *Review of Finance* 18 (2): 457-488.

sectors, rather than lower-educated beneficiaries, who instead were more likely to start a business in the rural sector.[62]

15. **Conventional microloan contracts, typically including short repayment periods or no grace periods, often fail to generate growth at the extensive margins**. Often the reason behind such limitation is that the rigidity of conventional debt contract terms discourages capital-constrained or poor entrepreneurs from engaging in riskier but higher-return investments. By contrast, different contract structures, including grace periods and/or individual liability, may promote firm growth by allowing for a more balanced risk- and revenue-sharing between the investors and the borrowers.[63] While repayment flexibility or grace periods in the debt contract terms have been found to have positive and significant impacts on business outcomes such as profits, revenues, and business assets, their effects on employment generation is ambiguous at best. In one study in Bangladesh, repayment flexibility had no employment impacts for collateral-free loan borrowers, whereas it led to a 42 percent increase for collateral-backed microloans borrowers. However, treatment effects were associated with a larger loan size and higher schooling levels among collateral-backed clients.[64] In sum, microloans seem to have clearer impacts on stabilizing income and in securing the survival and continuation of existing businesses than on creating new employment. This implies that increased access to capital through microloans may contribute more to employment protection than employment creation.

16. **Similarly, the impact on firm growth of capital alone, when provided through cash or in-kind grants, remains unclear**. While a few studies underscore positive results on profits, other studies shed light on the short-term or insignificant nature of those impacts. Especially, grants appear to be more successful in enhancing firm survival, provided that they are distributed in kind and paired with other accompanying measures, such as training programs. In Sri Lanka, unconditional one-time cash or in-kind grants resulted in a 4.6 percent to 5.3 percent increase in monthly returns to capital among beneficiary microenterprises, although returns were higher for in-kind grants.[65] A follow-up study showed that combining a savings incentive program either with a wage subsidy to hire more employees or a business training program led, respectively, to a 0.23 and 0.19 increase in the number of workers only in the short term (one year).[66] In Ghana, positive impacts on monthly profits (US$21–US$31) among micro firms were associated only with in-kind grants but no effect was observed for cash grants.[67] Finally, in Northern Uganda providing unconditional, unsupervised lump-sum cash transfers to microentrepreneurs to pay for vocational training, tools, and business start-up costs produced 25 percent increase in employment

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[62] Augsburg, Britta, de H. Ralph, H. Heike and M., Costas. 2014, "Microfinance at the Margin: Experimental Evidence from Bosnia and Herzegovina", WZB Discussion Paper, No. SP II 2014-304, Wissenschaftszentrum Berlin für Sozialforschung (WZB), Berlin; and Augsburg, Britta, et al. 2015. "The Impacts of Microcredit: Evidence from Bosnia and Herzegovina." *American Economic Journal: Applied Economics* 7, 1 (January): 183–203.

[63] Field, Erica, P., Rohini, P. John, and R., Natalia. 2013. "Does the Classic Microfinance Model Discourage Entrepreneurship Among the Poor? Experimental Evidence from India." *American Economic Review* 103 (6): 2196–2226.

[64] Battaglia, M., S. Gulesci, and A. Madestam. 2019. "Repayment Flexibility and Risk Taking: Experimental Evidence from Credit Contracts." Working Paper. Centre for Economic Policy Research (CEPR), London.

[65] De Mel, S., D. McKenzie, and C. Woodruff. 2008. "Returns to Capital in Microenterprises: Evidence from a Field Experiment." *The Quarterly Journal of Economics* 123 (4): 1329–1327.

[66] De Mel, S., D. McKenzie, and C. Woodruff. 2013. "What Generates Growth in Microenterprises? Experimental Evidence on Capital, Labor, and Training." CAGE Online Working Paper Series 212.

[67] Fafchamps, M., D. McKenzie, S. Quinn, and C. Woodruff. 2011. "When Is Capital Enough to Get Female Microentrepreneurs Growing? Evidence from a Randomized Experiment in Ghana." NBER Working Paper No. 17207.

outside home for men and 50 percent increase for women, as well as a monthly net income increase by US$9.[68]

17. **Reductions in payroll taxes, costs of registration, and social security contributions, and financial incentives can boost employment growth**. Especially reduction in taxes and social security contributions are associated with positive, large, and statistically significant impacts on both formal employment creation and firm registration. A business regulation reform in Mexico was associated with 3.8 percent increase in firm formalization, amounting to 902 firms per municipality, and with a 2.8 percent increase in employment in eligible firms[69] Following the introduction of two employment subsidy schemes in Turkey, formal employment increased by 5 percent to 13 percent under the first scheme and by 11 percent to 15 percent under the second scheme.[70] Lastly, among Integrated System for the Payment of Taxes and Social Security Contributions of Micro and Small Enterprises (SIMPLES) beneficiaries in Brazil, the number of formal firms increased by 7.5 percent, while tax registration increased by 7.2 percent. Furthermore, newly registered firms showed a 57 percent increase in revenues and a 49 percent increase in profits as a result of formalization.[71]

18. **Whether the increase is caused by creation of new economic activity or registration of existing firms and workers, however, greatly depends on the macroeconomic, legal, and fiscal context of a country.** In particular, finance-based formalization interventions show lesser effectiveness under conditions of high unemployment, slow growth, weak legal enforcement institutions, complex business registration procedures and high labor taxes, especially for low-wage workers. Under these circumstances, employment generation is more likely to be driven by formalization of existing businesses and workers than by newly created jobs and start-ups.

[68] Blattman, C., N. Fiala, and S. Martinez. 2012. "Employment Generation in Rural Africa. Mid-Term Results from an Experimental Evaluation of the *Youth Opportunity Program* in Northern Uganda." DIW Berlin Discussion Paper no. 1201 (August): 1-76.
[69] Bruhn, Miriam. 2008. "License to Sell: The Effect of Business Registration Reform on Entrepreneurial Activity in Mexico." World Bank Policy Research Working Paper 4538. World Bank, Washington, DC.
[70] Betcherman, G. et al. 2010. "Do Employment Subsidies Work? Evidence from Regionally Targeted Subsidies in Turkey." *Labor Economics* 17 (4): 710–22.
[71] Fajnzylber, P., W. Maloney, and G. Montes-Rojas. 2011. "Does Formality Improve Micro-Firm Performance? Evidence from the Brazilian SIMPLES Program." *Journal of Development Economics* 94: 262–276.